BALANCE SHEET BOOK

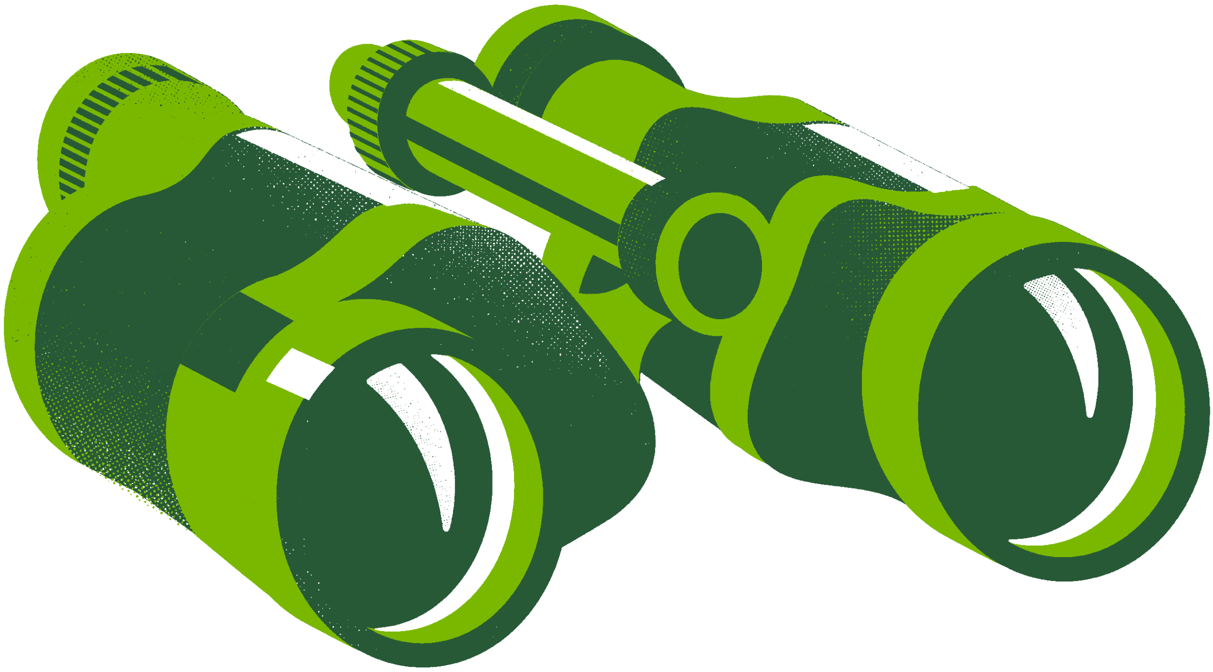
2014

S-Bank


2012 20
2014
2015

ANNUAL REPORT 2014

FINANCIAL STATEMENTS 2014



S-BANK'S VISION

S-Bank is an in-store bank, working for a new and deeper kind of co-op membership.

S-BANK IN BRIEF

S-Bank is a Finnish in-store bank, the only one of its kind. Its mission is to make daily life smoother for S Group's and LocalTapiola's customers. This is achieved by offering customers convenient and useful solutions in daily banking, saving and the financing of purchases.

S-Bank's operations are based on convenient products, fast and proactive service, transparent pricing, easy access, and cooperation with stores.

S-Bank's product range consists of current accounts and savings accounts, consumer credit and secured lending, as well as international debit cards, an online bank and a mobile bank. The funds and asset management services offered by the S-Bank Group are produced by its subsidiary FIM.

S-Bank provides services in close to 800 S Group and LocalTapiola Group outlets throughout the country. The customer service points offer daily banking services at S Group outlets with convenient, long opening hours. Withdrawing and depositing cash is possible at the checkouts of more than 1,000 S Group outlets. The nearly 100 S-Bankers assist customers by appointment when more extensive financial matters, such as financing a home or making investments decisions, are concerned. In addition, customers have access to an easy-to-use online bank, the S-mobiili application for a combined store and bank services, as well as a friendly telephone service.

S-Bank is fully under Finnish ownership. It is owned by S Group and LocalTapiola Group.

S-Bank was awarded the Key Flag logo in recognition of the company's Finnish origins.

S-BANK'S KEY FIGURES AT THE END OF 2014

2.7 million customers I **1.6 million** international debit cards issued

1.5 million users of electronic services I **EUR 4 057 million** in deposits

EUR 2 571 million in granted credit I **EUR 5 506 million** in managed assets (FIM)

16.1 per cent capital adequacy ratio I **EUR 14.6 million** operating result

*) Facebook and Twitter comments on the new funds and S-mobiili.

REVIEW BY THE MANAGING DIRECTOR:

A new bank but no new tricks. Nor old ones.

S-Bank and LocalTapiola Bank merged to form the new S-Bank at the beginning of May 2014. The new bank combines all the positive attributes of the services that the customers of the former S-Bank and LocalTapiola Bank enjoyed. Joining forces offers an additional boost for S-Bank's future.

The purpose of S-Bank's operations is to work for a new and deeper kind of co-op membership. Our goal is to make our customers' daily lives easier by offering unparalleled, convenient and useful banking services.

S-Bank's services are based on equal and direct relationships with customers. To develop convenient and useful services, we need to be familiar with our customers and their daily lives. Therefore, S-Bank has actively involved customers in building new services. This has become an established, permanent practice.

Our free basic banking services continue to be the core of our range of products and services. A free current account, an international debit card and banking IDs for using electronic services are a considerable benefit, which S Group's co-op members receive from their very own in-store bank. Our basic banking services are free of charge and will continue to be free in the future as well.

The merger expanded S-Bank's operations and range of services. Mortgage was the most in-demand service among customers, and it was added to the range of services in the merger.

Digital services and an agile network of brick-and-mortars are developed side by side

The digitalisation of operations is a key change factor in both the finance sector and everywhere else. Various digital services offering convenience and usefulness to people are continuously being developed, and banks must keep abreast of the change in order to meet customer expectations. This is a challenge that S-Bank embraces.

For us, digitalisation is an opportunity, which helps us provide service solutions that not only benefit the customer but also are also cost-effective. And while we invest in digital services, we continue to develop our agile network of bricks-and-mortar – we believe that to provide banking services with unparalleled convenience, both are needed.

Customer feedback says it all – unparalleled convenience and usefulness

S-Bank has ranked high in a variety of assessments and comparisons. For example, in the brand assessment by YouGov, it came in first in the bank category, and overall it was Finland's third most often talked about brand. The same is indicated by, among others, the EPSI Rating survey and the bank's own customer surveys: S-Bank has satisfied customers, who feel that they receive value for their money. It is particularly gratifying that customers who are the most active are the happiest with our services.

S-Bank's objective is to produce banking services with unparalleled convenience and usefulness. As an S Group in-store bank, it carries its weight in reducing prices by offering free-of-charge basic banking services to co-op members.

The feedback received from customers further strengthens our trust that the path we have chosen is the right one.

PEKKA YLIHURULA
Managing Director, S-Bank Ltd.

CO-OP MEMBERS' OWN BANK

*) Facebook and Twitter comments on the new funds and S-mobiili.

YEAR 2014

The most important event for S-Bank in 2014 was the combination merger with LocalTapiola Bank. In the merger, the operations of the old banks were discontinued, and a new S-Bank was established to continue the operations. The new bank began its operations on 1 May 2014. S Group owns 75 per cent and LocalTapiola Group owns 25 per cent of S-Bank.

Other significant events for 2014 included a transfer of the funds managed by LocalTapiola Asset Management under the management of FIM Asset Management in February, as well as a transfer of FIM Bank's retail banking and treasury activities to S-Bank in April. For the remaining FIM Bank activities, an application for an investment service licence was filed to the Finnish Financial Supervisory Authority.

Increased volume of operations

At the end of 2014, S-Bank had more than 2.7 million customers. More than 1.6 million customers had obtained S-Bank's international debit card, and nearly 1.5 million customers were using banking IDs for the electronic services at the end of the year.

S-Bank's deposit portfolio was EUR 4,057.2 million at the end of the year. The lending base totalled EUR 2,571.1 million. The powerful growth in lending and borrowing was mainly due to the merger.

The funds and asset management services offered by S-Bank are produced by its subsidiary FIM. At the end of 2014, the assets managed by FIM totalled EUR 5,506 million. In addition to its own funds, FIM also manages LocalTapiola's funds. Thanks to the great success of S-Savings Funds, the number of unit holders of FIM's funds exceeded 100,000 at the beginning of 2015.

Result from banking

S-Bank's profit amounted to EUR 14.6 million. Profit for the financial period after taxes totalled EUR 13.4 million. Solvency improved from the previous year, standing at 16.1 per cent.

ANNUAL REPORT

2014

S-Bank

REPORT BY THE EXECUTIVE BOARD

1.1.–31 DEC 2014

EXTERNAL OPERATING ENVIRONMENT

THE BEGINNING OF 2014 was characterised by a firm belief that U.S. economic growth would continue and the economy in the euro area would take a turn for the better. As for the U.S. economy, the expectations came true, whereas the recent economic recovery of the euro area faltered during the spring, as a result of the outbreak of the crisis in Ukraine. In the first quarter of 2014, GDP still grew but its growth practically halted in the second quarter.

For the first time in its history, the European Central Bank (ECB) had to reduce its deposit rate below zero, while disclosing several actions in an effort to increase the lending, offered by banks in the euro area, to small and medium-sized enterprises, in particular. However, the threat of deflation did not recede during the summer and the economic outlook grew even dimmer towards the autumn. In September, the ECB Council, contrary to common expectations, decided to further reduce its main interest rates, and it adopted new, exceptional monetary actions. The ECB's interest rate reductions and increased monetary recovery measures had a direct impact on both short-term market interest rates and longer-term government bonds' interest rates in the euro area.

Monetary policies conducted by the ECB and the FED have developed even farther away from each other, which has resulted in a justifiable expectation that the interest rate differential between the euro area and the U.S. would increase. Consequently, this development supported the U.S. dollar from the summer onwards, and, thus, weakened the euro.

For Finland, the year 2014 was the third consecutive year that showed weak economic development. During the year, the turn in the economy was postponed even further ahead. It was not possible to use domestic demand as a stimulator for economic growth. The employment situation worsened and households' real income development remained weak. As a result, expectations for the future remained flat. These factors decreased the willingness and potential to consume. Private investments decreased substantially during 2014 in the same manner as the year before. The weakening of the euro towards the end of 2014 gradually began to support Finnish export operations.

INTERNAL OPERATING ENVIRONMENT

IN 2014, THE MOST SIGNIFICANT EVENT was the combination merger with LocalTapiola Bank. In the merger, the operations of the old banks were discontinued, and a new S-Bank was established to continue the operations. The new bank began its operations on 1 May 2014.

Other significant events for 2014 included a transfer of the funds managed by LocalTapiola Asset Management under the management of FIM Asset Management in February, as well as a transfer of FIM Bank's retail banking and treasury activities to S-Bank in April. For the remaining FIM Bank activities, an application for an investment service licence was filed to the Finnish Financial Supervisory Authority.

As a result of the aforementioned changes, the significance of the integration work increased in 2014. Developing systems that aim to integrate products with services and building suitable operating processes for the new S-Bank played a major role.

FINANCIAL STANDING

FINANCIAL PERFORMANCE AND PROFITABILITY

The year 2014 was challenging to S-Bank Group: its operating environment weakened further and the integration work was in progress. S-Bank Group's operating result amounted to EUR 14.6 million (27.9). Profit for the financial period after taxes totalled EUR 13.4 million (20.4).

The decreased operating result reduced the Group's cost/income ratio to 0.87 (0.74) from the previous year. Return on equity (ROE) was 4.2 per cent (9.1), while return on assets (ROA) was 0.3 per cent (0.6).

S-Bank Group's capital strengthened further due to the merger and its operating result. Solvency improved from the previous year, standing at 16.1 per cent (14.7).

The reported figures describe S-Bank Group's operations. The acquisition of FIM in August 2013, the related internal reorganisations and the merger with LähiTapiola Bank must be considered in the comparison of these figures with the corresponding figures of the previous year.

KEY FINANCIAL INDICATORS (EUR MILLION)	12/2014	12/2013	12/2012
Operating result	14,6	27,9	6,4
Net income	147,6	106,1	68,4
Deposits	4 057,2	2 531,8	2 471,9
Lending	2 571,1	589,5	360,0
Debt securities	1 834,8	2 148,6	2 382,1
Cost/income ratio	0,87	0,74	0,89
Return on equity (ROE)	4,2 %	9,1 %	2,7 %
Return on assets (ROA)	0,3 %	0,6 %	0,2 %
Equity ratio, %	8,3 %	7,5 %	6,7 %
Solvency ratio	16,1 %	14,7 %	14,2 %

Net income

With increased operations and the merger, net income increased significantly from the previous year, totalling EUR 147.6 million (106.1). Less than half of the net income was constituted by net interest income, which totalled EUR 70.1 million (56.2). Income in net interest income was mainly generated through the interest income received from credit products, as well as investments in money and capital markets. Interest expenses consisted mainly of interest on deposits paid to customers.

Net fee and commission income also increased significantly, climbing to EUR 44.6 million (23.5). The development of net fee and commission income was affected by the increased operational volume and completed business arrangements.

Other income totalled EUR 32.6 million (26.4), consisting of net income from financial assets available for sale, net income from securities trading, other operating income and net income from hedge accounting, as well as net income from investment property, with such indirect entries as all income and expenses from the bank's two real estate subsidiaries. As a result of realising investment activities, net income from financial assets available for sale totalled EUR 17.9 million (8.7). With derivatives designated at fair value through profit and loss, as well as considering hedge accounting, net income from securities trading amounted to EUR 2.0 million (5.0). Net result from hedge accounting amounted to EUR 0.2 million (0.0). Other operating income totalled EUR 11.3 million (12.1) and net income from investment properties totalled EUR 1.1 million (0.5).

Expenses

The merger and on-going integration work were also reflected in expenses. Operating expenses totalled EUR 133.0 million (78.3). Personnel expenses amounted to EUR 43.1 million (22.5) and other administrative expenses to EUR 67.2 million (45.7).

Depreciation for the period totalled EUR 9.3 million (4.3). Other operating expenses, totalling EUR 10.5 million (5.8), consisted of bank tax, leases and rents for office premises, machinery and equipment, vehicle expenses and contribution payments for the Deposit Guarantee Fund.

Credit and impairment losses

With regard to the volume of operations, credit and impairment losses remained at a low level due to our good customer base, as well as our efficient credit control and debt collection activities. Net credit and impairment losses totalled EUR 2.9 million (0.1). Credit losses written back amounted to EUR 3.7 million (3.2).

Deposits

The trend in deposits continued to favour demand accounts over current fixed-term deposits. At year-end, the amount of demand deposits totalled EUR 3,817.2 million (2,350.9), and the amount of fixed-term deposits totalled EUR 240.0 million (180.9). On the closing date, the deposit portfolio totalled EUR 4,057.2 million (2,531.8).

Lending and investment operations

As a result of the merger, S-Bank began to use capital mainly for lending. On the closing date, lending to customers consisted of mortgages, bonds offered to corporate customers, credit card and consumer credit loans, as well as different account and working capital credit facilities, totalling EUR 2,571.1 million (589.5). S-Bank Group's capital investments in the money and capital markets totalled EUR 1,834.8 million (2,148.6).

Equity

At year-end, equity totalled EUR 393.0 million (240.3), of which the minority interest related to FIM Corporation was EUR 13.7 million (15.0). The increased equity was attributable to the completed combination merger and positive result.

As a result of the increased equity, equity ratio climbed to 8.3 per cent (7.5).

OPERATIONS OF S-BANK'S SUBSIDIARIES

FIM GROUP

S-Bank owns 51 per cent of the share capital of FIM Corporation. FIM Corporation owns 100 per cent of the share capital of FIM Asset Management and FIM Bank, as well as 80 per cent of the share capital of FIM Real Estate Ltd.

S-ASIAKASPALVELU OY

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

S-Asiakaspalvelu's revenue for the review period was EUR 6.1 million (5.6). Of the revenue, intra-Group revenue accounted for EUR 4.0 million (3.3), and other revenue consisted of telephone services for co-op members offered to the cooperatives. Expenses mainly related to personnel, and the company had 112 people on the payroll at the end of the year (110). S-Asiakaspalvelu's operating result was EUR 0.0 million (0.1).

PROPERTY COMPANIES

During the year 2011, S-Bank Ltd acquired the entire share capital of two mutual property companies: Kiinteistö Oy Limingan terminaali and Kiinteistö Oy Lempäälän terminaali. In accordance with their articles of associations, these companies own and manage facilities, as well as land areas, and the industrial and terminal properties built thereon.

The logistics terminals were completed and came into use in 2009 and 2010. Both of them have Inex Partners Oy as the lessee with a long-term lease. This company is part of SOK Corporation.

Income and expenses allocated to the mutual property companies are mainly recognised in net income from investment properties at S-Bank Group and S-Bank Ltd.

ADMINISTRATION

GENERAL MEETINGS

As a result of the combination merger, the new S-Bank Ltd was established on 5 May 2014. Its first financial period extended from 1 May 2014 to 31 December 2014. No general meetings were held. The number of Executive Board members was confirmed in the merger plan, and the members of the new S-Bank's Executive Board members were elected at general meetings of the merged companies. KPMG Oy Ab, Authorised Public Accountants, was appointed as auditor at the meetings.

EXECUTIVE BOARD

The General Meeting of Shareholders confirms the number of members in the Executive Board and nominates the Executive Board members for a term of one year. The Board elects chairman and vice chairman from among its members. The Executive Board has rules of procedure, duly confirmed, according to which the Executive Board is responsible for the strategic development of the bank, the steering and control of its operations, as well as 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 (8) times per year.

In accordance with the merger plan, the following members were elected to the Executive Board of the new S-Bank

Group: Jari Annala, CFO of SOK; Juha Ahola, Financial Manager of SOK; Matti Niemi, Managing Director of Helsinki Cooperative Society Elanto (HOK-Elanto); Veli-Matti Puutio, Managing Director of Arina Cooperative Society; Harri Lauslahti, Group Director of the LähiTapiola Group; and Jari Eklund, Group Director of the LähiTapiola Group. In addition, Heli Arantola, Senior Vice President of Strategy and Business Development of the Fazer Group, was appointed to the Executive Board as an independent member. Chairman of the Board is Jari Annala, and vice chairman is Harri Lauslahti.

Timo Mäki-Ullakko, Managing Director of Pirkanmaa Cooperative Society, and Hannu Krook, Managing Director of Cooperative Society Varuboden-Osla Handelslag, were appointed as deputy members of the S-Bank Group to the Executive Board of S Group. Erik Valros, Managing Director of LocalTapiola Uusimaa, was appointed as a deputy member of the LocalTapiola Group.

The Executive Board convened 15 times during the financial period, and the average rate of attendance was 96.9 per cent (92.0). Fees paid to Executive Board members totalled EUR 20,000 (0).

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 the 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.

Pekka Ylihurula acts as managing director of S-Bank Ltd. Marja Pajulahti, head of private customer operations, has served as deputy managing director as of 1 May 2014.

PERSONNEL

As a result of the merger between S-Bank Ltd and LocalTapiola Bank Plc, the number of S-Bank Group's personnel increased by more than 200. At the end of the year, the Group employed a total of 715 people (500). Of personnel, 457 (231) worked for S-Bank Ltd, 112 (110) for S-Asiakaspalvelu Oy, and 146 (159) for the FIM Group.

AGENCY ACTIVITIES

The S-Group's regional cooperative enterprises and the LocalTapiola Group's regional companies operate as S-Bank's agents. During 2014, training of S-Bank's agents was arranged in accordance with a training programme approved by the bank's management team. The training focused on ensuring the competence and quality of service required in the banking business, developing sales competence and improving comprehensive customer service.

WAGES, SALARIES AND REMUNERATION

S-Bank Group's rewarding model consists of basic pay and potential performance-based compensation. The aim of the performance-based compensation is to encourage employees to do their utmost in activities that help in reaching the strategic and operational goals. The performance-based compensation refers to different company-specific, team-specific, or personal monetary rewarding systems.

S-Bank's Executive Board is assisted by the Compensation and Nomination Committee, which, for its part, ensures that the bank's principles on wages, salaries and remuneration are in harmony with good and efficient risk management, and do not attract excessive risk taking. The Compensation and Nomination Committee consists of at least two members nominated by the bank's Executive Board from among its members.

S-Bank's Executive Board decides on all available, currently valid, rewarding methods on the basis of the proposal made by the Compensation and Nomination Committee. The Compensation and Nomination Committee annually prepares performance-based compensation principles for the bank's personnel in accordance with its rules of procedure, and submits them to the bank's Executive Board for confirmation. The FIM Group complies with its own rewarding policy.

S-Bank Group's performance-based compensation systems are valid for not more than a calendar year at a time. The performance-based compensation target depends on the entire bank's shared, unit-level and personal targets. The performance-based compensations are paid in cash.

The salaries and fees paid to personnel at S-Bank Group totalled EUR 35.4 million (18.5) during the year 2014. Recognised salaries and wages at the old S-Bank Ltd and the new S-Bank Ltd totalled EUR 19.2 million (9.2 for the old S-Bank), while remuneration totalled EUR 2.0 million (0.6 for the old S-Bank). Recognised salaries and wages at S-Asiakaspalvelu totalled EUR 3.2 million (3.1) and remuneration totalled EUR 0.1 million (0.2). Recognised salaries and wages at the FIM Group totalled EUR 9.2 million, while remuneration totalled EUR 1.8 million.

Fees paid to S-Bank's Executive Board members totalled EUR 20,000 (0). Fees paid to FIM Corporation's Board members totalled EUR 90,000 (37,500) , while fees paid to FIM Asset Management's Board members totalled EUR 7,500 (7,500). In 2014, the personnel members whose operations essentially affect the credit institution's risk profile were paid EUR 2.5 million (1.8) in salaries and EUR 0.2 million (0.2) in fees. A total of 32 persons (36) were entitled to these salaries and fees. During the one-year earnings period, no changeable fee paid to individuals entitled to this fee was higher than EUR 50,000.

SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL PERIOD

FIM Bank Ltd is part of S-Bank Group. The company cancelled its credit institution licence in February and continued with its operations as an investment service company, known as FIM Investment Services Ltd. The investment service licence was accepted by the Finnish Financial Supervisory Authority and the change became valid on 2 February 2015.

OUTLOOK FOR 2015

At the beginning of 2015, interest rates have continued to decrease and they are further expected to remain at a very low level for a long time. Domestic demand is expected to decrease further. The decreased value of the euro, in relation to the U.S. dollar, is expected to boost Finnish exports. However, GDP is expected to decrease this year.

In the current economic situation, S-Bank Group's operations and financial standing are expected to follow the development of 2014.

EXECUTIVE BOARD'S PROPOSAL FOR THE DISPOSAL OF DISTRIBUTABLE FUNDS

The Executive Board proposes that parent company S-Bank Ltd's profit for the financial period, EUR 11,151,051.99, be entered in the retained earnings account and that no dividend be distributed.

CALCULATION OF KEY INDICATORS

Net income:

Net interest income + income from equity investments + net fee and commission income + net income from securities trading and currency operations + net income from available-for-sale financial assets + net result from hedge accounting + net income from investment properties + other operating income

Net fee and commission income:

Fee and commission income – fee and commission expenses

Debt securities:

Debt securities eligible for refinancing with central banks + debt securities

Cost/income ratio:

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

Net interest income + income from equity investments + net fee and commission income + net income from securities trading and currency operations + 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

--- x 100

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

Return on assets (ROA), %

Operating profit/loss – income taxes

--- x 100

The average sum total on the balance sheet (the average for the beginning and end of year)

Equity ratio, %

Equity and minority interest + accumulated appropriations less deferred tax liability

--- x 100

The sum total on the balance sheet

Capital adequacy ratio, %

Own funds, total

--- x 8 %

Minimum requirement for own funds, total

CONSOLIDATED BALANCE SHEET

ASSETS EUR THOUSAND	Note	31 Dec 2014	31 Dec 2013
Cash	18, 19, 22	173 640	193 054
Debt securities eligible for refinancing with central banks		1 464 060	1 664 188
Other	3, 18, 19, 22	1 464 060	1 664 188
Receivables from credit institutions	1, 18	38 625	101 795
Repayable on demand		22 869	19 273
Other		15 757	82 522
Receivables from the public and public sector entities	2, 18, 19, 22	2 571 109	589 473
Repayable on demand		2 532	35 083
Other		2 568 578	554 390
Debt securities	3, 18, 19, 22	370 724	484 447
Other		370 724	484 447
Shares and participations	5, 19, 22	40 733	69 579
Derivative contracts	6, 19, 22	1 451	588
Intangible assets	7, 9, 19	36 168	24 300
Tangible assets	8, 9, 19	12 852	13 434
Other assets	10	6 305	9 454
Accrued income and advances paid	11	38 108	37 159
Deferred tax assets	12	2 926	834
TOTAL ASSETS		**4 762 046**	**3 188 306**

EQUITY AND LIABILITIES EUR THOUSAND	Note	31 Dec 2014	31 Dec 2013
LIABILITIES			
Liabilities to credit institutions		68 143	302 574
To central banks	18, 19, 22	50 000	300 000
To credit institutions		18 143	2 574
Repayable on demand		15	2 574
Liabilities to the public and public sector entities	18, 19, 22	4 089 844	2 561 312
Deposits		4 057 176	2 531 819
Repayable on demand		3 817 222	2 350 930
Other		239 954	180 889
Other liabilities		32 669	29 493
Repayable on demand		31 491	28 456
Other		1 178	1 037
Derivative contracts and other liabilities held for trading	6, 14, 19, 22	14 608	9 072
Other liabilities	15, 19	66 907	19 107
Accruals and deferred income	16	23 324	25 879
Subordinated liabilities	16, 18, 22	41 020	20 020
Capital loans		41 000	20
Other		20	20 000
Deferred tax liabilities	12	7 554	10 079
LIABILITIES, TOTAL		4 369 055	2 948 044
SHAREHOLDERS EQUITY			
Share capital	23, 24, 26	82 880	33 540
Share premium reserve	23	0	21 180
Other restricted reserves	23	20 530	31 664
Fair value reserve	23	0	31 664
On measurement at fair value		20 530	31 664
Non-restricted reserves	23	243 812	104 448
Reserve for invested non-restricted equity	23	243 812	104 448
Profit (loss) from previous financial periods	23	23 783	13 173
Profit (loss) for the period	23	8 237	21 286
Minority interest		13 750	14 971
EQUITY, TOTAL	23	392 991	240 262
TOTAL EQUITY AND LIABILITIES		**4 762 046**	**3 188 306**
OFF-BALANCE SHEET LIABILITIES			
Commitments given in favour of a customer	42		
Irrevocable		196 401	103 527
Other		849 690	698 178

CONSOLIDATED INCOME STATEMENT

EUR THOUSAND	Note	1.1.-31 Dec 2014	1.1.-31 Dec 2013
Interest income	24	82 718	70 619
Net income from leasing activities	25	169	0
Interest expenses	24	**-12 807**	**-14 421**
NET INTEREST INCOME		70 081	56 198
Return from equity investments	26	351	0
From other companies		351	0
Fee and commission income	27	73 819	28 957
Fee and commission expenses	27	-29 214	-5 445
Net income from securities and currency trading			
Net income from securities trading	28	2 123	5 090
Net income from currency trading	28	-107	-45
Net income from available-for-sale financial assets	29	17 929	8 687
Net result from hedge accounting	30	237	11
Net income from investment properties	31	1 073	545
Other operating income	32	11 312	12 120
Administrative expenses		-110 278	-68 273
Personnel expenses			
Wages, salaries and fees		-35 445	-18 479
Indirect personnel expenses			
Pension costs		-6 104	-3 209
Other indirect personnel expenses		-1 579	-842
Other administrative expenses		-67 151	-45 742
Depreciation, amortisation and impairment losses on tangible and intangible assets	34	-7 256	-3 432
Depreciation, amortisation and impairment losses on consolidation goodwill		-2 075	-864
Other operating expenses	33	-10 483	-5 825
Impairment losses on loans and other receivables	35	-2 903	123
Share of results of associated companies		**-2**	**4**
OPERATING PROFIT (LOSS)		**14 607**	**27 852**
Income tax		**-1 186**	**-7 465**
PROFIT (LOSS) FROM ORDINARY ACTIVITIES AFTER TAXES		**13 421**	**20 388**
Minority interests		**-265**	**899**
PROFIT (LOSS) FOR THE PERIOD		**13 157**	**20 388**

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED CASH FLOW STATEMENT (EUR million)	2014	2013
CASH FLOW FROM OPERATIONS		
Result for the period	13	20
Adjustments of the result for the period	-4	0
Increase (–) or decrease (+) in operating assets:	-105	-243
Receivables from the public and public sector entities	-115	-229
Other assets	10	-14
Increase (+) or decrease (–) in operating liabilities:	-294	61
Liabilities to credit institutions	-294	3
Liabilities to the public and public sector entities	-137	61
Other liabilities	138	-3
A. Cash flow from operations, total	-390	-161
Cash flow from investment activities		
Investments in tangible and intangible assets	-12	-34
B. Cash flow from investment activities, total	-12	-34
CASH FLOW FROM FINANCING ACTIVITIES		
Subordinated liabilities, decrease	-4	0
Change in minority interest	-1	15
C. Cash flow from financing activities, total	**-5**	**15**
Net change in liquid assets (A+B+C)	**-407**	**-180**
Liquid assets at the start of period	2 497	2 676
Liquid assets at the end of period	2 090	2 497
Interest income	83	86
Interest expenses	-13	-21
Profit adjustments for the period		
Depreciation according to plan	2	1
Impairment losses on loans and other receivables	-8	1
Other	2	-1
Adjustments, total	-4	0
Liquid assets		
Cash	174	193
Debt securities	1 837	2 142
Shares and participations	41	60
Receivables from credit institutions	39	102
Total	2 090	2 497

The cash flow statement for 2014 has been prepared in accordance with the so-called indirect cash flow statement. Accordingly, the presentation mode of the cash flow statement for the comparison year has been edited and the classification of the cash flow in the statement has been updated to correspond to the statement classification for 2014.

NOTES ON THE GROUP

ACCOUNTING POLICIES

Company

S-Bank Group consists of S-Bank Ltd (S-Bank) and its subsidiaries. S-Bank is a deposit bank that engages in credit institution operations pursuant to the Finnish Act on Credit Institutions (121/2007). The bank engages in operations, as referred to in section 30 of the above-mentioned Act, and related activities, as well as offers investment services pursuant to Chapter 1, section 11 of the Act on Investment Services (747/2012). As the parent company, S-Bank performs such tasks of the Group companies that must be carried out in a centralised manner: the Group's administration, guidance and supervision.

S-Bank's headquarters and office are located at Fleminginkatu 34, FI-00510 Helsinki, Finland. The bank does not have other branch offices. Pursuant to representative agreements, customer service is also provided by S Group cooperatives and the LocalTapiola Group's regional companies, acting as agents at their outlets.

On 9 February 2015, the Executive Board approved the consolidated financial statements for the period of 1 January–31 December 2014 and the parent company's financial statements for 1 May–31 December 2014.

Accounting policies

The financial statements have been prepared in accordance with the Finnish Accounting Act and, as applicable, with the provisions of the Act on Credit Institutions 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 new regulations concerning accounting, financial statements and report of the financing sector operators, effective as of 1 February 2013. In preparing the financial statements, the general instructions issued by the Finnish Accounting Standards Board (KILA) have also been considered, as applicable.

In addition, the EU capital requirements regulation (CRR, EU 575/2013) and the Finnish Financial Supervisory Authority's statements were taken into account when preparing the financial statements.

Principles of consolidation

The consolidated financial statements include S-Bank and all subsidiaries in which the bank has controlling interest. Controlling interest is generated when the Corporation has the right to control the principles of the company's finances and operations in order to gain benefits from its operations.

The subsidiaries acquired are included in the financial statements using the acquisition cost method. The companies possibly acquired during the financial year have been consolidated as of the date of acquisition. The associated company S-Crosskey Ab has been consolidated using the equity method.

Intra-Group transactions, receivables and liabilities have been eliminated from the consolidated financial statements.

Comparability

The consolidated financial statements include the result of the old S-Bank for the period between 1 January and 30 April 2014, as well as the result of the new S-Bank, which was established in the combination merger on 1 May 2014, for the period between 1 May and 31 December 2014. The consolidated balance sheet includes the balance sheet items of S-Bank Ltd and LähiTapiola Bank plc, which were combined in the merger. The Group's comparison information is taken from S-Bank Group's financial statements of 31 December 2013. The following balance sheet items, received in the merger between LähiTapiola Bank plc and S-Bank Ltd, must be taken into account in the comparison of the consolidated balance sheet and notes:

BALANCE SHEET ITEMS TRANSFERRED FROM LÄHITAPIOLA BANK IN THE MERGER:	EUR thousand
Cash	49 858
Debt securities eligible for refinancing with central banks	68 646
Receivables from credit institutions	20 267
Receivables from the public and public sector entities	1 860 271
Leasing objects	11 819
Debt securities	3 999
Shares and participations	2 132
Derivative contracts	1 413
Intangible assets	6 134
Tangible assets	228
Other assets	4 277
Accrued income and advances paid	2 811
Deferred tax assets	2 000
ASSETS	**2 033 855**
Liabilities to credit institutions	59 526
Liabilities to the public and public sector entities	1 665 802
Debt securities issued to the public	72 750
Derivative contracts and other liabilities held for trading	1 415
Other liabilities	50 454
Accruals and deferred income	6 155
Subordinated liabilities	25 000
Deferred tax liabilities	161
Share capital	49 340
Share premium reserve	48 100
Fair value reserve	645
Reserve for invested non-restricted equity	70 104
Profit/surplus from previous financial periods	-17 863
Profit/loss for the financial period	2 266
EQUITY AND LIABILITIES	**2 033 855**

On 1 August 2013, S-Bank Ltd acquired 51% of the share capital of FIM Corporation. FIM Corporation owns 100% of FIM Asset Management Ltd and FIM Bank Ltd, and 80% of FIM Real Estate Ltd. In these financial statements, the Group, consisting of the above-mentioned companies, is referred to as the FIM sub-Group. The comparable data for 2013 include the FIM sub-Group's data for the period between 1 August and 31 December 2013.

ITEMS DENOMINATED IN FOREIGN CURRENCY

The financial statements are presented in euro. Transactions in foreign currency are recognised at the exchange rate on the transaction date. On the closing date, the items in foreign currency are converted into euro at the exchange rate quoted on the closing date.

Exchange rate differences are recognised as exchange rate profits/losses in the income statement; for financial items, in the net income from securities trading and currency operations; and for trade payables, in the other administrative expenses.

FINANCIAL ASSETS AND LIABILITIES

S-Bank Group applies a settlement-date practice in recognising financial assets and liabilities on the balance sheet, excluding financial assets and liabilities designated at fair value through profit and loss. For financial assets and liabilities designated at fair value through profit and loss, a trading-date practice is applied to recognising the items on the balance sheet. An item included in 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 designated 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 values of certificates of deposit, commercial papers or derivatives (excluding futures) are determined by discounting future cash flows to the present value, applying market interest rates on the closing date. Bonds, investment fund units and futures are measured at market prices. Financial assets at fair value are measured using the bid price, while financial liabilities at fair value are measured using the asked rate.

Financial assets and liabilities at fair value are divided into three categories according to the determination method of fair value. Level 1 fair values are determined using the quoted, unadjusted prices of completely identical financial asset items and liabilities in an active market. Level 2 fair values are determined using generally accepted valuation models in which the input is, to a significant extent, based on verifiable market information. Level 3 market prices are based on inputs concerning the asset item or liability that is not based on verifiable market information but, to a significant effect, on the management's assessments.

Financial assets or liabilities designated at fair value through profit and loss include debt securities, 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.

Financial assets or liabilities designated at fair value through profit and loss are recognised at fair value. The change in fair value is entered in the income statement. The difference between the closing date value of the financial instruments to be recognised at fair value and the carrying value from the previous financial statements is recognised as the income or expense for the period in the income statement. If the financial instrument to be recognised at fair value was acquired during the financial period, the difference between the closing date value of the financial instrument and its acquisition cost is recognised 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.

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 designated 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.

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. Should this not yield a reliably definable fair value, the acquisition cost is used. The change in fair value is recorded in equity in the fair value reserve. When the financial instrument is sold, the change in the fair value accrued to equity, together with accrued interest and capital gains or losses, is recognised in the income statement.

An item included in other financial liabilities is recognised in the financial statement at its nominal value, when its fair value is the nominal value. If the debt capital received differs from the nominal value of the liability, the liability is entered in the amount received. The amount recognised as expense or income for the financial period from the difference between the nominal value of the debt and cost of debt is amortised and recognised as an increase or decrease in the cost of debt. The difference between the nominal value and cost, or a debt-related fee, or an expense that is part of a debt-related interest expense, 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 closing date, using the effective interest method.

Impairment of financial assets

At the end of each financial period, the Group assesses whether there is any objective evidence that the value of an item, other than those classified as financial assets designated at fair value through profit and loss, is impaired. Objective evidence is, for example, a customers' delay in payment, insolvency or bankruptcy, reorganisation or rearrangement of debts, or a major change in the credit rating. If there is objective evidence of impairment, an impairment loss is recorded.

The amount of recognised impairment loss is the best estimate of the amount of expected credit losses, after taking into account all relevant information about the situation on the reporting date. Impairment is recognised on the balance sheet and result, using a review of impairment. The review is carried out four times per year.

Impairment losses consist of both individually significant and group-specific impairment. Firstly, individually significant receivables undergo a review. After this, receivables, which are not individually significant and with no earlier impairment recognition, undergo a group-specific impairment assessment. Loan receivables with similar credit risk properties are divided into groups. Their review aims to analyse and assess the transfer of the credit base into the following delay states and, eventually, to credit losses. The assessment considers the extent of collateral in relation to credit, the value judgement percentage of collateral, the collateral type and potential realisation costs, as well as the payment behaviour and cash flow estimates. Should there emerge any objective evidence at a later date that the value of an item classified as financial assets has increased, impairment is cancelled.

Hedge accounting

Derivative contracts are taken out primarily for hedging purposes. S-Bank applies macro-scale fair value hedge accounting to the above-mentioned derivative contracts that meet the documented effectiveness and other requirements for hedge accounting. In such cases, open interest rate risks are hedged using interest rate swaps, which are determined as hedging items in hedge accounting.

Changes to fair value attributable to the risk related to hedged items are recognised in the income statement under the item "Net result from hedge accounting". Changes to fair value attributable to other than the hedged risk are recognised in the fair value reserve.

Changes to fair value of the hedging items included in hedge accounting are recognised in the income statement under the item "Net result from hedge accounting".

EMBEDDED DERIVATIVE

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

S-Bank has issued subordinated debenture loans that can be categorised as the above-mentioned hybrid instruments due to options included in the contracts and because these options entitle the bank to the repayment of debt before the maturity date. S-Bank has also acquired digital options linked to a bond, as part of the hedging transaction relating to investment deposits.

S-Bank does not separate embedded 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 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 or received. Income and expenses for services distributed over several years are allocated to the appropriate years.

INTANGIBLE ASSETS

Intangible assets mainly consist of licence fees for software and connection charges. Software expenses also include costs arising from a modification of the software licensed to S-Bank. Intangible assets are measured at original acquisition 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
Goodwill: 5 years

TANGIBLE ASSETS

Tangible assets are measured at original acquisition cost, less accumulated depreciation and impairment losses, if any. Straight-line depreciation is recorded on tangible assets in accordance with each item's economic life. Land areas are not depreciated.

Amortisation periods for tangible assets / investment properties
Machinery and equipment: 3 years
Buildings: 25 years
Equipment in buildings: 10 years

Investment property

Investment properties are properties used by operations outside the Group and held by the Group for the primary reason of obtaining rental income and possibly an appreciation in the asset value. Investment properties are measured at original acquisition cost, less accumulated depreciation and any impairment losses, in accordance with the same principles that are applied to real estate included in tangible assets. Leases are recognised as income in the net income from investment property over the lease period.

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 directly in equity. Taxes are calculated using the tax rates valid on the closing date and, if there is a change in tax rates, at the enacted tax rate.

RISK MANAGEMENT AND SOLVENCY

General description and goals for risk management

Risk management belongs to S-Bank Group's central operations. Risk management aims to identify, measure, assess, monitor and report on all material risks related to the Group's business operations. Another aim is to ensure that risk-taking is in line with the principles and limits defined and approved by the company's Executive Board, without jeopardising the Group's capital adequacy and profitability targets or continuity of operations. Risk management principles obeyed by the entire S-Bank Group supports the achievement of business targets by ensuring that risks are identified and managed, as well as their impacts analysed.

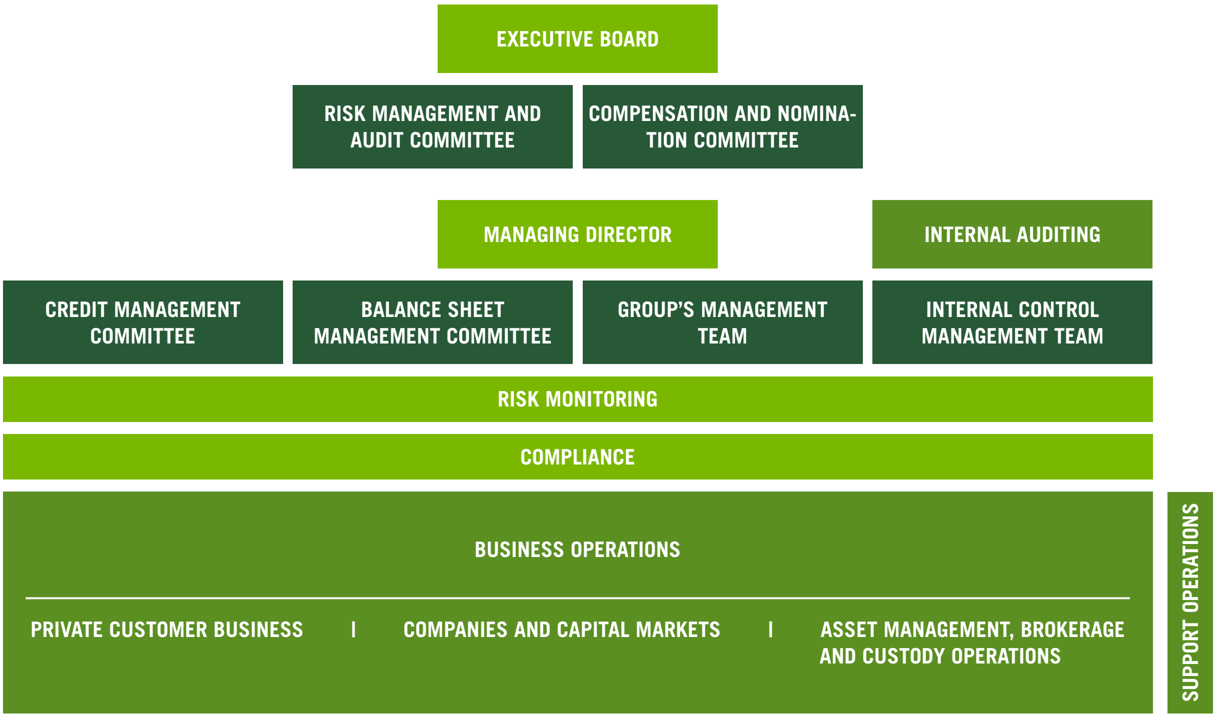
S-Bank Group follows an overall risk strategy that is confirmed by the Executive Board. It describes the Group's risk-bearing capability and risk-taking willingness, specifies its key risks and general principles that help the bank secure its capital adequacy and continuity of operations. Risks are measured and reported in a manner that gives the

Executive Board and line management sufficient and relevant information on operational risks and their management. Details of the overall risk strategy are specified in various documents, such as risk management procedures, continuity plans, product descriptions and action plans.

S-Bank Group's key risk management methods include a comprehensive approval procedure for new products and operations, setting and real-time monitoring of limits, preparing a clear description of processes and responsibilities, decentralising duties, training of employees and taking out insurance.

Risk management arrangements at S-Bank Group

S-Bank's Executive Board determines the risk-taking and risk-management principles, authorises the company's management to make decisions, supervises risk management and ensures adequate monitoring of risks that are independent of business operations. S-Bank's Managing Director, assisted by the Group's management teams, is responsible for the practical execution of risk management in accordance with the principles set by the Executive Board. Risk management is carried out by S-Bank Group's business units. Their activities are supervised by representatives for independent control functions and internal auditing. Risk management is organised as follows:



Supreme decision-making power is exercised by S-Bank's Executive Board, which attends to the due arrangement of the bank's operations in compliance with the applicable legislation and regulations. The Executive Board approves the overall risk strategy, and S-Bank Group's risk-based capital need, as well as decides on the bank's risk-taking willingness and risk-bearing capability. Executive Board members must have sufficient and diversified expertise and experience in banking business and risks related to the bank and its operations.

The Executive Board is assisted by the Risk Management and Audit Committee, as well as the Compensation and Nomination Committee, which have no independent decision-making power. Both committees consist of Executive Board members. The Risk Management and Audit Committee assists the Executive Board, for example, in matters related to the bank's risk strategy and risk-taking capability, and supervises the Group's risks, as well as risk management scope and quality. The Compensation and Nomination Committee prepares, for example, matters related to compensation and nomination, submits them to the General Meeting and the Executive Board for confirmation, as well as ensures the appropriateness of related procedures.

The Managing Director and the Group's management team ensures that legislation and regulations, as well as risk management principles and methods that are in compliance with the bank's Articles of Association and overall risk strategy, are taken into account in S-Bank Group's on-going operations. The Managing Director is responsible for ensuring that responsibilities and authorisations are clearly and appropriately defined.

The heads of S-Bank Group's business units (Retail Banking, Companies and Capital Markets, as well as Asset Management, Brokerage and Custody Operations) are primarily responsible for risks in their respective business areas, and they must ensure that business operations are carried out in accordance with S-Bank Group's guidelines and principles. In addition, the business units are responsible for risks in their respective business areas within the provided limits.

The Credit Management Committee decides on credits granted to private and corporate customers in accordance with given authorisations. Moreover, the Credit Management Committee approves operating principles for crediting and prepares credit risk management matters for consideration of the Risk Management and Audit Committee.

The Balance Sheet Management Committee supervises and restricts S-Bank Group's risks. The Balance Sheet Management Committee monitors the Group's capital adequacy and liquidity position, handles the related key draft resolutions, and may set risk limits, when necessary.

S-Bank's Executive Board has ordered control functions, which are independent of business operations, to ensure efficient and comprehensive internal control for the Group's business areas. These internal control functions include risk control, legal issues and compliance, and internal auditing functions. The internal control management team, which consists of above-mentioned functions, aims to ensure that set goals and targets are achieved within the framework of internal and external regulations. The internal control management team maintains and develops the Group-level internal control principles and operating model, as well as monitors, assesses and coordinates the execution of regulation-related changes in the organisation. Moreover, the internal control management team assesses how the units' action plans and principles affect risk management.

The risk-monitoring function monitors and assesses, in a comprehensive manner, the Group's risk-taking level and implementation of risk management. The risk-monitoring function monitors the implementation of the overall risk strategy and the overall risk position, as well as reports on them to S-Bank Group's Executive Board, the Risk Management and Audit Committee, the Managing Director and the authorities. The risk-monitoring function maintains and develops risk measurement, assessment and reporting methods, as well as supports business operations in the identification of new risks.

The task of the compliance function is to ensure that S-Bank Group has adequate and appropriate operating principles and procedures for ensuring that regulations are obeyed. The function monitors and assesses the adequacy and efficiency of actions taken to correct failures that have occurred in the compliance of regulations. The task of the legal issues function is to support business and support operations in legal issues. The legal issues function ensures that legal issues related to agreements, individual products and service processes are handled in an excellent and business-driven manner, within the limits set by regulation.

Internal auditing refers to independent assessment and verification operations, which allows for checking adequacy, functionality and efficiency of internal control and risk management activities. Adequacy, functionality and efficiency are estimated in a risk-oriented manner annually in accordance with the auditing plan, which is approved by the Executive Board. When conducting audits according to plan, the internal auditing function uses auditing criteria that are based on external regulations, internal guidelines and set objectives. The internal auditing function also assesses the actions taken by the legal issues and compliance function, as well as the risk-monitoring function.

INTERNAL ASSESSMENT OF CAPITAL ADEQUACY AND RISK-BASED CAPITAL GOAL

Background

The Basel solvency framework is comprised of three interlinked entities, or pillars. The minimum solvency requirements under Pillar I relate to credit, market and operational risks. S-Bank reports on the Pillar 1 capital requirement for credit and market risks with a standard method and the requirement for operational risks with a basic method. Pillar 2 in the solvency framework obligates banks to draw up an overall evaluation of their solvency management and whether their own funds are adequate, in relation to the risk profile of their entire operations and the risks of their operating environment. This makes it possible to consider the risks outside Pillar 1 capital requirements in the internal capital requirement process. Such risks remaining outside Pillar 1 include liquidity risks, banking book interest rate risks, strategic risks, business risks, concentration risks, and risks related to the external operating environment. The integration risks over the period of 2015–2017, resulting from the merger between S-Bank and LähiTapiola Bank, are also considered when the Pillar 2 capital goal is calculated for the Group. Pillar 3 supplements the first two pillars by defining publication principles. Its key goal is to promote market transparency in the particulars related to solvency and risks.

The purpose of the capital requirements directive and regulation (CRD IV/CRR), which took effect on 1 January 2014, is to further strengthen the risk tolerance of banks, as a result of the financial crisis. The main content of the regulatory framework is to introduce the new Basel 3 regulations issued by the Basel Committee on Banking Supervision. The solvency framework is based on the Basel 2 pillars, and its main features will remain unchanged, but the content of the pillars will be, to some extent, more accurate and extensive in the future. The purpose of using the new regulations is to improve, for example, the quantity and quality of banks' own funds, reduce liquidity risks through quantitative restrictions, control banks' debt-to-equity ratio, and set qualitative requirements for a reliable administration and monitoring of operators in the banking sector. S-Bank Group constantly strives to develop its risk management conventions and ensure their uniformity with valid and planned capital adequacy and risk management regulations.

Internal assessment of capital adequacy

The solvency management process under Pillar 2 is linked with the Group's strategy and operational planning process, as regards the risk analyses affecting solvency, as well as the determination of risk-taking willingness and the risk-based capital goal. S-Bank Group's internal capital adequacy assessment process (ICAAP) is described in the overall risk strategy, which is approved by the bank's Executive Board. The ICAAP is based on a comprehensive identification of risks, while taking into consideration the nature and extent of business operations, as well as the changes in the external operating environment. The amount of own funds required by S-Bank Group is deduced from the identified and analysed risks within the limits of the risk-taking level and willingness.

S-Bank's Executive Board and the Group's management team participate annually in S-Bank Group's strategy process. The process consists of strategic analysis, strategic choices and, eventually, execution of the strategy. The strategy is approved by S-Bank's Executive Board.

The business area, markets, primary competitors, development of regulatory instructions and the company's own operations are analysed at the strategic analysis stage. The business concept and vision, strategic goals and related risk-taking willingness described in the overall strategy are defined at the stage of strategic choices. Critical success factors are concretised, as well as meters and annual goal levels are created at the strategic execution stage. The top-level risk limits, as well as the risk-based capital need on the basis of these goals, are determined in the same connection. S-Bank Group's capital plan is created as a result of the strategy execution stage. The Pillar 1 minimum requirement for own funds and minimum capital adequacy, as well as the Pillar 2 risk-based capital goal and its background accounts of each risk type, are analysed and reported in the capital plan.

The Group's risk-based capital goal, capital adequacy and solvency in the future are assessed in the capital plan. An assessment of operational risks is vitally important for the capital plan. The capital need caused by operational risks is estimated in the capital plan, for example, with scenario analyses and stress tests. S-Bank's Executive Board approves the capital plan.

Risk-taking willingness and risk-bearing capability

S-Bank's Executive Board specifies the bank's risk-taking willingness, considering the results received from the internal assessment of capital adequacy, and the risk-based capital goal. The main idea is to secure a steady and sufficient returns on the bank's equity in the long run, as well as to ensure uninterrupted and continuous business operations and adequate solvency in the short-term and medium-term. The review of risk-taking willingness includes, for example, an assessment of set growth aspirations and the willingness to expand business to new areas and product groups.

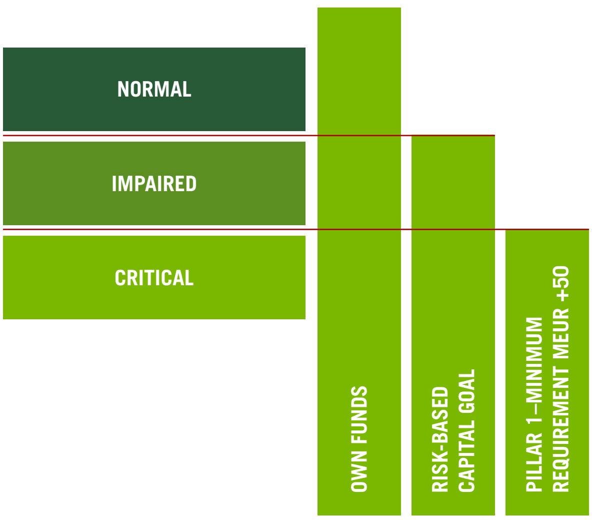
Risk-based capital goal and restricting actions for solvency management

The Pillar 1 minimum solvency goal set by S-Bank's Executive Board is 13 per cent. The risk tolerance, which is in compliance with the overall risk strategy, defines the so-called Pillar 2 capital goal for solvency management, in addition to the Pillar 1 solvency goal set by the authorities. Moreover, the overall risk strategy and its risk budget appendix define action restrictions and actions that enable the bank to return its solvency position within the framework set for goals. If the bank's own funds are close to, or less than, the set capital goal, the bank primarily uses passive risk reduction methods to normalise the situation. This means that additional and active taking of risks is restricted, for example, by cutting down on the risk limits. The active solvency management methods will be applied only after doing this.

Besides using the above-mentioned mechanistic restrictions, the Executive Board uses proactivity and discretion, in compliance with its own job description, when deciding upon the company's capitalisation arrangements and application of risk reduction methods. Discretionary decisions are, above all, based on general trends, market outlooks, other risk reporting and solvency scenarios.

Group companies are provided with a limit and deviation alarm indication for the minimum solvency in the risk budget. A plan must be drawn up for the Group's internal capitalisation, in case the company's solvency falls below the deviation alarm indication. The plan must be executed when the amount of capital falls below the actual solvency limit.

S-Bank Group, its parent company and subsidiaries apply the following solvency management limits to manage solvency under Pillar 2. These limits are approved by the Executive Board.



The Pillar 2 solvency position is normal, when the Group's own funds are more than the risk-based capital goal and, at the same time, the bank's risk-based capital requirement. The solvency position is impaired, if the Group's own funds are less than the risk-based capital goal. The solvency position is critical, when the Group's own funds are less than the Pillar 1 minimum requirement for own funds, plus EUR 50 million.

In addition to setting Pillar 2 risk-based solvency position management limits, the Executive Board has set corresponding limits for the Pillar 1 solvency position. The Pillar 1 solvency position is normal, if solvency ratio exceeds 13 per cent. The solvency position has impaired, if solvency ratio is less than 13 per cent, but more than 10.5 per cent. The solvency position is critical, if solvency ratio is less than the limit of 10.5 per cent.

S-Bank Group's capital plan specifies actions that must be taken immediately, if the factors fall below the above-mentioned action limits, or if their fall below the action limits seems to be possible.

A summary of S-Bank Group's key risks and risk-based capital goal are described hereafter.

Disclosure of solvency information

S-Bank Group publishes information on its solvency, with regard to its own funds, annually in the notes to its financial statements. Information on various risk types and risk management is published in the notes to its financial statements. In special situations, solvency information is also published in the Interim Report. Such a special situation realises if the company is capitalised outside the capital plan. S-Bank Group publishes an Interim Report that covers the first six months of each calendar year.

Own funds and solvency

S-Bank Group's own funds can be divided into Tier 1 and Tier 2 own funds (T1 and T2). Tier 1 own funds consist of common equity (CET1) and additional equity, as well as deductions from common and additional equity. Since S-Bank Group does not have items classified as additional equity, the CET1 own funds are equal to T1 own funds.

Common equity consists of restricted and unrestricted equity items, minority interest and retained earnings. Share capital represents restricted equity. The unamortised portion of the acquisition costs of intangible assets is deducted from common equity. Moreover, a negative fair value reserve is deducted from common equity, according to the EU capital requirements regulation (CRR, EU 575/2014), which took effect on 1 January 2014. Retained earnings for the current 2014 period are included in common equity, as a result of the permit granted by the Finnish Financial Supervisory Authority in accordance with Article 26 of the EU capital requirements regulation.

Common equity also includes minority interest. Transition regulations must be considered in its calculation. The capital requirements regulation (CRR4) specifies the range of variation for the coefficients of minority interest. They are specified by the Finnish Financial Supervisory Authority. FIM Corporation's minority interest is calculated in accordance with the transition regulations. A minority interest deduction item is deducted from the minority interest on the balance sheet over the period of 1 January to 31 December 2014.

Tier 1 own funds are freely and immediately available for covering unexpected losses. S-Bank Group's Tier 1 own funds are categorised as non-restricted own funds in full. In other words, S-Bank Group has full power of decision over the repayment of the funds and over the dividends to be distributed on them.

S-Bank Group's Tier 2 own funds consist of the fair value reserve and four loans on debenture terms. In 2014, a positive fair value reserve is included in Tier 2 own funds, less deferred taxes in accordance with the corporate tax rate. S-Bank Group does not have items categorised as deductible from Tier 2 own funds, or jointly from Tier 1 and Tier 2 own funds. The positive fair value reserve is also included in common equity since the beginning of 2015.

Own funds and solvency on 31 December 2014 are presented in accordance with the EU capital requirements regulation (CRR, EU 575/2013). In addition, comparison figures are presented as estimates in accordance with CRR.

At the end of the financial period, the Group's own funds totalled EUR 369.4 million (232.1), whereas the minimum requirement for own funds was EUR 183.5 million (126.1). The increase in own funds and the minimum requirement for own funds are due to the merger between S-Bank and LocalTapiola Bank.

S-Bank Group's solvency ratio was 16.1 per cent (14.7). Calculated in accordance with previous regulations, the solvency ratio was 18.2 per cent in the comparison year.

OWN FUNDS (EUR MILLION)	12/2014	12/2013
Common equity before deductions	**370.6**	**207.7**
Share capital	82.9	33.5
Share premium reserve	0.0	21.2
Reserve for invested non-restricted equity	243.8	104.4
Minority interest	11.9	14.0
Retained earnings	32.0	34.5
Deductions from common equity	**42.3**	**29.3**
Common equity (CET1)	**328.3**	**178.3**
Tier 1 capital	**328.3**	**178.3**
Tier 2 capital before deductions	**41.1**	**53.8**
Tier 2 capital (T2)	**41.1**	**53.8**
Own funds, total	**369.4**	**232.1**
Risk-weighted items, total	**2 293.6**	**1 576.2**
of which the credit risk represents	1 999.9	1 398.4
of which the market risk represents	1.5	11.6
of which the operational risk represents	292.3	166.3
Common equity in relation to risk-weighted items (%)	**14.3 %**	**11.3 %**
Tier 1 capital in relation to risk-weighted items (%)	**14.3 %**	**11.3 %**
Total capital in relation to risk-weighted items (%)	**16.1 %**	**14.7 %**

The Group's own funds were most significantly tied by the credit risk capital adequacy requirement and the included items "Receivables with real estate securities", which totalled EUR 1,719.3 million (2.2), "Receivables from credit institutions and investment service companies", which totalled EUR 1,294.7 million (1,517.4), and "Retail receivables", which totalled EUR 575.8 million (397.9). The merger between S-Bank and LocalTapiola Bank had the greatest impact on the increase in "Receivables with real estate securities". The table below specifies the responsibilities of various groups and their impact on the Group's own funds.

MINIMUM AMOUNT OF OWN FUNDS (EUR million)	12/2014		12/2013	
Minimum capital adequacy requirement for credit risk	Exposure value	Own funds	Exposure value	Own funds
Claims or contingent claims on central governments or central banks	341.9	0.2	272.6	0.1
Claims or contingent claims on regional governments or local authorities	35.4	0.0	18.0	0.0
Claims or contingent claims on administrative bodies and non-commercial undertakings	0.0	0.0	0.0	0.0
Claims or contingent claims on multilateral development banks	24.1	0.0	5.3	0.0
Claims or contingent claims on institutions*	1 294.7	41.7	1 517.4	24.9
Claims or contingent claims on corporates	279.5	22.2	278.5	22.0
Retail claims or contingent retail claims	575.8	34.5	397.9	23.9
Claims or contingent claims secured on real estate property	1 719.3	48.1	2.2	0.1
Past due items	8.8	0.9	11.8	1.4
Claims in the form of covered bonds	352.1	2.8	325.9	2.7
Claims in the form of collective investment undertakings	35.4	2.8	65.1	5.2
Other items	56.5	2.6	51.1	2.4
Off-balance sheet commitments	1 046.1	4.0	801.7	3.3
Total	**5 769.5**	**160.0**	**3 747.4**	**86.0**
Minimum capital adequacy requirement for credit risk, total		**160.0**		**86.0**
Minimum capital adequacy requirement for market risk		**0.12**		**0.9**
Minimum capital adequacy requirement for operational risks		**23.38**		**13.3**
Minimum amount of own funds, total		**183.5**		**100.2**

* With respect to derivatives, the exposure value of counterparty default risk has been taken into account in the exposure value.

When analysed by risk weighting, S-Bank Group's exposure fell predominantly into the 35 per cent risk-weight category, where S-Bank mainly recorded claims or contingent claims secured on real estate property. In the category with a risk weighting of 100 per cent, the bank primarily recorded claims or contingent claims on corporates and collective investments undertakings, whereas the zero per cent category consisted of claims or contingent claims on central banks and off-balance sheet items. Claims in the form of covered bonds mainly constituted an item of 10 per cent and retail claims or contingent retail claims constituted an item of 75 per cent. Past due items were recorded in the 150 per cent item.

As a result of the enactment of the new capital requirements regulation, the risk weightings of bonds issued by credit institutions are determined on the basis of the credit rating of the issuer itself or the credit rating of the instrument. Previously, it was possible to apply the credit rating of the home country. As a result of the present regulation, exposures of credit institutions and investment firms fell predominantly into the 50 per cent credit rating class. When calculating the capital adequacy for credit risks, S-Bank Group uses the credit ratings of Standard & Poor's Financial Services, Moody's Investors Service and Fitch Ratings in the determination of risk weightings for governments and central banks, regional governments, administrative bodies, credit institutions, companies and investment firms. If the asset item belongs to a special issuance programme or arrangement, for which a specific credit rating is available, this credit rating is used to determine the risk weighting.

EXPOSURES BY RISK WEIGHTING (EUR million)	Exposure value	
Risk weighting	**2014**	**2013**
0%	1 279.2	993.9
10%	356.0	328.1
20%	494.4	1 550.5
35%	1 721.5	2.1
50%	935.2	8.5
75%	577.7	399.7
100%	397.2	452.9
150%	8.2	11.8
	5 769.5	**3 747.4**

PAST DUE ITEMS (EUR million) 2014	30–90 days	More than 90 days	Of which impaired	Total
Balance sheet item				
Claims or contingent claims on administrative bodies and non-commercial undertakings	6.5	9.2	-3.7	**12.0**

PAST DUE ITEMS (EUR million) 2013	30–90 days	More than 90 days	Of which impaired	Total
Balance sheet item				
Claims or contingent claims on administrative bodies and non-commercial undertakings	1.6	10.8	-9.3	**3.1**

EXPOSURES (EUR million)	EXPOSURES, TOTAL		AVERAGE VALUE OF EXPOSURES IN THE FINANCIAL PERIOD	
	2014	**2013**	**2014**	**2013**
Claims or contingent claims on central governments or central banks	341.9	272.6	307.3	234.4
Claims or contingent claims on regional governments	35.4	18.0	26.7	18.7
Claims or contingent claims on multilateral development banks and international organisations	24.1	5.3	14.7	5.3
Claims or contingent claims on institutions	1 294.7	1 517.4	1 406.1	1 684.4
Claims or contingent claims on corporates	279.5	278.5	279.0	253.6
Retail claims or contingent retail claims	575.8	397.9	486.8	317.6
Claims or contingent claims secured on real estate property	1 719.3	2.2	860.7	2.4
Past due items	8.7	11.8	10.3	11.1
Claims in the form of covered bonds	352.1	325.9	339.0	314.8
Claims in the form of collective investment undertakings	35.4	65.1	50.2	74.3
Other items	56.5	51.1	53.8	45.5
Off-balance sheet items	1 046.1	801.7	923.9	730.4
Total	**5 769.5**	**3 747.4**	**4 758.5**	**3 692.5**

GEOGRAPHIC DISTRIBUTION OF EXPOSURES (EUR million) IN 2014	Finland	Nordic countries	Other EU member states	Other countries
Claims or contingent claims on central governments or central banks	272.1	28.1	41.8	0.0
Claims or contingent claims on regional governments	20.2	0.0	15.2	0.0
Claims or contingent claims on multilateral development banks and international organisations	0.0	0.0	24.1	0.0
Claims or contingent claims on institutions	316.5	348.1	393.6	236.5
Claims or contingent claims on corporates	276.1	3.4	0.0	0.0
Retail claims or contingent retail claims	572.0	0.3	2.2	1.37
Claims or contingent claims secured on real estate property	1 718.9	0.4	0.0	0.0
Matured receivables	8.7	0.0	0.0	0.0
Claims in the form of covered bonds	111.7	172.5	58.8	9.1
Mutual fund investments	31.0	0.0	4.4	0.0
Other items	41.7	7.0	5.7	2.1
Off-balance sheet items	1 046.1	0.0	0.0	0.0
TOTAL	**4 414.7**	**559.8**	**546.0**	**249.0**

GEOGRAPHIC DISTRIBUTION OF EXPOSURES (EUR million) IN 2013	Finland	Nordic countries	Other EU member states	Other countries
Claims or contingent claims on central governments or central banks	220.7	22.0	29.9	0.0
Claims or contingent claims on regional governments	3.0	0.0	14.9	0.0
Claims or contingent claims on multilateral development banks and international organisations	0.0	0.0	5.3	0.0
Claims or contingent claims on institutions	345.2	460.6	545.1	166.5
Claims or contingent claims on corporates	266.6	5.7	1.6	4.6
Retail receivables	397.8	0.0	0.0	0.05
Claims or contingent claims secured on real estate property	2.2	0.0	0.0	0.0
Past due items	11.8	0.0	0.0	0.0
Covered bonds	69.1	154.9	98.8	3.1
Mutual fund investments	56.8	0.0	8.3	0.0
Other items	29.7	8.8	10.9	1.7
Off-balance sheet items	801.7			
TOTAL	**2 204.6**	**652.1**	**714.9**	**175.9**

BREAKDOWN OF EXPOSURES BY BRANCH OF BUSINESS (EUR million)	2014	2013
Financial and insurance activities	1 896.0	2 227.6
Wholesale and retail trade	362.5	61.2
Real estate activities	308.5	71.1
Electricity, gas and water supply, cooling business	89.5	8.9
Industry	48.5	63.4
Mining and quarrying	4.6	4.5
Construction	4.5	0.0
Information and communication	12.8	
Public administration and defence; compulsory social security	0.1	87.4
Other	240.6	5.7
No branch category**	2 801.8	1 217.6
Total	**5 769.5**	**3 747.4**

* Exposures not falling into branch categories include retail claims, past due items, other items and off-balance sheet items

NOMINAL VALUES OF DERIVATIVES IN ACCORDANCE WITH THE REMAINING MATURITY DISTRIBUTION (EUR million), 31 DEC 2014	Less than 1 year	1–5 years	More than 5 years
Interest rate derivatives			
Forward contracts			
Interest rate swaps	193.0	515.5	14.0
Options, bought		20.0	10.0
Options, written	50.0	45.0	
Equity derivatives			
Forward contracts	4.7		
Options, bought	16.4	18.2	
Options, written	16.4	18.2	
Foreign exchange derivatives			
Forward contracts			
Interest rate swaps and currency swaps	0.7	12.3	3.3

NOMINAL VALUES OF DERIVATIVES IN ACCORDANCE WITH THE REMAINING MATURITY DISTRIBUTION (EUR million), 31 DEC 2013	Less than 1 year	1–5 years	More than 5 years
Interest rate derivatives			
Forward contracts		8.0	7.8
Interest rate swaps	129.5	814.5	14.0
Options, bought	20.0	20.0	
Options, written		95.0	
Equity derivatives			
Forward contracts	4.0		
Options, bought		4.0	
Options, written		4.0	
Foreign exchange derivatives			
Forward contracts			
Interest rate swaps and currency swaps	0.8	3.8	

MADE FOR HEDGING PURPOSES (EUR million)	Nominal value	Positive fair value	Negative fair value
Interest rate derivatives			
Interest rate swaps	693.5		-11.1

NOT FOR HEDGING PURPOSES (EUR million)	Nominal value	Positive fair value	Negative fair value
Interest rate derivatives			
Interest rate swaps	29.0	0.0	-1.5
Options, bought	30.0	0.0	0.0
Options, written	95.0	0.0	-0.4
Equity derivatives			
Forward contracts	4.7	0.0	0.0
Options, bought	34.6	0.8	
Options, written	34.6		-0.7
Foreign exchange derivatives			
Forward contracts			
Interest rate swaps and currency swaps	16.3	0.6	-0.5

DERIVATIVES 31 DEC 2013 MADE FOR HEDGING PURPOSES (EUR million)	Nominal value	Positive fair value	Negative fair value
Interest rate derivatives			
Interest rate swaps	6.0		0.0

NOT FOR HEDGING PURPOSES (EUR million)	Nominal value	Positive fair value	Negative fair value
Interest rate derivatives			
Forward contracts	15.8	0.0	0.0
Interest rate swaps	958.0	0.0	-8.5
Options, bought	40.0	0.1	
Options, written	95.0	0.1	-0.3
Equity derivatives			
Forward contracts	4.0	0.1	-0.1
Options, bought	4.0	0.1	
Options, written	4.0		-0.1
Foreign exchange derivatives			
Forward contracts			
Interest rate swaps and currency swaps	4.6	0.3	0.0

BREAKDOWN OF FINANCIAL ASSETS AND LIABILITIES BY INTEREST RATE MATURITIES (EUR million), 2014

Balance sheet item / next interest rate fixing date	0–1 months	1–3 months	3–6 months	6–9 months	9–12 months	1–2 years	2–5 years	More than 5 years	Total
Cash	173.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	173.6
Claims or contingent claims on institutions	38.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	38.6
Claims or contingent claims on administrative bodies and non-commercial undertakings	623.5	766.5	511.6	254.2	272.3	31.3	97.3	14.4	2 571.1
Debt securities	209.0	502.8	134.8	62.7	37.2	447.6	416.0	24.8	1 834.8
Exposures, total	**1044.8**	**1269.3**	**646.4**	**316.9**	**309.5**	**478.8**	**513.3**	**39.2**	**4 618.2**
Liabilities to credit institutions	-68.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-68.1
Liabilities to the public and public sector entities	-3 903.9	-52.7	-37.3	-30.2	-26.5	-31.2	-8.1	0.0	-4 089.8
Subordinated liabilities	-12.0	-4.0	-25.0	0.0	0.0	0.0	0.0	0.0	-41.0
Liabilities, total	**-3 984.0**	**-56.7**	**-62.3**	**-30.2**	**-26.6**	**-31.2**	**-8.1**	**0.0**	**-4 199.0**
Exposures and liabilities, total	**-2 939.2**	**1212.6**	**584.1**	**286.7**	**282.9**	**447.7**	**505.2**	**39.2**	**419.2**

BREAKDOWN OF FINANCIAL ASSETS AND LIABILITIES BY INTEREST RATE MATURITIES (EUR million), 2013

Balance sheet item / next interest rate fixing date	0–1 months	1–3 months	3–6 months	6–9 months	9–12 months	1–2 years	2–5 years	More than 5 years	Total
Cash	193.1								193.1
Claims or contingent claims on institutions	96.3		5.5						101.8
Claims or contingent claims on administrative bodies and non-commercial undertakings	434.2	86.3	25.8	10.5	2.6	3.5	26.5	0.0	589.5
Debt securities	354.5	478.9	122.0	26.2	22.4	493.1	631.3	20.3	2 148.6
Exposures, total	**1 078.0**	**565.2**	**153.4**	**36.6**	**25.0**	**496.6**	**657.8**	**20.3**	**3 033.0**
Liabilities to credit institutions	-302.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-302.6
Liabilities to the public and public sector entities	-2 410.0	-35.7	-31.2	-25.3	-24.0	-19.5	-15.5	0.0	-2 561.3
Subordinated liabilities	-15.0	-5.0	0.0	0.0	0.0	0.0	0.0	0.0	-20.0
Liabilities, total	**-2 727.6**	**-40.7**	**-31.2**	**-25.3**	**-24.1**	**-19.5**	**-15.5**	**0.0**	**-2 883.9**
Exposures and liabilities, total	**-1 649.6**	**524.5**	**122.2**	**11.4**	**0.9**	**477.1**	**642.3**	**20.3**	**149.1**

S-BANK GROUP'S RISKS

GENERAL

A risk refers to an uncertainty in the future (financial) performance. If the risk is eliminated, it will always result in low, but predictable, returns. In general, the riskless return level is so low that if the riskless return level is secured, it will result in a minor uncertainty in the financial performance, whereas operations remain totally unprofitable after operating expenses. Therefore, business operations call for taking risks, in a controllable manner, within the framework offered by risk-taking willingness. Then the return expectation is sufficient, in relation to expected risks.

Factors in the background of risks primarily relate to internal choices and performance (business risks & strategic risks), as well as external factors (external operating environment). At S-Bank Group, the overall risk is divided into credit, liquidity and market risks, as well as strategic, business and operational risks. Integration risks, resulting from the merger between S-Bank and LähiTapiola Bank, are described in their own chapter.

The following chapters describe risk definitions, the risk-taking purpose, management methods and measurement methods.

CREDIT RISKS

Definition and management for credit risk

'Credit risk' means that the counterparty of a contract neglects its payment obligation, which results in a loss for the bank or its subsidiary. The credit risk is the most significant risk type that ties S-Bank Group's minimum requirement for own funds. The most significant business transactions that result in credit and counterparty default risks include the lending, secured on real estate property, granted to private and corporate customers, and unsecured card and consumer credits taken by private customers. Moreover, credit and counterparty default risks are caused by investment activities, stock brokerage (in case counterparties fail to meet their payment obligations), and asset management operations (due to customers' outstanding commission payments).

The business units manage credit risk within the framework of credit granting and collateral security management principles and limits, which are defined in the Group's credit policy and overall risk management policy. Compliance with these principles and limits ensure that credit risk management complies with the good banking and lending method, as well as external regulation, and that a sufficient amount of capital has been reserved to cover the risks. Credit risk management includes lending processes that cover lending authorisations, product-specific maximum limits, factors that reduce the credit risk (such as collateral management and guarantees), as well as credit risk monitoring and reporting.

Lending

'Lending' means that the bank provides customers with the most suitable credit products, or their combination, which meet their specific needs. Lending is based on customer-specific credit analysis, a review of payment disruptions, an evaluation of the project to be financed and an assessment of the potential collateral. Credit applications are estimated on the basis of variables and criteria that describe the customer's creditworthiness, such as the customer's socio-economic profile, repayment ability and the factors related to customer behaviour. Material credit-related details and risks are gone through with the customer in accordance with the operating guideline. The credit decision process is centralised and some credit decisions for private customers are made automatically on the basis of scoring models. This ensures that the credit decisions are profitable and uniform.

Credit decisions are one-off decisions, credit-line decisions or binding offers that relate to increased responsibility, or other decisions that improve the bank's position as a responsible operator. The Group's Executive Board has supreme power of decision. It may further delegate its power of decision, concerning credit decisions, to the Credit Management Committee. Decision authorisations are affected by the amount of the credit applied, total responsibilities of the customer base, and potential real collateral and guarantees. Credit proposals and amendment decisions are prepared and decisions made in accordance with the valid guidelines.

Reducing the credit risk

Collateral is used as a method for reducing credit risks. Use of collateral has an impact on secured credit granting and pricing. Real estate securities and guarantee-like credit protection instruments, such as government guarantees, as well as credit protection instruments against payment, such as liabilities funding in securities issued by institutes, are used as reducing factors in the calculation of capital adequacy requirement for credit risk.

S-Bank's Executive Board approves collateral types, as well as the measurement and management principles of collateral types. Collateral and guarantee are used in the risk management of various credit types, in accordance with methods described in the product description and credit granting guidelines. The product description and guidelines are used to ensure that collateral is binding, extensive enough and realisable. The principle is that credits are only granted to customers, whose repayment capability is adequate, independent of the value of potential collateral. Collateral details are updated to identify and manage potential risk concentrations. Values of collateral in the investment limits/loans that support banking business operations are monitored on a regular basis. Adequacy of collateral values of securities is monitored on a daily basis. Moreover, the risk report of the management is prepared on a monthly basis to report on the amount of collateral and guarantees.

The table below describes the distribution of collateral and guarantees in accordance with the solvency report:

COLLATERAL AND GUARANTEES USED FOR SOLVENCY (EUR MILLION)	Exposure value	
	2014	2013
Claims or contingent claims on central governments or central banks	97.3	4.6
Claims or contingent claims on regional governments or local authorities	18.2	14.9
Claims or contingent claims on institutions	44.4	0.0
Claims or contingent claims on corporates	0.0	4.5
Secured on real estate property	1 719.3	2.2

In investment business operations, S-Bank Group makes such agreements as ISDA (International Swaps and Derivatives Association) and CSA (Credit Support Annex) with its counterparties that have derivative contracts. These agreements reduce the counterparty default risk. The agreements specify the general terms and conditions related to derivatives, as well as the collateral application methods between the counterparties. When using guarantees, the customer risk is transferred from the counterparty to the guarantor. The impact of foreign exchange differences on the coverage of collateral is considered in the guarantees.

Major customer risks and concentration risks

With regard to credit granting, S-Bank Group's clientele is extensive. The potential concentration risk is decreased by the facts that its customers are geographically scattered around Finland, its credit portfolio and collateral consist of different credit products, as well as its corporate customers are spread over various business areas. Indirect exposure arisen from collateral is part of the supervision of risk concentrations. Major customer risks are managed in a manner that the customer risk is limited at a Group level and the limits are further allocated to various business units by the Balance Sheet Management Committee.

According to the definition for a major customer risk, the exposure of one customer entity is considered to be a major customer risk, when its value is at least 10 per cent of the acceptable capital. According to the decree (no. 575/2013, article 395), the value of S-Bank Group's exposure, which relates to a customer or a customer entity, must not exceed 25 per cent of the Group's approved capital, after a credit risk reduction. As for institutes, S-Bank Group has defined itself a top level of EUR 150 million, which is not over 100 per cent of its own funds. S-Bank Group examines and documents financial interests in every case when the amount of an individual exposure is more than two (2) per cent of the bank's own funds. Business units, assisted by the risk-monitoring unit, are responsible for identifying financial interests.

The concentration risk is primarily caused by credit institutions and companies. The concentration risk of credit institutions is monitored on a monthly basis through the management's risk reports. The applied model shows that the concentration risk is nowadays not caused by credit institutions, and, thus, no capital is reserved for the risk. The capital plan includes a separate stress test, which deals with the concentration risk caused by major companies. This test has been used as the basis for defining the risk-based capital requirement for the concentration risk.

Impairment losses

Impairment refers to a situation in which it has been estimated on the basis of objective criteria that the bank will not receive receivables back in full. The amount of recognised impairment loss is the best estimate of the amount of expected credit losses, after taking into account all relevant information about the situation on the reporting date. Impairment is recognised on the balance sheet and result, using a review of impairment. The review is carried out four times per year. The Credit Management Committee approves the proposal of impairments that are individually or group-specifically significant.

The impaired receivables totalled EUR 3.7 million (9.3) in the financial statements. All the impairment losses result from the credit portfolio of private customers. No impairment loss was recorded to result from corporate customers or investment operations. The impairment loss volume has decreased compared to the situation in December 2013. The decrease was mainly affected by a change in the credit loss process made by the credit control unit, as well as a change made in the impairment loss calculation principles. In the present process, credit losses of receivables are considered at an earlier stage than before. Therefore, the amount of credit losses has increased, whereas the amount of impairment losses has decreased.

Impairment losses consist of both individually significant and group-specific impairment losses. When reviewing the impairment of financial assets, the Group assesses on the basis of objective criteria, whether the value of an item, other than those classified as financial assets measured at fair value through profit and loss, is impaired. Firstly, individually significant receivables must undergo a review. After this, receivables, which are not individually significant and with no earlier impairment recognition, undergo a group-specific impairment assessment. Loan receivables with similar credit risk properties are divided into groups. Their review aims to analyse and assess the transfer of the credit base into the following delay states and, eventually, to credit losses. The assessment considers the extent of collateral in relation to credit, the value judgement percentage of collateral, the collateral type and potential realisation costs, as well as the payment behaviour and cash flow estimates. Should there emerge any objective evidence at a later date that the value of an item classified as financial assets has increased, impairment is cancelled.

Investment operations – counterparties

The Group's capital planning unit handles the credit risk resulting from the treasury's investment activities, as part of market risk management. Credit risks in investment operations are described in section Credit premium risks (spread risks).

Credit risk monitoring and reporting

The development of outstanding and uncollectable credit losses and refunds in the credit portfolio is monitored individually for each customer group and product, and reported on a monthly basis. Moreover, exposures and collateral concentrations of major counterparties are monitored on a regular basis.

Delays in the payment of credit products and their malpractice are monitored on a daily basis and the bank responds to them as early as possible by using credit control actions. The bank's credit control and collection are guided by risk-based supervision methods, efficient processes and good collection practices.

The risk-monitoring function monitors and ensures that the business operations function in accordance with the principles defined by the overall risk strategy, and in compliance with the decision authorisations and limits set in the risk budget. The risk-monitoring function reports on the success of risk management to the Executive Board on a regular basis.

Risk-based capital goal for credit risk

The capital goals of unsecured card and consumer credits of private customers are analysed, for example, with an estimate of the likelihood of insolvency and credit loss returns. For credits with real estate securities, sufficiency of the collateral coverage and the amount of realised credit losses are reviewed. These assessments make it possible to expect that the risk weightings in accordance with the standard method will cover the risk-based capital goal.

To sum up, the risk-based capital goal is comprised of the capital requirements under Pillar 1 and the concentration risk calculated for major companies. Unlike the Pillar 1 capital requirement, the credit risk of the treasury's investment operations is handled as the spread risk under Pillar 2, as part of the market risk.

MARKET RISKS

Definition, management and measurement of market risksn

'Market risk' refers to the impact of the exchange rates of securities, interest rates, exchange rate changes and market value fluctuations of other balance sheet items on the bank's result and balance sheet. The purpose of S-Bank Group's market risk management is to manage such unexpected changes in the bank's result and solvency that are caused by market price fluctuations. Another purpose is to maximise returns on equity within the scope of risk-taking willingness. Market risk levels and limits are optimised in relation to returns on risk capital; i.e. the ratio between return expectation and restricted risk capital. Restricted capital is compared with the Pillar 1 capital requirement and the Pillar 2 capital goal, which is in accordance with the bank's internal market risk model.

At S-Bank Group, the market risk mainly appears in the treasury's investment operations and the market guarantee operations of stock brokerage. In the review of Pillar 2, the interest rate risk of basic banking operations is included in market risks. The market risk appears indirectly in the investment operations of investment and alternative funds, but these operations are regulated by the Finnish Act on Common Funds, the Act on Alternative Fund Managers and the rules for investment and alternative funds. The funds are managed within the framework of these documents. The impact of the market risk on the investment activities of investment and alternative funds is not directly reflected in S-Bank Group's result, but the realisation of market risks affects the result indirectly in a manner that a decrease in the fund capital reduces the management fees received from investment and alternative funds. Likewise, if the market risk of individual asset management portfolios is realised, it will reduce the amount of performance-based fees. These types of risks are reviewed in the Group's capital planning. In ICAAP reporting, they are reviewed with scenario techniques, as part of business risks.

With regard to market risks, S-Bank Group calculates the minimum capital adequacy requirement under Pillar 1 using a standard method.

Interest rate risks

'Interest rate risk' is reviewed as a structural interest rate risk in banking and the interest rate risk of debt securities in the treasury's portfolio. The interest rate risk also appears, to some extent, as part of stock brokerage activities, which means that positions are very instantaneous in nature.

The structural interest rate risk in banking business is caused by such interest rate tyings and maturities between receivables and liabilities that differ from each other, and, therefore, the future net interest rate income of banking operations is not entirely predictable. The interest rate risk is managed by planning the balance sheet structure and interest rate tyings, and by using derivative contracts with interest rate as their underlying assets. In addition to the structural interest rate risk arisen from deposit and lending operations, the treasury's investment activities result in the interest rate risk for the bank. A change in the market interest rates may cause a change in the value of debt securities in the portfolio, which will result in the interest rate risk.

The interest rate risk is assessed on the basis of the income risk and the market price risk. The income risk and the price risk measure risks from different aspects. 'Price risk' relates to balance sheet items' market price instability and the resulting effects of the market price fluctuation on fair value. For income risk, the perspective relates more to accounting. 'Income risk' is used to simulate the impact of risk realisation on the bank's result within a certain period.

In accordance with S-Bank Group's overall risk strategy, the interest rate risk in banking is monitored on a monthly basis by means of interest rate gap analysis, in which liabilities and receivables are grouped into time periods on the basis of their interest rate tying. The effects of changes in parallel interest rate curves on the bank's interest rate risk exposure are monitored daily with the net present value method, and monthly with 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.

S-Bank Group's interest rate risk is managed by the treasury unit, which operates as the Group's internal bank and internal hedging counterparty of business operations. The Executive Board has set a maximum amount for the bank's overall interest rate risk. It is monitored on a daily basis.

On 31 December 2014, S-Bank's interest rate risk in financing activities was EUR –25.0 million (-11.4) due to increased interest rates. The increase interest rate risk is attributable to the merger, which took place on 1 May 2014. As a result, LocalTapiola Bank's deposit and loan portfolio was included on the balance sheet of the new S-Bank. S-Bank Group's interest rate risk limit was also adjusted upwards at the time of the merger.

Credit premium risks (spread risks)

Besides the interest rate risk, the credit premium risk (spread risk) relates to the operations of the treasury unit. This risk is comprised of fixed-interest and variable-rate bonds in the portfolio. 'Credit premium risk' relates to a situation in which the general opinion of the investment instrument issuer's financial reliability changes in the markets, or the general attitude in the markets to investments including a credit risk changes, and, thus, the investments depreciate. The amount of the credit premium risk is regularly monitored as part of daily interest rate risk reporting.

The credit premium risk is daily assessed in accordance with the internal market risk model, as well as the parameters and methods defined in the overall risk strategy. S-Bank's Executive Board has set a maximum amount for the credit premium risk. Counterparty limits are defined by assessing the credit risk of possible counterparties, mainly on the basis of credit ratings given by credit rating companies. Investment activities have been cautious, and assets have been invested in liquid objects with a good credit rating.

Equity risks

Balance sheet equity risks materialise directly as a result of the change in market prices. 'Equity risks' result from investment and brokerage activities, and their management and limiting are based on simple allocation limits. The primary role of equity risks in banking is to spread market risks and their risk level is kept moderate. Despite the low risk level, equity risks are monitored regularly and the limits that regulate the risk-taking measures are regulated, when necessary.

Property risks

'Property risks' are generated as part of S-Bank Group's investment activities, which mainly aim to spread the market risks in the portfolio. Property risks are primarily managed with allocation limits, and the risk level is kept insignificant. Moreover, S-Bank Ltd owns directly two mutual property companies: Kiinteistö Oy Limingan terminaali and Kiinteistö Oy Lempäälän terminaali.

Currency risks

S-Bank Group is only affected by currency risk when it invests in bonds that are denominated in foreign currencies, as part of its investment business, or in connection with trading denominated in foreign currencies, or in connection with foreign currency accounts. Permitted currencies are specified in the currency risk limits, and currency risks are primarily hedged.

Risk-based capital goal for market risk

The capitals reserved for market risks under Pillar 2 are specified on the basis of the bank's overall risk strategy and market risk model.

Capital is reserved for the spread risk on the basis of stressed volatility levels of credit risk premiums. Volatility assumptions applied in practice are equal to the risk levels of 2008 and 2011 as they were during these years detected to occur in the markets.

With regard to interest rate risks, the dimensioning of the capital need is based on the parallel interest rate fluctuation in all reference rates and currencies, in accordance with the market risk model, as well as the resulting, partly theoretical, change in the value of positions, which is based on the present value. With regard to the equity risks, the risk-based capital goal is based on a stress test in accordance with the market risk model, which is 52 per cent of the open net positions. The capital goal of real estate investments is specified as part of the market risk model. According to the model, the amount of the bank's reservation for its own accounts for 23 per cent of the market value of real estate.

LIQUIDITY RISKS

Definition of liquidity risk and risk management arrangements

'Liquidity risk' refers to a cash position risk; i.e. an uncertainty arisen from the difference between short-term incoming and outgoing cash flows, as well as the structural financing risk; i.e. an uncertainty related to the financing of longer-term lending.

The general role of banks in the maturity conversion, in which short-term deposits are used for long-term lending, predisposes banks to liquidity risks. Background reasons for the materialisation of the liquidity risk may result from individual banks or markets.

The objective of liquidity risk management is to ensure that the bank's net cash flows are positive enough in disturbance situations during the following 30 days, and there is no need to realise investment assets. The overall risk strategy and its risk budget appendix define S-Bank Group's risk tolerance of liquidity risks and its risk-taking willingness.

The Group's liquidity risk management is centrally carried out by the treasury unit, which maintains S-Bank Group's liquidity buffers within the framework of its authorisations. With regard to the liquidity risk, the treasury unit implements such risk-taking willingness in corporate operations that is accordant with the Group's overall risk strategy, considering S-Bank's business model, risk budget, own internal financing plan and other limits that specify the liquidity risk level.

Monitoring and observing the external operating environment proactively are emphasised in liquidity management. It is appropriate to apply a stricter liquidity risk tolerance, when liquidity is detected to be stressed. The bank's liquid assets are monitored and the cash position risk managed with the LCR ratio (Liquidity Coverage Ratio). A longer-term liquidity meter (NSFR) is used to measure the structural liquidity risk in banking.

The adequacy of cash assets is supported by investing a sufficient amount of assets in certificates of deposit and liquidity accounts that are immediately realisable for cash assets. In addition, the bank can use the Bank of Finland's limit on its on-going operations to ensure both intraday liquidity and overnight liquidity, when necessary. Liquidity management also includes the management of securities, which means that a sufficient number of secured investments are available for the bank to cover the collateral required by various business operations.

In the case of liquidity escape and in order to safeguard liquidity for a longer term (over 30 days), liquidity is primarily ensured by using liquid instruments eligible for refinancing with central banks in the investment business. They must be convertible to cash, or realisable without substantial capital losses and transaction costs, within three (3) days.

Liquidity and refinancing risks are daily monitored with cash flow forecasts and monthly with a gap analysis, in which assets and liabilities are grouped into time periods according to maturity.

S-Bank Group's fund-raising operations

S-Bank's fund-raising operations are primarily based on the deposit portfolio. The bank's customer business is showing a favourable surplus in deposits. S-Bank Group's main fund-raising source includes demand-deposit current accounts and savings accounts of its retail banking business. In S-Bank Group's business model, the key indicator of sufficient funding is the ratio between lending and borrowing. On 31 December 2014, it was 64 per cent (23). The change in the ratio is attributable to the transfer of LähiTapiola Bank's portfolio to S-Bank during the financial period.

The ratio between lending and borrowing is continuously monitored. The treasury unit's investment plan and liquidity continuity plan specify actions that must be taken when the ratio exceeds the action limits that have been set in advance.

Measuring and monitoring the liquidity risk

S-Bank Group monitors the LCR ratio in accordance with parameters defined by authorities, as well as parameters and models defined internally. The limits and calculation parameters applied to internal modelling have been approved by S-Bank's Executive Board. They comply with the risk tolerance and risk-taking willingness that is in accordant with the overall risk strategy. In on-going operations, the treasury unit ensures that the liquidity position remains above the defined limit values. S-Bank's Middle Office reports daily on the realisation of set internal LCR limits to the risk-monitoring unit and the treasury unit, as well as keeps the Executive Board, Balance Sheet Management Committee, the risk-management unit and the treasury unit posted on the exceeding, in accordance with the valid process.

In the case of liquidity escape, and in order to safeguard liquidity for a longer term (over 30 days), liquidity is primarily ensured by using liquid instruments eligible for refinancing with central banks in the investment business. They must be convertible to cash or realisable, primarily without substantial capital losses and transaction costs, within two (2) days.

Moreover, liquidity and refinancing risks are daily monitored with cash flow forecasts and monthly with a gap analysis, in which assets and liabilities are grouped into time periods according to maturity.

Securing the continuity of liquidity

As part of the Group's liquidity strategy, the liquidity plan, included in the treasury unit's financing and investment plan, specifies practices and operating models that ensure liquidity in exceptional situations and the conditions under which the bank begins to carry out the planned actions. The plan also specifies the type of up-to-date liquidity state information received by the management and the authorisations that allow for adopting exceptional methods. The continuity plan specifies actions that must be carried out, when the liquidity state has decreased, as per the defined criteria. These actions include the realisation of the investment portfolio, changing the portfolio structure more liquid, using the instruments offered by the Central Bank, and repurchasing of collateral with the Central Bank.

Key indicators for liquidity risk:

The table below shows the key indicators describing S-Bank Group's liquidity position for 30 days. The figure include impairment losses that have been applied to balance sheet items (i.e. 'hair cuts').

BALANCE SHEET ITEM (EUR million)	LCR
Liquid assets, 1	440
Liquid assets, 2a	11
Liquid assets, 2b	2
Liquid assets, total	**452**
Liquidity outflow, total	**410**
Liquidity inflow, total	**45**
Liquidity requirement (%)	**124%**

BREAKDOWN OF FINANCIAL ASSETS AND LIABILITIES BY MATURITY (EUR million) 2014

Balance sheet item	0–1 months	1–3 months	3–6 months	6–9 months	9–12 months	1–2 years	2–5 years	More than 5 years	Total
Cash	173.6								173.6
Claims or contingent claims on institutions	38.6								38.6
Claims or contingent claims on administrative bodies and non-commercial undertakings*	147.2	36.4	49.3	62.6	60.5	225.4	719.0	1 270.7	2 571.1
Debt securities	0.0	45.8	145.1	61.9	68.3	737.9	744.1	31.8	1 834.8
Receivables, total	**359.4**	**82.2**	**194.3**	**124.5**	**128.8**	**963.3**	**1 463.1**	**1 302.5**	**4 618.2**
Liabilities to credit institutions	-2.1	-50.0	-5.2	-10.8	0.0	0.0	0.0	0.0	-68.1
Liabilities to the public and public sector entities**	-3 903.9	-52.7	-37.3	-30.2	-26.5	-31.2	-8.1	0.0	-4 089.8
Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	-25.0	-16.0	0.0	-41.0
Liabilities, total	**-3 906.0**	**-102.7**	**-42.5**	**-41.0**	**-26.5**	**-56.2**	**-24.1**	**0.0**	**-4 199.0**
Receivables and liabilities, total	**-3 546.6**	**-20.5**	**151.8**	**83.5**	**102.3**	**907.2**	**1 439.1**	**1 302.5**	**419.2**

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

With regard to the maturity of 1–3 months, it must be noted that the debt side of the balance sheet includes an item of EUR 50 million, which relates to a long-term loan operation to be paid back to the European Central Bank (LTRO; 'Long Term Refinancing Operation'). Cash has been reserved for this item.

BREAKDOWN OF FINANCIAL ASSETS AND LIABILITIES BY MATURITY (EUR million) 2013

Balance sheet item	0–1 months	1–3 months	3–6 months	6–9 months	9–12 months	1–2 years	2–5 years	More than 5 years	Total
Cash	193.1								193.1
Claims or contingent claims on institutions	96.3		5.5						101.8
Claims or contingent claims on administrative bodies and non-commercial undertakings*	116.3	7.2	21.5	18.2	43.0	81.8	189.9	111.7	589.5
Debt securities	169.1	57.7	126.2	28.1	27.4	674.2	1 045.7	20.3	2 148.6
Receivables, total	**574.8**	**64.9**	**153.2**	**46.2**	**70.4**	**755.9**	**1 235.6**	**132.0**	**3 033.0**
Liabilities to credit institutions	-2.6	0.0	0.0	0.0	0.0	-300.0	0.0	0.0	-302.6
Liabilities to the public and public sector entities**	-2 410.0	-35.7	-31.2	-25.3	-24.0	-19.5	-15.5	0.0	-2 561.3
Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	0.0	-20.0	0.0	-20.0
Liabilities, total	**-2 412.6**	**-35.7**	**-31.2**	**-25.3**	**-24.1**	**-319.5**	**-35.5**	**0.0**	**-2 883.9**
Receivables and liabilities, total	**-1 837.8**	**29.1**	**122.0**	**20.9**	**46.3**	**436.4**	**1 200.1**	**132.0**	**149.1**

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

Capital goal for liquidity risk

No capital is reserved for the liquidity risk because liquidity can be ensured by selling liquidity reserves. Selling may be carried out by using stressed prices, but the Group has separately prepared for price risks capital reservations, using fair value stress tests. Moreover, the bank's deposit portfolio is about 1.5 fold, as compared to granted credits, and the liquidity risk is minor, due to the financing structure. The bank's currency risk and its impact are insignificant.

OPERATIONAL RISKS, INCLUDING REPUTATIONAL RISK

General

'Operational risk' refers to a potential loss caused by insufficient or unsuccessful internal processes, personnel, systems or external factors. Legal and reputational risks are included in operational risks. 'Legal risk' refers to a hazard caused by invalid agreements, deficient documentation, or legal offence or action in violation of statutory regulations. The hazard may manifest itself as sanctions, lost goodwill, or other type of loss. 'Reputational risk' refers to an existing or possibly emerging risk that affects capital and returns. It is due to S-Bank Group's potential negative image among customers, counterparties, investors or the authorities. In general, the reputational risk results from the materialisation of some other risk.

Consequences of the operational risk that have materialised may manifest themselves as direct or indirect losses. Direct losses refer to such direct losses or additional costs that result from the events. Indirect losses emerge after a delay and they are due to a weakened reputation, respect or confidence.

Operational risk management and measurement

In operational risk management, it is vital to identify and evaluate the risks, as well as ensure functionality and adequacy of different management methods. The primary goal in risk management is to identify operational risks from all significant products, services, operations, processes and systems that may play a significant role in the achievement of operational goals set. Outsourcing-related operational risks are also considered in risk identification.

Among other things, 'compliance risks' relate to money laundering, financing of terrorist actions and the compliance with external regulation and internal practices. They are identified and assessed as part of operational risks. S-Bank Group's legal affairs and compliance functions support the Group's business and auxiliary activities in the legal risk management by monitoring legislation and regulatory instructions. The functions keep the units of the organisation posted on essential changes in external regulation instructions and their possible effects on S-Bank Group's operations.

The risks are surveyed as part of S-Bank Group's annual operating plan. This task is based on the Group's strategy and the changes in its external and internal operating environments. S-Bank Group's all business and supporting units survey the operational risks related to, or possibly caused by, their own operations. Surveyed risks are assessed, and the probabilities and impacts of their occurrence, in case of damage, are determined. This enables the company to determine an expectation value for the risks; i.e. the amount of probable loss during a year. Moreover, the risk surveys specify risk management methods; i.e. control actions for restricting potential losses by reducing the probability of their realisation, or the amount of the loss caused by damage. The risk surveys are always updated when the processes or the operating environment change, as well as at least once a year.

S-Bank Group has an operating model to manage operational risks, i.e. deviations, which have materialised. A deviation report is prepared on situations and events if they restrict normal everyday operations, in which operations have not been carried out in accordance with the regulatory requirements or S-Bank Group's guidelines, or they otherwise differ from normal everyday situations. The deviations include such situations and damages caused by contracting parties or sub-suppliers that affect S-Bank Group's operations. The deviation report contains reasons that resulted in the event, as well as assessments of their impact and potential costs. When necessary, the deviation report includes information about actions that have been taken, or planned, to prevent the event in the future.

S-Bank Group prepares for potential operational risks by taking out insurance to receive compensation for damage caused by malpractice, property damage or criminal activity, for example. S-Bank Group prepares for substantial operational disturbance with a continuity plan.

Monitoring and reporting on operational risks

S-Bank Group monitors operational risks on a continuous basis, as part of its daily routines. Every employee is responsible for observing the implementation of risk management within his/her sphere of responsibilities and reporting on possible deviations and risk management defects in accordance with agreed practices.

The risk-monitoring function, which is independent of S-Bank's business operations, supervises and assesses, in a comprehensive manner, S-Bank Group's operational risk management scope, adequacy and efficiency. The risk-monitoring function supports the implementation of the risk management conducted within the organisation, and ensures that risks are identified and assessed, as well as organises appropriate and sufficient management actions for the risks. Moreover, the function develops risk management guidelines and tools, together with the business and support functions.

S-Bank Group monitors and supervises operations, on a continuous basis, at various organisational levels. Consequently, unit supervisors and other relevant bodies discuss significant risk events, as widely as necessary. The risk-monitoring function ensures that S-Bank's Executive Board, the Risk Management and Audit Committee, as well as the Managing Director and the Group's management team are regularly kept posted on the most significant operational risks that have occurred in various business and support functions. The compliance function supervises the compliance of regulations and adequacy of practices, gives recommendations on development actions and supervises the implementation of the actions.

The operational risk is regarded as an individual risk area in the Group's capital planning. This ensures the adequacy of equity to cover the loss caused by operational risks.

Capital goal for operational risks

The assessment of capital needs is mainly based on risk assessments related to the Group's operations, and actual damage that has resulted in losses. The risk assessment is based on risk evaluations carried out by business operations, and earlier risk surveys, as applicable.

The capital requirement to be calculated with the Pillar 1 basic method is substantial, in relation to the risk-based capital requirement for the operational risk. Consequently, the Pillar 1 capital requirement is assumed to be more than adequate to cover the bank's operational losses.

Strategic risks, business risks and risks caused by external environment

The strategic risk and the business risk may appear as a weak or volatile result development, as a result of the bank's erroneous strategy selection or erroneous business decisions, when it strives for profitable business. Another alternative is that the strategy and business plans cannot be implemented as planned, or the selected strategy cannot be adapted to changes in the operating environment, as a result of the company's internal inflexibility.

Strategic risks are identified as part of S-Bank Group's strategic process, which is used for assessing the most significant risks. Strategic risks and the associated business risks, reputational risks and risks of changes in the external operating environment are managed through risk assessments, which are carried out in connection with annual business plans, and profit and loss statements. Business risks are identified and assessed in connection with the operational planning process. The risk assessments are used as the basis for making risk scenario analyses to assess the impact of changes in the business environment on the Group's balance sheet, profitability and solvency. The risk-monitoring function reports to the S-Bank's Executive Board on identified risks, their management measures and the results of scenario analyses.

Integration risks

The integration of the new S-Bank Group's operations includes several, significant short-term risks. Integration risks are, in nature, operational and business risks, and, thus, presented separately in capital goal calculations. The following key risks have been identified in the risk surveys for an integration plan:

- Interruption in integration-related services (payment transactions, cards, funds reserves, online banking).
- Operational errors, which impair the reputation of the new Group.
- Integration costs overspend the budget.

The most significant consequences of integration risks may materialise, for example, as lower operational growth, or higher operating expenses than expected. The impact of these factors on the result and solvency is analysed with a separate integration risk scenario in the capital plan. The scenario is used as the basis for allocating a separate risk-based capital goal for the risk.

S-Bank Group's risk-based capital goal

The summary below describes the relation of the Pillar 1 capital requirement and Pillar 2 risk-based capital goal to S-Bank Group's own funds for the above-mentioned risks. The capital buffer, in relation to the Pillar 1 capital requirement, totals EUR 185.9 million. It totals EUR 94.6 million, in relation to the Pillar 2 capital goal. The chart provides a summary of the bank's overall risks profile, which is confirmed by the Executive Board when it approves the financial statements.

The risk-based capital goal for the credit risk is comprised of the Pillar 1 capital requirement and the concentration risk calculated for major companies. Unlike the Pillar 1 capital requirement, the credit risk of the treasury's investment operations is handled as the spread risk under Pillar 2, and, thus, as part of the market risk. Moreover, the market risk of the treasury's (banking book) positions is entirely handled in the Pillar 2 market risk review, while these risks are reviewed as part of the capital requirement for the credit risk in the Pillar 1 review.

The Pillar 2 capital goals for strategic risks and integration risks are analysed on the basis of scenarios. The Pillar 2 capital goal for the operational risk is based on the Pillar 1 capital requirement.

YEAR 2014 (EUR million)	
Pillar 1 capital requirement, total	**183.5**
Credit risk	160.0
Market risk	0.1
Operational risk	23.4
Pillar 2 capital goal, total	**274.8**
Credit risk	126.9
Spread risk	85.0
Other market risk	22.3
Operational risk	23.4
Strategic risk	8.3
Integration risks	8.9
Own funds	**369.4**
Capital buffers	
for Pillar 1 capital requirement	**185.9**
for Pillar 2 capital goal	**94.6**

NOTES TO CONSOLIDATED BALANCE SHEET ITEMS, EUR THOUSAND

1. Receivables from credit institutions	31 Dec 2014 Repayable on demand	Other than repayable on demand	Total
From the Central Bank	173 526	114	173 640
From Finnish credit institutions	5 158	10 614	15 771
From foreign credit institutions	17 711	5 143	22 854
Receivables from credit institutions, total	**196 395**	**15 871**	**212 266**

	31 Dec 2013 Repayable on demand	Other than repayable on demand	Total
From the Central Bank	0	27 611	27 611
From Finnish credit institutions	13 820	49 350	63 170
From foreign credit institutions	5 453	5 562	11 014
Receivables from credit institutions, total	**19 273**	**82 522**	**101 795**

2. Receivables from the public and public sector entities	31 Dec 2014	31 Dec 2013
Companies and housing associations	253 275	175 177
Finance and insurance institutions	46 858	2 828
Public sector entities	65	0
Households	2 248 591	394 215
Non-profit organisations serving households	2 921	0
Foreign entities	19 399	17 253
Total	**2 571 109**	**589 473**
Impairment losses at beginning of year	**9 336**	**8 664**
Receivable-specific impairment losses recorded in the period	100	0
Group-specific impairment losses recorded in the period	3 576	9 336
Receivable-specific impairment losses reversed in the period	-191	0
Group-specific impairment losses reversed in the period	-9 146	-8 664
Impairment losses at year-end	**3 676**	**9 336**

3. Debt securities	31 Dec 2014		31 Dec 2013	
	Other than publicly quoted	Total	Other than publicly quoted	Total
Issued by public-sector entities				
Held for trading				
Sovereign debts	0	0	8 713	8 713
Available for sale				
Treasury bonds and notes	74 182	74 182	47 324	47 324
Other bonds issued by public-sector entities	87 971	87 971	12 948	12 948
Debt securities issued by public-sector entities, total	**162 153**	**162 153**	**68 985**	**68 985**
Debt securities not issued by public-sector entities				
Held for trading				
Bonds issued by banks	1 912	1 912	53 744	53 744
Other debt securities	0	0	11 209	11 209
Available for sale				
Certificates of deposit issued by banks	46 687	46 687	26 667	26 667
Commercial papers	1 500	1 500	0	0
Bonds issued by banks	1 488 026	1 488 026	1 879 352	1 879 352
Other debt securities	134 506	134 506	108 678	108 678
Debt securities not issued by public-sector entities, total	**1 672 631**	**1 672 631**	**2 079 651**	**2 079 651**
Debt securities, total	**1 834 784**	**1 834 784**	**2 148 636**	**2 148 636**
– of which eligible for refinancing with central banks	1 464 060	1 464 060	1 664 188	1 664 188

4. Assets leased under finance leases	31 Dec 2014	31 Dec 2013
Machinery and equipment	5 343	0
Total	**5 343**	**0**

5. Shares and participations

	31 Dec 2014		
Shares and participations	**Publicly quoted**	**Other**	**Total**
Held for trading	5 327	8	5 336
Available for sale	35 236	161	35 398
Shares and other equity in associated companies	0	1	1
Total	**40 564**	**171**	**40 735**

	31 Dec 2013		
Shares and participations	**Publicly quoted**	**Other**	**Total**
Held for trading	4 347	0	4 347
Available for sale	65 205	23	65 228
Shares and other equity in associated companies	0	4	4
Total	**69 552**	**27**	**69 579**
- of which in credit institutions	8 735	0	8 735

6. Derivative contracts	31 Dec 2014 Nominal value	Positive fair value	Negative fair value
For hedging purposes			
Interest rate derivatives			
Interest rate swaps	693 500	0	-11 075
Of the nominal value of derivative exposures in hedge accounting,			
EUR thousand in 1–5 years and	183 000		
EUR thousand in more than five years.	510 500		

	31 Dec 2014		
For non-hedging purposes	**Nominal value**	**Positive fair value**	**Negative fair value**
Interest rate derivatives			
Options, bought	30 000	1	0
Options, written	95 000	0	-370
Interest rate swaps	29 000	0	-1 471
Foreign exchange derivatives			
Interest rate swaps and currency swaps	16 275	597	-462
Equity derivatives			
Forward contracts	4 689	17	-20
Options, bought	34 594	815	0
Options, written	34 594	0	-705
Of the nominal value of derivative exposures, other than those in hedge accounting,			
EUR thousand in less than one year,	81 732		
EUR thousand in 1–5 years and	100 531		
EUR thousand in more than five years.	27 294		

The total amount of derivatives with a company included in the same Group as the counterparty is EUR 5,000 thousand

	31 Dec 2013		
For hedging purposes	**Nominal value**	**Positive fair value**	**Negative fair value**
Interest rate derivatives			
Interest rate swaps	6 000	0	-11
Of the nominal value of derivative exposures in hedge accounting,			
EUR million in 1–5 years and	6 000		
For non-hedging purposes			
Interest rate derivatives			
Forward contracts	15 800	0	0
Options, bought	40 000	57	0
Options, written	95 000	58	-315
Interest rate swaps	958 000	22	-8 508
Foreign exchange derivatives			
Interest rate swaps and currency swaps	4 593	260	-21
Equity derivatives			
Forward contracts	3 971	138	-110
Options, bought	4 015	63	0
Options, written	4 015	0	-63
Of the nominal value of derivative exposures other than those in hedge accounting,			
EUR thousand in less than one year,	154 273		
EUR thousand in 1–5 years and	943 351		
EUR thousand in more than five years.	21 800		

7. Intangible assets	**31 Dec 2014**	**31 Dec 2013**
Software and licences	28 734	14 791
Consolidation goodwill	7 434	9 508
Total	**36 168**	**24 300**

8. Tangible assets	31 Dec 2014	31 Dec 2013
Investment properties, held for investment purposes		
Land and water areas	792	792
Buildings	11 522	12 194
Other tangible assets	538	448
Total	**12 852**	**13 434**

The property assets acquired for investment purposes are measured at acquisition costs. The market value of investment property assets was determined for the 2013 financial statements and totals EUR 13,900 thousand. In the determination of fair value, both the commercial value method and the yield value method were used, of which the yield value was weighted.

9. Changes in intangible and tangible assets during the financial year	31 Dec 2014	31 Dec 2013
Advances for intangible assets		
Acquisition cost 1 Jan	2 836	2 947
Increase	10 684	2 555
Transfers between items	-3 325	-2 666
Acquisition cost 31 Dec	10 195	2 836
Carrying amount 31 Dec	10 195	2 836
Intangible assets		
IT expenses		
Acquisition cost 1 Jan	50 100	30 838
Increase	7 742	18 436
Deductions	-78	0
Transfers between items	5 454	827
Acquisition cost 31 Dec	63 218	50 100
Accumulated depreciation, amortisation and impairment; 1 Jan	-38 145	-21 211
During the period	-6 534	-16 934
Accumulated depreciation and amortisation 31 Dec	-44 679	-38 145
Carrying amount 31 Dec	18 539	11 955

	31 Dec 2014	31 Dec 2013
Consolidation goodwill		
Acquisition cost; 1 Jan	10 373	0
Increase	0	10 373
Acquisition cost 31 Dec	10 373	10 373
Accumulated depreciation, amortisation and impairment; 1 Jan	-864	0
Depreciation for the period	-2 075	-864
Accumulated depreciation and amortisation 31 Dec	**-2 939**	**-864**
Carrying amount 31 Dec	7 434	9 508
Intangible assets, total; 31 Dec	**36 168**	**24 300**
Other tangible assets		
Land and water areas	792	792
Buildings		
Acquisition cost 1 Jan	13 977	14 257
Acquisition cost 31 Dec	13 977	14 257
Accumulated depreciation, amortisation and impairment; 1 Jan	-1 919	-1 383
During the period	-536	-679
Accumulated depreciation and amortisation 31 Dec	-2 455	-2 063
Carrying amount 31 Dec	11 522	12 194
Other tangible assets		
Acquisition cost 1 Jan	**14 241**	**0**
Increase	279	16 180
Acquisition cost 31 Dec	14 520	16 180
Accumulated depreciation, amortisation and impairment; 1 Jan	-13 794	0
During the period	-188	-15 732
Accumulated depreciation and amortisation 31 Dec	-13 982	-15 732
Carrying amount 31 Dec	538	448
Tangible assets, total, 31 Dec	**12 852**	**13 434**

10. Other assets	31 Dec 2014	31 Dec 2013
Receivables from payment transactions	94	2 854
Trade receivables from securities	0	4 768
Other	6 210	1 832
Total	**6 305**	**9 454**

11. Accrued income and advances paid	31 Dec 2014	31 Dec 2013
Interest receivables	24 953	27 872
Other accrued income and advances paid	13 155	9 287
Total	**38 108**	**37 159**

12. Deferred tax receivables and liabilities	31 Dec 2014	31 Dec 2013
Deferred tax assets attributable to losses	2 926	834
Deferred tax assets / liabilities arising from the fair value reserve	5 133	-7 915
Deferred tax liability from appropriations	1 927	1 656
Deferred tax liability from consolidation measures	495	509

13. Debt securities issued to the public by the credit institution	31 Dec 2014		31 Dec 2013	
	Carrying amount	Nominal value	Carrying amount	Nominal value
Certificates of deposit	55 054	55 150	0	0
Bonds	2 601	2 601	0	0
Total	57 655	57 751	0	0

14. Other liabilities held for trading	31 Dec 2014	31 Dec 2013
From short-selling of shares	488	52
Other liabilities held for trading, total	**488**	**52**

15. Other liabilities	31 Dec 2014	31 Dec 2013
Payables arising from payment transactions	51 985	10 897
Other	14 922	8 210
Other liabilities, total	**66 907**	**19 107**

16. Accruals and deferred income	31 Dec 2014	31 Dec 2013
Interest expenses	3 128	7 603
Other accrued expenses and advances received	20 196	18 276
Total	**23 324**	**25 879**

	31 Dec 2014			
17. Subordinated liabilities	**Carrying amount**	***Nominal value**	**Interest rate**	**Due date**
Loan on debenture terms I/2008	12 015	12 000	Euribor 3 kk + 0.5%	15.1.2018
Loan on debenture terms II/2008	4 001	4 000	Euribor 3 kk + 0.75%	15.9.2018
Tapiola Bank's debenture loan 1/2006	10 076	10 000	Euribor 12 kk + 1.00%	30.6.2016
Tapiola Bank's debenture loan 1/2011	15 141	15 000	Euribor 12 kk + 1.35%	30.6.2016
Capital loan	20	20	1.00%	31.3.2015

*) includes transferred interests

Terms of loans on debenture terms: The issuer reserves the right to repurchase the loan before the maturity date. The issuer, or an affiliated company, may only repurchase the loan, to a minor extent, before the end of the loan period, without the approval of the Finnish Financial Supervisory Authority. Repurchasing 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 debenture loans are subordinated to the bank's other debt obligations. In solvency calculation debenture loans are grouped to the Tier 2 capital in accordance with CRR decree. For capital loans, the provisions of Chapter 12 of the Finnish Companies Act are applied.

18. Distribution of maturity of financial assets and liabilities	31 Dec 2014					
	0–3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Cash	173 640	0	0	0	0	173 640
Debt securities eligible for refinancing with central banks	34 825	216 412	1 187 989	24 835	0	1 464 060
Receivables from credit institutions	38 625	0	0	0	0	38 625
Receivables from the public and public sector entities	124 163	176 297	965 026	799 725	505 898	2 571 109
Debt securities	10 930	58 811	294 012	6 971	0	370 724
Financial assets, total	**382 183**	**451 520**	**2 447 026**	**831 532**	**505 898**	**4 618 159**
Liabilities to credit institutions	52 143	16 000	0	0	0	68 143
Liabilities to the public and public sector entities	3 956 594	94 012	39 238	0	0	4 089 844
Subordinated loans	20	0	41 000	0	0	41 020
Financial liabilities, total	**4 008 757**	**110 012**	**80 238**	**0**	**0**	**4 199 007**

	31 Dec 2013					
	0–3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Cash	193 054	0	0	0	0	193 054
Debt securities eligible for refinancing with central banks	69 058	120 011	1 472 146	2 973	0	1 664 188
Receivables from credit institutions	96 295	5 500	0	0	0	101 795
Receivables from the public and public sector entities	114 688	83 426	275 965	83 784	31 609	589 473
Debt securities	157 747	61 609	247 959	17 133	0	484 447
Financial assets, total	**630 842**	**270 547**	**1 996 070**	**103 889**	**31 609**	**3 032 958**
Liabilities to credit institutions	2 574	0	300 000	0	0	302 574
Liabilities to the public and public sector entities	2 445 743	80 526	35 043	0	0	2 561 312
Subordinated loans	0	20	20 000	0	0	20 020
Financial liabilities, total	**2 448 317**	**80 546**	**355 043**	**0**	**0**	**2 883 906**

19. Breakdown of balance sheet items into domestic and foreign amounts and from Group entities	**31 Dec 2014**			
	Finnish currency	**Foreign currency**	**Total**	**From Group entities**
Balance sheet item				
Cash	173 640	0	173 640	0
Receivables from credit institutions	24 006	14 619	38 625	45 463
Receivables from the public and public sector entities	2 571 109	0	2 571 109	27 080
Debt securities	1 818 418	16 366	1 834 784	0
Derivative contracts	854	597	1 451	0
Shares and participations	40 735	0	40 735	30 605
Intangible assets	36 168	0	36 168	3 967
Tangible assets	12 852	0	12 852	3 029
Other assets	52 682	0	52 682	6 190
Total	**4 730 465**	**31 582**	**4 762 046**	**116 334**
Liabilities to credit institutions	68 143	0	68 143	23 601
Liabilities to the public and public sector entities	4 075 789	14 055	4 089 844	55 949
Debt securities issued to the public	57 655	0	57 655	
Derivative contracts	14 146	462	14 608	0
Other liabilities	97 785	0	97 785	8 262
Subordinated liabilities	41 020	0	41 020	
Total	**4 354 538**	**14 517**	**4 369 055**	**87 812**

	31 DEC 2013			
	Finnish currency	Foreign currency	Total	From Group entities
Balance sheet item				
Cash	193 054	0	193 054	0
Receivables from credit institutions	99 155	2 640	101 795	2 157
Receivables from the public and public sector entities	589 473	0	589 473	8 798
Debt securities	2 144 018	4 618	2 148 636	0
Derivative contracts	328	260	588	102
Shares and participations	69 566	13	69 579	30 770
Intangible assets	24 300	0	24 300	9 508
Tangible assets	13 434	0	13 434	3 165
Other assets	44 279	3 169	47 447	693
Total	**3 177 607**	**10 699**	**3 188 306**	**55 194**
Liabilities to credit institutions	300 000	2 574	302 574	0
Liabilities to the public and public sector entities	2 558 634	2 677	2 561 312	10 955
Debt securities issued to the public				
Derivative contracts	9 051	21	9 072	102
Other liabilities	75 085	0	75 085	693
Subordinated liabilities				
Total	**2 942 771**	**5 273**	**2 948 044**	**11 750**

20. Securities lending	**31 Dec 2014**	**31 Dec 2013**
Borrowed financial assets	Fair value	Fair value
Of those held for trading	0	2 198

21. Securities repurchase agreements

Nothing to report

22. Fair values and carrying amounts of financial assets and liabilities, and the hierarchy of fair values	31 Dec 2014 Carrying amount	31 Dec 2014 Fair value	31 Dec 2013 Carrying amount	31 Dec 2013 Fair value
Financial assets				
Cash	173 640	173 640	193 054	193 054
Receivables from credit institutions	38 625	38 625	101 795	101 795
Receivables from the public and public sector entities	2 571 109	2 585 429	589 473	592 886
Leasing receivables	5 343	5 343		
Debt securities*	1 834 784	1 855 101	2 153 145	2 178 804
Shares and participations	40 733	67 574	69 575	69 495
Shares and other equity in associated companies	1	1	4	5
Shares and other equity in companies included in the same Group	0	0	0	0
Derivative contracts	1 451	1 451	588	589
Financial liabilities				
Liabilities to credit institutions	68 143	68 023	302 574	302 574
Liabilities to the public and public sector entities	4 089 844	4 089 846	2 561 312	2 563 311
Debt securities issued to the public	57 655	57 693	0	0
Derivative contracts and other liabilities held for trading	14 608	14 608	9 072	11 397
Subordinated liabilities	41 000	41 163	20 020	20 294

S-Bank Group applies a settlement-date practice in recognising financial assets and liabilities on the balance sheet, excluding financial assets and liabilities designated at fair value through profit and loss. For financial assets or liabilities designated at fair value through profit and loss, a trading-date practice is applied to recognising the items on the balance sheet. An item included in 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 designated 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 values of certificates of deposit, commercial papers or derivatives (excluding futures) are determined by discounting future cash flows to the present value, applying market interest rates on the closing date. Bonds, investment fund units and futures are measured at market prices. Financial assets at fair value are measured using the bid price, while financial liabilities at fair value are measured using the asked rate.

Financial instruments measured at fair value	31 Dec 2014 Level 1	Level 2	Level 3	Total
Financial assets and liabilities held for trading purposes	7 248			7 248
Available-for-sale financial assets	1 746 179	142 149		1 888 328
Derivative receivables		1 451		1 451
Derivatives liabilities		14 608		14 608

	31 Dec 2013			
Financial instruments measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets and liabilities held for trading purposes	78 175			78 175
Available-for-sale financial assets	1 873 700	296 424		2 170 124
Derivative receivables		589		589
Derivatives liabilities		11 3977		11 397

Financial assets and liabilities at fair value are divided into three categories according to the determination method of fair value. Level 1 fair values are determined using the quoted, unadjusted prices of completely identical financial asset items and liabilities in an active market. Level 2 fair values are determined using generally accepted valuation models in which the input is, to a significant extent, based on verifiable market information. Level 3 market prices are based on inputs concerning the asset item or liability that is not based on verifiable market information but, to a significant effect, on the management's assessments.

23. Equity items	**31 Dec 2014**	**31 Dec 2013**
Share capital; 1 Jan	33 540	33 540
Increase (+)/decrease(-), merger	49 340	0
Share capital 31 Dec	**82 880**	**33 540**
Share premium reserve; 1 Jan	21 180	21 180
Increase (+)/decrease(-), merger	-21 180	0
Share premium reserve; 31 Dec	**0**	**21 180**
Fair value reserve; 1 Jan	31 664	35 477
Increase (+)/decrease(-), merger	-252	0
Increase (+)/decrease(-)	-10 882	-3 813
Fair value reserve, 31 Dec	**20 530**	**31 664**
Invested non-restricted equity reserve; 1 Jan	104 448	104 448
Increase (+)/decrease(-), merger	70 104	0
Increase (+)/decrease(-)	69 260	0
Invested non-restricted equity reserve 31 Dec	**243 812**	**104 448**
Loss from previous periods; 1 Jan	34 459	13 173
resulting from the merger	-10 677	
Loss from previous periods; 31 Dec	**23 783**	**13 173**
Profit/loss for the financial period	8 237	21 286
Minority interest	**13 750**	**14 971**
Equity, total	**392 991**	**240 262**

NOTES TO CONSOLIDATED INCOME STATEMENT ITEMS, EUR thousand

24. Interest income and expenses	31 Dec 2014	31 Dec 2013
Interest income		
Receivables from credit institutions	166	284
Receivables from the public and public sector entities	51 076	25 452
Debt securities	30 371	44 226
Derivative contracts	1 106	611
Other interest income	0	46
Total	**82 718**	**70 619**
Intra-Group interest income	-308	195
Interest income from impaired receivables and other receivables	2 851	3 612
Interest expenses		
Liabilities to credit institutions	572	1 682
Liabilities to the public and public sector entities	6 789	6 447
Derivatives and other liabilities held for trading	5 012	6 130
Subordinated liabilities	426	157
Other interest expenses	8	4
Total	**12 807**	**14 421**
Intra-Group interest expenses	308	195

25. Net income from leasing activities	31 Dec 2014	31 Dec 2013
Rental income	134	0
Depreciation of leasing assets according to plan	-4 893	0
Gains and losses of leasing assets (net)	4 910	0
Other income	17	0
	169	**0**

26. Return from equity investments	31 Dec 2014	31 Dec 2013
Dividend income from investments classified as available-for-sale financial assets	12	0
Dividend income from investments classified as financial assets held for trading	255	0
Dividend income received from companies included in the same Group and dividend income received from associated companies	84	0
	351	**0**

27. Fee and commission income and expenses	31 Dec 2014	31 Dec 2013
Fee and commission income		
from lending	12 851	8 546
from borrowing	2 858	2 835
from payment transactions	5 679	4 543
from funds	37 496	7 408
from asset management	2 627	1 369
from stock brokerage	10 773	3 873
from insurance brokerage	312	122
from other activities	1 222	260
	73 819	**28 957**
of which intra-Group items	0	0
Fee and commission expenses		
from paid commission fees	13	0
from other sources	29 201	5 445

28. Net income from securities trading	31 Dec 2014		
	Sales gains and losses (net)	Changes in fair value (net)	Total
From debt securities	0	1 481	1 481
From derivative contracts	-1 646	2 288	642
Net income from securities trading, total	**-1 646**	**3 769**	**2 123**
Net income from currency trading	20	-127	-107
Income statement item, total	**-1 626**	**3 642**	**2 016**

	31 Dec 2013		
	Sales gains and losses (net)	Changes in fair value (net)	Total
From debt securities	0	71	71
From derivative contracts	-3 708	8 599	4 891
From liabilities held for trading	213	-86	128
Net income from securities trading, total	**-3 494**	**8 585**	**5 090**
Net income from currency trading	-24	-20	-45
Income statement item, total	**-3 519**	**8 564**	**5 046**

29. Net income from available-for-sale financial assets	31 Dec 2014	31 Dec 2013
Net income from disposal of financial assets	17 893	8 514
Losses from impairment of financial assets	0	0
Reversals of impairment of financial assets	0	15
Other income/expenses from available-for-sale financial assets	36	158

30. Net income from hedge accounting	31 Dec 2014	31 Dec 2013
Net result from hedging instruments	-6 400	118
Net result from hedged items	6 637	-106

31. Net income from investment property	31 Dec 2014	31 Dec 2013
Rental income	1 745	1 224
Depreciation according to plan	-672	-679
	1 073	**545**

32. Other operating income	31 Dec 2014	31 Dec 2013
Other income	11 312	12 120

33. Other operating expenses	31 Dec 2014	31 Dec 2013
Rental expenses	4 709	2 388
Other expenses	5 774	3 437
Total	**10 483**	**5 825**

34. Depreciation, amortisation and impairment on tangible and intangible assets	31 Dec 2014	31 Dec 2013
Depreciation according to plan	9 331	3 432

	31 Dec 2014				
35. Impairment losses on loans and other commitments and other financial assets	**Contract-specific impairment losses, gross**	**Contract-specific impairment losses, gross**	**Group-specific impairment, gross**	**Deductions**	**Recognised in the income statement**
Receivables from the public and public sector entities	15 442	100	3 576	16 215	2 903

	31 Dec 2013			
	Contract-specific impairment losses, gross	**Group-specific impairment, gross**	**Deductions**	**Recognised in the income statement**
Receivables from the public and public sector entities	2 431	9 336	11 890	-123

36. Income and expenses from other than ordinary activities

Nothing to report

37. Information on business areas and geographical market areas

Nothing to report

NOTES ON THE GROUP'S COLLATERAL AND CONTINGENT LIABILITIES, EUR thousand

	Other collateral	
38. Collateral provided	**31 Dec 2014**	**31 Dec 2013**
Collateral provided on own debt:		
Liabilities to credit institutions	346 450	412 150
Derivatives and other liabilities held for trading	12 871	15 820
Collateral provided on own debt, total	**359 321**	**427 970**
Other collateral provided on own behalf	**20 004**	**18 750**
Collateral provided for others	**20**	**34**

39. Pension liabilities

The statutory pension security for the personnel has been arranged through Elo, an employment pension insurance company and Ilmarinen Mutual Pension Insurance Company.

40. Leasing and other rental liabilities	31 Dec 2014	31 Dec 2013
Within one year	1 720	226
Due in 1–5 years	3 975	210
Due in more than five years	0	0
Total	**5 695**	**436**

Leasing and other rental liabilities concern the leasing of premises, vehicles and telephones. The agreements are not cancellable mid-term.

41. Other financial liabilities

In the context of the acquisition of a majority holding in FIM Corporation, it was agreed that S-Bank acquires the remaining shares in accordance with mutually agreed terms and conditions, in early 2016.

The Group is obliged to audit the valued added tax depreciations it has made on real estate investments, if the taxable use of property decreases during the period being audited. The maximum amount of the exposure is EUR 1.1 million and the year of maturity is 2020.

42. Off-balance sheet commitments	31 Dec 2014	31 Dec 2013
Undrawn credit facilities	1 046 091	801 705

The Group’s off-balance sheet commitments, on behalf of companies included in the same Group, amount to EUR 110.5 million.

43. Collateral received in transfer, as referred to in the Financial Collateral Act

Nothing to report

44. Brokerage receivables and liabilities	31 Dec 2014	31 Dec 2013
Savings in accordance with the Finnish Act Governing Long-term Savings Agreements	17	465
Other brokerage receivables and liabilities		
Purchases from brokers	7 169	6 200
Liabilities to customers	10 534	12 951

Asiakasvaroja ei ole ollut konsernissa edellisillä tilikausilla

45. Other off-balance sheet arrangements

Nothing to report

NOTES ON STAFF AND MANAGEMENT

46. Personnel	31 Dec 2014 Average number	31 Dec 2014 Number on 31 Dec 2014	31 Dec 2013 Average number	31 Dec 2013 Number on 31 Dec 2013
Permanent full-time personnel	518	589	405	394
Permanent part-time personnel	76	82	65	61
Fixed-term staff	73	44	43	45
Total	**666**	**715**	**514**	**500**

Salaries and fees paid to Group management (EUR thousand)	**31 Dec 2014**	**31 Dec 2013**
Consolidated corporation/Managing Director and his deputy	985	574
Consolidated corporation/Executive Board	118	45

The amount of loans granted to the Managing Director, his deputy and the Executive Board is stated in the note on related-party lending. S-Bank Ltd's management team has a separate pension commitment.

RELATED PARTY TRANSACTIONS, EUR thousand

47. 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 related parties	31 Dec 2014 Receivables from the public and public sector entities	31 Dec 2013 Receivables from the public and public sector entities
Basis for classification as a related party		
Ownership	0	9 988
Management	1 888	240
Management of holding company	58	46
Kinship	132	0
Total	**2 079**	**10 274**

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.

SUBSIDIARIES AND ASSOCIATED COMPANIES

48. Subsidiaries	Registered Office	Ownership, %
S-Asiakaspalvelu Oy	Helsinki	100%
Kiinteistö Oy Lempäälän terminaali	Helsinki	100%
Kiinteistö Oy Limingan terminaali	Helsinki	100%
FIM Corporation	Helsinki	51%
FIM Asset Management Ltd	Helsinki	51%
FIM Bank Ltd	Helsinki	51%
FIM Real Estate Ltd	Helsinki	41%

Associated companies	Registered Office	Ownership, %
S-Crosskey Ab	Maarianhamina	40%

OTHER NOTES

49. Notes regarding trustee services and total amount of customer funds	31 Dec 2014	31 Dec 2013
Customer assets under management at the end of the financial period	5 526 866	2 109 912
Customer assets under asset management	5 599 792	2 169 929
On the basis of full powers	788 917	674 037
On the basis of other agreements	4 810 875	1 495 892

S-Bank's subsidiary FIM Asset Management Ltd practices common fund activities in accordance with the extended licence pursuant to the Finnish Act on Common Funds, business activities materially related thereto and asset management activities. At the year-end, the company had a total of 60 investment funds or hedge funds under its management. The company's asset management services include discretionary asset management and fund asset management, offered to both private individuals and institutional investors. In addition, S-Bank's subsidiary FIM Bank Ltd offers its customers consulting asset management services.

NOTE ON AUDIT FEES, EUR thousand

50. Information on the auditors' fees	31 Dec 2014	31 Dec 2013
Audit	315	139
Tax advice	15	0
Other services	117	484

S-BANK LTD'S BALANCE SHEET

ASSETS EUR thousand	Appendix	31 Dec 2014
Cash	18, 19, 24	173 526
Debt securities eligible for refinancing with central banks		
Other	3, 18, 19, 24	1 464 060
Receivables from credit institutions	1, 18, 19, 24	14 645
Repayable on demand		1 640
Other		13 005
Receivables from the public and public sector entities	2, 18, 19, 24	2 598 189
Repayable on demand		2 532
Other		2 595 657
Leasing objects	4	5 343
Debt securities	3, 18, 19, 24	
Other		368 811
Shares and participations	5, 19, 24	35 219
Shares and other equity in associated companies	5, 24	3
Shares and other equity in companies included in the same Group	5, 24	30 603
Derivative contracts	6, 19, 24	1 451
Intangible assets	7, 10, 19	27 761
Tangible assets	8, 10	
Other tangible assets		156
Other assets	11	12 138
Accrued income and advances paid	12	30 952
TOTAL ASSETS		**4 762 858**

EQUITY AND LIABILITIES EUR thousand	Appendix	31 Dec 2014
LIABILITIES		
Liabilities to credit institutions		
To central banks	18, 19, 24	50 000
To credit institutions		18 143
Repayable on demand		15
Other		18 128
Liabilities to the public and public sector entities	18, 19, 24	4 112 322
Deposits		4 079 654
Repayable on demand		3 839 700
Other		239 954
Other liabilities		32 669
Repayable on demand		31 491
Other		1 178
Debt securities issued to the public	14, 19	
Bonds		2 601
Other		55 054
Derivative contracts and other liabilities held for trading	6, 19, 24	14 121
Other liabilities	15, 19	
Other liabilities		64 198
Accruals and deferred income	16	14 883
Subordinated liabilities		
Capital loans	17, 18, 24	41 000
LIABILITIES, TOTAL		4 372 322
APPROPRIATIONS		
Depreciation difference		3 009
Voluntary provisions		4 749
ACCUMULATED APPROPRIATIONS, TOTAL		7 758
EQUITY		
Share capital	25, 26	82 880
Share premium reserve	25	0
Other restricted reserves		
Fair value reserve	25	
On measurement at fair value		25 653
Non-restricted reserves		
Reserve for invested non-restricted equity	25	243 832
Profit (loss) from previous financial periods	25	19 262
Profit (loss) for the period	25	11 151
EQUITY, TOTAL	25	382 778
LIABILITIES, TOTAL		**4 762 858**
OFF-BALANCE SHEET LIABILITIES		
Commitments given in favour of a customer	46	
Irrevocable		196 521
Other		841 602

S-BANK LTD'S INCOME STATEMENT

EUR thousand	Appendix	1 May– 31 December 2014
Interest income	29	61 401
Net income from leasing activities	30	169
Interest expenses	29	-9 547
NET INTEREST INCOME		**52 023**
Return from equity investments	31	
From other companies		87
Fee and commission income	32	17 052
Fee and commission expenses	32	-2 887
Net income from securities and currency trading		
Net income from securities trading	33	1 586
Net income from currency trading	33	-141
Net income from available-for-sale financial assets	34	14 130
Net income from hedge accounting	35	289
Net income from investment properties	36	294
Other operating income	37	9 236
Administrative expenses		-64 705
Personnel expenses		
Wages, salaries and fees		-17 180
Indirect personnel expenses		
Pension costs		-3 180
Other indirect personnel expenses		-507
Other administrative expenses		-43 838
Depreciation, amortisation and impairment losses on tangible and intangible assets	39	-4 365
Other operating expenses	38	-5 779
Impairment losses on loans and other receivables	40	-2 319
OPERATING PROFIT (LOSS)		**14 501**
Appropriations		**-1 334**
Income tax		**-2 016**
PROFIT (LOSS) FOR THE PERIOD		**11 151**

NOTES ON S-BANK LTD

ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the Finnish Accounting Act and, as applicable, with the provisions of the Act on Credit Institutions 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 new regulations concerning accounting, financial statements and annual report of the financing sector operators, effective as of 1 February 2013. In preparing the financial statements, the general instructions issued by the Finnish Accounting Standards Board (KILA) have also been considered, as applicable.

In addition, the EU capital requirements regulation (CRR, EU 575/2013) and the Finnish Financial Supervisory Authority's statements were taken into account when preparing the financial statements.

ITEMS DENOMINATED IN FOREIGN CURRENCY

The financial statements are presented in euro. Transactions in foreign currency are recognised at the exchange rate on the transaction date. On the closing date, the items in foreign currency are converted into euro at the exchange rate quoted on the closing date.

Exchange rate differences are recognised as exchange rate profits/losses in the income statement; for financial items, in the net income from securities trading and currency operations; and for trade payables, in the other administrative expenses.

FINANCIAL ASSETS AND LIABILITIES

S-Bank Ltd applies a settlement-date practice in recognising financial assets and liabilities on the balance sheet, excluding financial assets or liabilities designated at fair value through profit and loss. For financial assets and liabilities designated at fair value through profit and loss, a trading-date practice is applied to recognising the items on the balance sheet. An item included in 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 designated 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 values of certificates of deposit, commercial papers or derivatives (excluding futures) are determined by discounting future cash flows to the present value, applying market interest rates on the closing date. Bonds, investment funds units and futures are measured at market prices. Financial assets at fair value are measured using the bid price, while financial liabilities at fair value are measured using the asked rate.

Financial assets and liabilities at fair value are divided into three categories according to the determination method of fair value. Level 1 fair values are determined using the quoted, unadjusted prices of completely identical financial asset items and liabilities in an active market. Level 2 fair values are determined using generally accepted valuation models in which the input is, to a significant extent, based on verifiable market information. Level 3 market prices are based on inputs concerning the asset item or liability that is not based on verifiable market information but, to a significant effect, on the management's assessments.

Financial assets or liabilities designated 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.

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

Financial assets that are not quoted on the active financial markets, for which the payments are fixed or floating and which do not fall under financial assets designated at fair value through profit or loss, financial assets held to maturity or available-for-sale financial assets are recognised as loans and other receivables. 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.

Debt securities and other domestic and foreign securities, not recorded in financial assets designated 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. Should this not yield a reliably definable fair value, the acquisition cost is used. The change in fair value is recorded in equity in the fair value reserve. When the financial instrument is sold, the change in the fair value accrued to equity, together with accrued interest and capital gains or losses, is recognised in the income statement.

An item included in other financial liabilities is recognised in the financial statement at its nominal value, when its fair value is the nominal value. If the debt capital received differs from the nominal value of the liability, the liability is entered in the amount received. The amount recognised as expense or income for the financial period from the difference between the nominal value of the debt and cost of debt is amortised and recognised as an increase or decrease in the cost of debt. The difference between the nominal value and cost, or a debt-related fee, or an expense that is part of a debt-related interest expense, 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 closing date using the effective interest method.

Impairment of financial assets

At the end of each financial period, the Group assesses whether there is any objective evidence that the value of an item, other than those classified as financial assets designated at fair value through profit and loss, is impaired. Objective evidence is, for example, a customer's delay in payment, insolvency or bankruptcy, reorganisation or rearrangement of debts, or a major change in the credit rating. If there is objective evidence of impairment, an impairment loss is recorded.

The amount of recognised impairment loss is the best estimate of the amount of expected credit losses, after taking into account all relevant information about the situation on the reporting date. Impairment is recognised on the balance sheet and result, using a review of impairment. The review is carried out four times per year.

Impairment losses consist of both individually significant and group-specific impairment losses. Firstly, individually significant receivables must undergo a review. After this, receivables, which are not individually significant and with no earlier impairment recognition, undergo a group-specific impairment assessment. Loan receivables with similar credit risk properties are divided into groups. Their review aims to analyse and assess the transfer of the credit base into the following delay states and, eventually, to credit losses. The assessment considers the extent of collateral in relation to credit, the value judgement percentage of collateral, the collateral type and potential realisation costs, as well as the payment behaviour and cash flow estimates. Should there emerge any objective evidence, at a later date, that the value of an item classified as financial assets has increased, impairment is cancelled.

Hedge accounting

Derivative contracts are taken out primarily for hedging purposes. S-Bank applies macro-scale fair value hedge accounting to the above-mentioned derivative contracts that meet the documented effectiveness and other requirements for hedge accounting. In such cases, open interest rate risks are hedged using interest rate swaps, which are determined as hedging items in hedge accounting.

Changes to fair value attributable to the risk related to hedged items are recognised in the income statement under the item "Net result from hedge accounting". Changes to fair value attributable to other than the hedged risk are recognised in the fair value reserve.

Changes to fair value of the hedging items included in hedge accounting are recognised in the income statement under the item "Net result from hedge accounting".

Embedded derivative

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

S-Bank Ltd has issued subordinated debenture loans that can be categorised as the above-mentioned hybrid instruments, due to options included in the contracts, and because these options entitle the bank to repayment of debt before the maturity date. S-Bank has also acquired digital options linked to a bond, as part of its hedging transaction relating to investment deposits.

S-Bank Ltd does not separate embedded derivatives from the main contracts in the case of the above-mentioned debenture loans. The financial characteristics and risks are considered to relate closely to the main contracts, since the option exercise prices correspond to the amortised cost of the debt contracts at all exercise periods. However, S-Bank Ltd 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 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 or received. Income and expenses for services distributed over several years are allocated to the appropriate years.

INTANGIBLE ASSETS

Intangible assets consist of licence fees for software and connection charges. The capitalised expenses of software also include the costs arising from a modification of the software that is licensed to S-Bank Ltd. Intangible assets are measured at original acquisition 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

TANGIBLE ASSETS

Tangible assets are measured at original acquisition cost, less accumulated depreciation and impairment losses, if any. Straight-line depreciation is recorded on tangible assets in accordance with each item's economic life. Land areas are not depreciated.

Amortisation periods for tangible assets / investment properties

Machinery and equipment: 3 years
Buildings: 25 years
Equipment in buildings: 10 years

INVESTMENT PROPERTY

Investment properties are properties used by operations outside the Group and held by the Group for the primary reason of obtaining rental income and possibly an appreciation in the asset value. Investment properties are measured at original acquisition cost, less accumulated depreciation and any impairment losses, in accordance with the same principles that are applied to real estate included in tangible assets. Leases are recognised as income in the net income from investment property over the lease period.

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 directly in equity. Taxes are calculated using the tax rates valid on the closing 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.

NOTES TO S-BANK LTD'S BALANCE SHEET ITEMS, EUR thousand

1. Receivables from credit institutions	31 Dec 2014 Repayable on demand	 Other than repayable on demand	 Total
From the Central Bank	173 526	0	173 526
From Finnish credit institutions	1 399	10 614	12 012
From foreign credit institutions	241	2 392	2 633
Receivables from credit institutions, total	**175 166**	**13 005**	**188 172**

2. Receivables from the public and public sector entities	31 Dec 2014
Companies and housing associations	280 355
Finance and insurance institutions	46 858
Public sector entities	65
Households	2 248 591
Non-profit organisations serving households	2 921
Foreign entities	19 399
Total	**2 598 189**

Credit loss provisions relating to the item "Receivables from the public and public sector entities" totalled EUR 4,749 thousand

Impairment losses, 1 May 2014	**8 299**
Receivable-specific impairment losses recorded in the period	100
Group-specific impairment losses recorded in the period	3 576
Receivable-specific impairment losses reversed in the period	-191
Group-specific impairment losses reversed in the period	-8 108
Impairment losses at year-end	**3 676**

3. Debt securities	31 Dec 2014
Issued by public-sector entities	**Other than publicly quoted**
Available for sale	
Treasury bonds and notes	74 182
Other bonds issued by public-sector entities	87 971
Debt securities not issued by public-sector entities	
Available for sale	
Certificates of deposit issued by banks	46 687
Commercial papers	1 500
Bonds issued by banks	1 488 026
Other debt securities	134 506
Total debt securities	**1 832 872**
– of which eligible for refinancing with central banks	1 464 060

4. Assets leased under finance leases	31 Dec 2014
Machinery and equipment	5 343
Total	5 343

5. Shares and participations

	31 Dec 2014		
	Publicly quoted	**Other**	**Total**
Shares and participations			
Available for sale	35 058	161	35 219
Shares and other equity in companies included in the same Group	0	30 603	30 603
Shares and other equity in associated companies	0	3	3
Total	**35 058**	**30 767**	**65 825**
- of which in credit institutions	0		

	31 Dec 2013		
	Publicly quoted	**Other**	**Total**
Shares and participations			
Available for sale	65 043	23	65 066
Shares and other equity in companies included in the same Group	0	30 776	30 776
Shares and other equity in associated companies	0	3	3
Total	**65 043**	**30 802**	**95 845**
- of which in credit institutions	8 696		

6. Derivative contracts	31 Dec 2014 Nominal value	Positive fair value	Negative fair value
For hedging purposes			
Interest rate derivatives			
Interest rate swaps	693 500	0	-11 075
Of the nominal value of derivative exposures in hedge accounting,			
EUR thousand in 1–5 years and			
EUR thousand in more than five years.	183 000		

For non-hedging purposes	31 Dec 2014 Nominal value	Positive fair value	Negative fair value
Interest rate derivatives			
Options, bought	30 000	1	0
Options, written	95 000	0	-370
Interest rate swaps	29 000	0	-1 471
Foreign exchange derivatives			
Interest rate swaps and currency swaps	16 275	597	-462
Equity derivatives			
Options, bought	34 594	815	0
Options, written	34 594	0	-705
Of the nominal value of derivative exposures, other than those in hedge accounting,			
EUR thousand in less than one year,	81 732		
EUR thousand in 1–5 years and	100 531		
EUR thousand in more than five years.	27 294		

7. Intangible assets	31 Dec 2014
Software and licences	24 294
Other intangible assets	3 467
Total	**27 761**

8. Tangible assets	31 Dec 2014
Other tangible assets	156
Total	156

9. Investment property measured at fair value

Nothing to report

10. Changes in intangible and tangible assets during the financial period	31 Dec 2014
Advances for intangible assets	
Acquisition cost 1 May	2 836
Increase	10 684
Transfers between items	-3 325
Acquisition cost 31 Dec	10 195
Carrying amount 31 Dec	10 195
Intangible assets	
Acquisition cost 1 May	34 204
Increase	3 325
Transfers between items	5 454
Acquisition cost 31 Dec	42 983
Accumulated depreciation, amortisation and impairment; 1 Jan	-24 043
During the period	-4 841
Accumulated depreciation and amortisation 31 Dec	-28 884
Carrying amount 31 Dec	14 099
Goodwill	
Increase	4 000
Accumulated depreciation and amortisation 31 Dec	-533
Carrying amount 31 Dec	3 467
Intangible assets, total; 31 Dec	**27 761**
Tangible assets	
Acquisition cost 1 May	**229**
Acquisition cost 31 Dec	**229**
During the period	**-72**
Accumulated depreciation and amortisation 31 Dec	**-72**
Carrying amount 31 Dec	**156**
Tangible assets, total, 31 Dec	**156**

11. Other assets	31 Dec 2014
Other	12 138
Total	**12 138**

12. Accrued income and advances paid	31 Dec 2014
Interest receivables	24 953
Other accrued income	5 999
Total	**30 952**

13. Deferred tax receivables and liabilities	31 Dec 2014
Deferred tax assets attributable to losses	1 920
Deferred tax liabilities arising from the fair value reserve	5 131
Deferred tax liability from appropriations	1 552

	31 Dec 2014	
14. Debt securities issued to the public by the credit institution	Carrying amount	Nominal value
Bonds issued to the public	2 601	2 601
Certificates of deposit	55 054	55 150
Total	**57 655**	**57 751**

15. Other liabilities	31 Dec 2014
Payables arising from payment transactions	51 985
Other	12 213
Other liabilities, total	**64 198**

16. Accruals and deferred income	31 Dec 2013
Interest expenses	3 127
Other accrued expenses	11 756
Total	**14 883**

17. Subordinated liabilities	31 Dec 2014			
	Carrying amount *	Nominal value	Interest rate	Due date
Loan on debenture terms I/2008	12 015	12 000	Euribor 3 kk + 0,5 %	15.1.2018
Loan on debenture terms II/2008	4 001	4 000	Euribor 3 kk + 0,75 %	15.9.2018
Tapiola Bank's debenture loan 1/2006	10 076	10 000	Euribor 12 kk + 1,00 %	30.6.2016
Tapiola Bank's debenture loan 1/2011	15 141	15 000	Euribor 12 kk + 1,35 %	30.6.2016

Terms of loans on debenture terms: 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 Finnish Financial Supervisory Authority. The redemption requires that the loans can be resold to a new investor within a short period. The note-holder does not have the right to require that the loan be repaid prematurely. The debenture loans are subordinated to the bank's other debt obligations. In solvency calculation debenture loans are grouped to the Tier 2 capital in accordance with CRR decree.

*) includes transferred interests

18. Distribution of maturity of financial assets and liabilities	31 Dec 2014					
	0–3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Cash	173 526	0	0	0	0	173 526
Debt securities eligible for refinancing with central banks	34 825	216 412	1 187 989	24 835	0	1 464 060
Receivables from credit institutions	14 645	0	0	0	0	14 645
Receivables from the public and public sector entities	142 981	176 297	973 287	799 725	505 898	2 598 189
Debt securities	9 998	58 811	293 046	6 957	0	368 811
Financial assets, total	**375 975**	**451 520**	**2 454 322**	**831 518**	**505 898**	**4 619 233**
Liabilities to credit institutions	52 143	16 000	0	0	0	68 143
Liabilities to the public and public sector entities	3 979 072	94 012	39 238	0	0	4 112 322
Subordinated loans	0	0	41 000	0	0	41 000
Financial liabilities, total	**4 031 215**	**110 012**	**80 238**	**0**	**0**	**4 221 465**

19. Breakdown of balance sheet items into domestic and foreign amounts and from Group entities	31 Dec 2014			
	Finnish currency	Foreign currency	Total	From Group entities
Balance sheet item				
Cash	173 526	0	173 526	0
Receivables from credit institutions	14 645	0	14 645	0
Receivables from the public and public sector entities	2 598 189	0	2 598 189	28 480
Debt securities	1 816 506	16 366	1 832 872	0
Derivative contracts	854	597	1 451	0
Shares and participations	65 825	0	65 825	30 603
Intangible assets	27 761	0	27 761	0
Other assets	0	0	0	556
Total	**4 697 307**	**16 962**	**4 714 269**	**59 639**
Liabilities to credit institutions	68 143	0	68 143	0
Liabilities to the public and public sector entities	4 112 322	0	4 112 322	47 688
Debt securities issued to the public	57 655	0	57 655	
Derivative contracts	13 659	462	14 121	0
Other liabilities	64 198	0	64 198	442
Subordinated liabilities	41 000	0	41 000	0
Total	**4 356 976**	**462**	**4 357 439**	**48 129**

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 generally accepted valuation methods 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 on the closing date.

Such changes in fair value for the 2014 financial period have not been entered in the income statement, excluding interest rate derivatives.

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 Dec 2014 Carrying amount	31 Dec 2014 Fair value
Financial assets		
Cash	173 526	173 526
Receivables from credit institutions	14 645	14 645
Receivables from the public and public sector entities	2 598 189	2 612 611
Debt securities*	1 832 872	1 853 189
Shares and participations	35 219	35 139
Shares and other equity in associated companies	3	3
Shares and other equity in companies included in the same Group	30 603	57 444
Derivative contracts	1 451	1 451
Financial liabilities		
Liabilities to credit institutions	68 143	68 023
Liabilities to the public and public sector entities	4 112 322	4 112 324
Debt securities issued to the public	57 655	57 693
Derivative contracts and other liabilities held for trading	14 121	14 121
Subordinated liabilities	41 000	41 163

	Level 1	Level 2	Level 3	Total
Financial instruments measured at fair value				
Financial assets and liabilities held for trading purposes				
Available-for-sale financial assets	1 746 179	142 149		1 888 328
Derivative receivables		1 451		1 451
Derivatives liabilities		14 121		14 121

25. Equity items	31 Dec 2014
Share capital 1 May	82 880
Increase	0
Share capital 31 Dec	**82 880**
Share premium reserve 1 May	0
Share premium reserve; 31 Dec	**0**
Fair value reserve, 1 May	39 099
Increase (+)/decrease(-)	-13 446
Fair value reserve, 31 Dec	**25 653**
Invested non-restricted equity reserve; 1 May	243 832
Increase	0
Invested non-restricted equity reserve; 31 Dec	**243 832**
Loss from previous periods; 1 May	19 262
Loss from previous periods; 31 Dec	19 262
Profit/loss for the financial period	11 151
Total	**382 778**

26. Share capital

6,702,892 pcs, total EUR 82,880,200.
No share classes entitling their holders to a different number of votes or a different sized dividend.

27. Share issues, options and convertible bonds

Nothing to report

28. Shareholders and distribution of shareholdings

Owner	Ownership, %
SOK Corporation	37,5%
LocalTapiola Mutual Insurance Company	20,0%
Helsinki Cooperative Society Elanto	7,5%
LocalTapiola Mutual Life Insurance Company	3,5%
Cooperative Society Hämeenmaa, Lahti	2,9%
Pirkanmaa Cooperative Society, Tampere	2,7%
Cooperative Society Keskimaa, Jyväskylä	2,5%
Cooperative Society Arina, Oulu	2,5%
Turku Cooperative Society, Turku	2,2%
Cooperative Society PeeÄssä, Kuopio	2,2%
Cooperative Society KPO, Kokkola	2,1%
Southern Ostrobothnia Cooperative Society, Seinäjoki	1,8%
Cooperative Society Kymen Seudun Osuuskauppa	1,8%
Suur-Seutu Cooperative Society SSO, Salo	1,7%
Elo Employment Pension Insurance Company	1,5%
Cooperative Society Suur-Savo, Mikkeli	1,4%
Northern Karelia Cooperative Society, Joensuu	1,2%
Satakunta Cooperative Society, Pori	1,1%
Cooperative Society Varuboden-Osla Handelslag	1,1%
Southern Karelia Cooperative Society, Lappeenranta	1,0%
Cooperative Society Maakunta, Kajaani	0,7%
Cooperative Society Keula, Rauma	0,6%
Koillismaa Cooperative Society, Kuusamo	0,3%
Cooperative Society Jukola, Nurmes	0,2%
Total	**100,0%**

NOTES TO S-BANK LTD'S INCOME STATEMENT ITEMS, EUR thousand

29. Interest income and expenses	31 Dec 2014
Interest income	
Receivables from credit institutions	66
Receivables from the public and public sector entities	41 285
Debt securities	19 110
Derivative contracts	940
Total	**61 401**
of which intra-Group items	192
Interest expenses	
Liabilities to credit institutions	333
Liabilities to the public and public sector entities	5 411
Derivative contracts	3 420
Other interest expenses	6
Subordinated liabilities	377
Total	**9 547**
of which intra-Group items	3

30. Net income from leasing activities	31 Dec 2014
Rental income	134
Depreciation of leasing assets according to plan	-4 893
Gains and losses of leasing assets (net)	4 910
Other expenses	0
	169

31. Return from equity investments	31 Dec 2014
Dividend income from investments classified as available-for-sale financial assets.	3
Dividend income received from companies included in the same Group and dividend income received from associated companies.	1 441
	1 444

32. Fee and commission income and expenses	31 Dec 2014
Fee and commission income	
from lending	9 871
from borrowing	2 031
from payment transactions	4 372
from legal duties	88
from insurance brokerage	47
from issuing of guarantees	97
from other activities	545
	17 052
Fee and commission expenses	
from paid commission fees	13
Other	2 874
	2 887

33. Net income from securities and currency trading	31 Dec 2014		
	Sales gains and losses (net)	Changes in fair value (net)	Total
From debt securities	0	530	530
From shares and other equity	0	0	0
From derivative contracts	-1 363	2 419	1 056
From liabilities held for trading	0	0	0
From items recorded based on the possibility to value them at fair value	0	0	0
Net income from securities trading, total	**-1 363**	**2 949**	**1 586**
Net income from currency trading	-20	-121	-141
Income statement item, total	**-1 383**	**2 828**	**1 445**

34. Net income from available-for-sale financial assets	31 Dec 2014
Net income from disposal of financial assets	14 179
Other income/expenses from available-for-sale financial assets	-49

35. Net income from hedge accounting	31 Dec 2014
Net result from hedging instruments	-4 581
Net result from hedged items	4 870

36. Net income from investment property	31 Dec 2014
Rental income	1 160
Rental expenses	-867
	294

37. Other operating income	31 Dec 2014
Other income	9 236

38. Other operating expenses	31 Dec 2014
Rental expenses	2 272
Other expenses	3 507
Total	**5 779**

39. Depreciation, amortisation and impairment on tangible and intangible assets	31 Dec 2014
Intangible assets	
Depreciation according to plan	4 293
Tangible assets	
Depreciation according to plan	72

There are no impairment losses on tangible and intangible assets

	31 Dec 2014				
40. Impairment losses on loans and other commitments and other financial assets	**Realised contract-specific credit losses, gross**	**Contract-specific impairment losses, gross**	**Group-specific impairment losses, gross**	**Deductions**	**Total**
Receivables from the public and public sector entities	10 653	100	3 576	12 010	2 219

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 S-BANK LTD'S COLLATERAL AND CONTINGENT LIABILITIES, EUR thousand

43. Collateral provided	Other collateral 31 Dec 2014
Collateral provided on own debt	
Liabilities to credit institutions	346 450
Derivative contracts	12 871

44. Pension liabilities

The statutory pension security for the personnel has been arranged through Elo, an employment pension insurance company.

45. Leasing and other rental liabilities	31 Dec 2014
Within one year	289
Due in 1–5 years	289
Total	578

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

46. Off-balance sheet commitments	31 Dec 2014
Undrawn credit facilities	1 038 123

The Group's off-balance sheet commitments, on behalf of companies included in the same Group, amount to EUR 110.6 million.

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

50. Personnel	2014 Average number	2014 Number on 31 Dec 2014
Permanent full-time personnel	311	376
Permanent part-time personnel	41	47
Fixed-term staff	29	34
Total	**381**	**457**

Salaries and fees paid to management (EUR thousand)	**2014**
Managing director and his deputy	355
Executive board	20

In addition, S-Bank Ltd's management team has a separate pension commitment. The amount of loans granted to the Managing Director, his deputy and the Executive Board is stated in the note on related-party lending.

RELATED PARTY TRANSACTIONS, EUR thousand

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 related parties	31 Dec 2014 Receivables from the public and public sector entities
Basis for classification as a related party	
Management	1 674
Management of holding company	58
Kinship	132
Total	**1 865**

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, EUR thousand

52. Holdings in other companies	
S-Asiakaspalvelu Oy, domiciled in Helsinki	
Shareholding 100%	
Equity (EUR thousand)	243
Result for the period (EUR thousand)	35
S-Crosskey Ab, domiciled in Maarianhamina (Mariehamn)	
Shareholding 40%	
Equity (EUR thousand)	26
Result for the period (EUR thousand)	-6
Kiinteistö Oy Lempäälän terminaali	
Shareholding 100%	
Equity (EUR thousand)	50
Result for the period (EUR thousand)	0
Kiinteistö Oy Limingan terminaali	
Shareholding 100%	
Equity (EUR thousand)	50
Result for the period (EUR thousand)	0
FIM Corporation	
Shareholding 51%	
Equity (EUR thousand)	30 270
Result for the period (EUR thousand)	0

OTHER NOTES

53. Notes regarding trustee services and total amount of customer funds
Nothing to report

NOTE ON AUDIT FEES, EUR thousand

54. Information on the auditors' fees	31 Dec 2014
Audit	114
Tax advice	6
Other services	18

S-Bank