INTERIM REPORT JANUARY-JUNE 2018

S-Bank

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BOARD OF DIRECTORS' REPORT

JANUARY-JUNE 2018

S-Bank is a Finnish full-service bank with a mission to make our customers' daily life easier. Today, this means significant investment in mobile banking services.

At the end June, nearly 77 per cent of all sign-ins to S-Bank's electronic services were mobile. The S-mobiili application, which combines trade and banking services with LocalTapiola's insurance products, has been downloaded more than 1.5 million times.

At the end of February, S Group and S-Bank signed an agreement that enables payment with MobilePay at all of S Group's stores and services. Thanks to this cooperation, Finns are able to pay for their shopping and collect Bonus using a mobile phone. Unlike competing solutions, MobilePay works on all mobile phones and with all banks' cards.

Fairness and responsibility are at the core of S-Bank's operations. In April, Finns selected S-Bank as the most responsible bank for the sixth time in a row in the Sustainable Brand Index survey, the largest responsibility survey in the Nordic countries. In the survey, consumers evaluate brands in terms of their perceived responsibility.

Responsibility is also a key value in wealth management, in which S-Bank is investing strongly. In May, new management was appointed for wealth management to develop this business into a cornerstone for S-Bank, alongside banking operations.

S-Bank serves customers under two brands in saving and investment services. S-Bank offers wealth management for everybody, while FIM serves wealthy private customers and institutions.

In February, FIM expanded its scope of services by introducing FIM Family Office, which provides wealth planning, wealth management and a full range of banking services for families beyond generations. In June, FIM Asset Management Ltd and Tresor Investment Management Ltd agreed on an arrangement where Tresor's customer relationships are transferred to FIM Asset Management.

The most significant indication of S-Bank's success is its steadily growing number of new customers. At the end of June, S-Bank had nearly 3.1 million customers, and they had more than 2.1 million S-Bank international debit cards. Nearly 1.9 million customers had acquired credentials for online and mobile banking.

OPERATIONS DURING THE REVIEW PERIOD

OPERATING ENVIRONMENT

Economic growth continued on a strong foundation during the first half of 2018, despite political uncertainties. Economic indicators have stabilised, but are still projecting good economic activity globally.

In the United States, President Donald Trump's tax reform package began to accelerate growth during the first half of the year. In the eurozone, economic activity stabilised compared to the peak levels achieved last year.

The inflation rate accelerated gradually in developed countries, nearing the target levels set by the central banks. This is explained by the increase in energy prices, as well as general price increases. In June, the European Central Bank (ECB) announced that it would gradually discontinue its non-standard monetary policy measures. The ECB also announced that it would keep its key interest rates at their current level until summer 2019. The Euribor rates continued to be clearly negative.

In the United States, increases in interest rates and expectations of accelerated inflation, combined with the risk of trade wars, caused turbulence in the market during the first half of the year. Share indexes were at very high levels in many markets.

Strong economic growth continued in Finland during the first half of the year. Record-high consumer confidence, combined with the improved employment rate and salary increases, caused households to increase their spending. Investments were accelerated by construction activity. The good momentum in Finland's exports continued.

Demand for mortgages increased during the first half of the year. New mortgages were taken out at an average rate of EUR 1.5 billion per month. The loan stock to households increased by 2.0%. The low interest rate level, strong consumer confidence and growth in employment supported the housing markets. Houseprices remained largely unchanged across the country during the first half of the year, compared to the corresponding period last year. However, price differences increased between regions.

During the first half of the year, the amount of consumer loans taken out by households increased by 4.5% year-on-year. Deposits by households increased, with the average growth in deposits being 3%. Corporate lending increased at a rate of a 4.2%, supported by loans withdrawn by housing corporations. The loan stock of housing corporations increased at the rate of 10%. At the end of June, invested capital in funds registered in Finland stood at EUR 115.3 billion.

ADMINISTRATION

GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting was held on 14 March 2018. The Annual General Meeting adopted the financial statements for 2017 and discharged the Board of Directors and Managing Director from liability. Seven members and three deputy members were elected to the Board of Directors. KPMG Oy Ab, Authorised Public Accountants, was selected as the auditor.

BOARD OF DIRECTORS

At S-Bank's Annual General Meeting, the following members were re-elected to the Board of Directors of S-Bank: Jari Annala, CFO of SOK; Juha Ahola, Financial Manager of SOK; Olli Vormisto, Managing Director of the Hämeenmaa Cooperative Society; and Juha Mäkinen, Senior Managing Director at LocalTapiola Itä. In addition, Heli Arantola, EVP Concepts & Categories and Head of Strategy at

HKScan, was re-elected to the Board of Directors as an independent member. Veli-Matti Liimatainen, Managing Director of Helsinki Cooperative Society Elanto, and Jari Eklund, Group Director of LocalTapiola Group, were elected to the Board of Directors as new members. Matti Niemi, who retired as the Managing Director of Helsinki Cooperative Society Elanto, and Harri Lauslahti, Innovation Director of the LocalTapiola Group, resigned from the Board of Directors.

The following deputy members were re-elected to the Board of Directors of S-Bank: Hannu Krook, Managing Director of Varuboden-Osla; Erik Valros, Senior Managing Director at LocalTapiola Uusimaa; and Harri Miettinen, Managing Director of the Kymi Region Cooperative Society.

Jari Annala was re-elected as chairman of the Board of Directors. Jari Eklund was elected as vice chairman of the Board.

CEO

Pekka Ylihurula is the Managing Director of S-Bank Ltd and Aki Gynther, EVP, Banking, is the Deputy Managing Director.

PERSONNEL

S-Bank Group had 727 employees (668) at the end of the review period. Of all employees, 588 (528) worked for S-Bank Ltd, 37 (39) worked for the FIM subsidiaries, and 102 (101) worked for S-Asiakaspalvelu Oy. Wages, salaries and remuneration paid by the Group during the review period totalled EUR 18.8 million (17.5).

SUBSIDIARIES

FIM Asset Management Ltd

FIM Asset Management Ltd manages the FIM and LocalTapiola funds and provides services related to portfolio management to the entire S-Bank Group. S-Bank owns 100% of FIM Asset Management Ltd's share capital. The operating profit of FIM Asset Management Ltd was EUR 0.5 million (0.1) for the review period.

FIM Private Equity Funds Ltd

FIM Private Equity Funds Ltd, which manages alternative investment funds, serves as the management company for S-Bank Group's private equity funds and is responsible for the portfolio management of real estate and forest funds. S-Bank owns 100% of FIM Private Equity Funds Ltd's share capital. FIM Private Equity Funds Ltd's operating profit amounted to EUR 0.2 million (-0.1) in the review period.

FIM Real Estate Ltd

FIM Real Estate Ltd is the general partner in S-Bank Group's real estate funds. FIM Real Estate Ltd is a subsidiary of FIM Private Equity Funds Ltd, which owns 80% of FIM Real Estate. FIM Real Estate Ltd's operating profit was EUR 0.6 million (0.6) in the review period.

FIM Infrastructure Mezzanine Debt Fund GP Ltd, FIM Infrastructure Equity Fund GP Ltd, FIM SIB Ltd

These companies serve as general partners in funds managed by FIM Private Equity Funds Ltd. They do not have any other business operations. FIM Private Equity Funds Ltd owns 100% of each company.

S-Asiakaspalvelu Oy

S-Asiakaspalvelu Oy is a wholly owned subsidiary of S-Bank that provides data processing and other services related to a credit institution's core operations as a service company in accordance with the Finnish Act on Credit Institutions (610/2014).

The revenue of S-Asiakaspalvelu Oy in the review period was EUR 2.8 million (3.4), of which EUR 1.9 million (2.6) came from inside the Group. Other revenue consisted of telephone services for co-op members that are offered to the cooperative enterprises. Expenses were mainly related to personnel. S-Asiakaspalvelu's operating profit was EUR 0.1 million (0.5).

FINANCIAL PERFORMANCE AND PROFITABILITY

S-Bank Group's (hereinafter "S-Bank") operating result for January–June was EUR 6.1 million (7.8), and the profit for the financial period after the minority share was EUR 3.8 million (6.3). The comparable operating result remained at the previous year's level. S-Bank's net income for the first half of the previous year included the divestment of its SME and agricultural business. Taking this divestment into account, the comparable operating result for the first half of 2017 was EUR 6.2 million. The capital adequacy ratio was 15.9% (15.0). The cost/income ratio was 0.85 (0.83), and the return on equity was 2.4% (2.8). The return on assets was 0.2% (0.2).

Table 1: Key financial indicators

(EUR million)	6/2018	6/2017	12/2017
Operating result	6,1	7,8	16,0
Net income	74,7	77,6	154,3
Deposits	5 239,3	4 850,9	5 005,8
Lending	3 916,8	3 720,3	3 724,9
Debt securities	1 607,0	1 419,3	1 324,8
Assets under management	6 794,1	6 439,6	6 891,7
Capital adequacy ratio	15,9 %	15,0 %	16,7 %
Cost/income ratio	0,85	0,83	0,83
Return on equity (rolling 12 months)	2,4 %	2,8 %	3,1 %
Return on assets (rolling 12 months)	0,2 %	0,2 %	0,2 %
Equity ratio	7,0 %	7,4 %	7,3 %

NET INCOME

Net income amounted to EUR 74.7 million (77.6) in the first half of the year. Taking into account the sales price received from the divestment of the SME and agricultural business, which was included in the net income for the first half of 2017, the comparable net income remained at last year's level. Net interest income was EUR 36.3 million (35.7), and net fee and commission income was EUR 30.5 million (29.1). Other income was EUR 7.9 million (12.8). Lower net income from investment activities had a negative effect on other income.

EXPENSES

Operating expenses for the review period totalled EUR 65.7 million (66.7). Due to the extraordinary item mentioned above, the comparable expenses increased slightly year-on-year. Of the operating expenses, EUR 23.1 million (22.1) were personnel expenses. Other administrative expenses amounted to EUR 33.6 million (35.2). Depreciation on goodwill and tangible and intangible assets totalled EUR 6.3 million (6.6). Other operating expenses were EUR 2.8 million (2.9).

Credit and impairment losses totalled EUR 2.9 million (3.0). A total of EUR 5.9 million (5.3) was recognised in gross credit losses and losses arising from malpractice. Credit losses written back amounted to EUR 2.3 million (2.6). A total of EUR 0.7 million was derecognised in impairment losses in the review period, while their amount increased by EUR 0.3 million in the comparison period.

DEPOSITS

At the end of the review period, the total funds on deposit were EUR 5,239.3 million (4,850.9), representing an increase of 8.0% on the previous year. The strong growth was mainly related to private customers. At the turn of the year, the total funds on deposit amounted to EUR 5,005.8 million. Demand deposits totalled EUR 5,234.4 million (4,844.1) at the end of the review period, while they had totalled EUR 5,000.0 million at the turn of the year. Fixed-term deposits totalled EUR 4.9 million (6.8), while they had totalled EUR 5.8 million at the turn of the year. Private customers' deposits totalled EUR 4,284.8 million (3,890.0), and corporate clients' deposits amounted to EUR 954.5 million (960.9). At the turn of the year, private customers' deposits totalled EUR 4,004.6 million, and corporate clients' deposits amounted to EUR 1,001.1 million.

Deposits covered by the deposit guarantee fund totalled EUR 3,824.7 million at the end of the review period (3,824.5 million at the end of 2017).

LENDING AND INVESTMENT OPERATIONS

Lending continued to grow at a good rate. Lending totalled EUR 3,916.8 million at the end of the review period (3,720.3), representing an increase of 5.3% on the previous year. The mortgage base grew by 8.8 percent, respectively. At the turn of the year, lending amounted to EUR 3,724.9 million. Private customers' share of lending was EUR 3,138.2 million (2,832.9), and that of corporate clients was EUR 778.6 million (887.3). The comparable figures at the turn of the year were EUR 2,959.0 million for private customers and EUR 765.9 million for corporate clients. In addition to lending, S-Bank invested in the financial and capital markets. Debt securities totalled EUR 1,607.0 million (1,419.3) at the end of the review period, while they had totalled EUR 1,324.8 million at the turn of the year.

EQUITY

S-Bank's equity totalled EUR 407.6 million (406.6) at the end of the review period (EUR 414.1 million at the end of 2017). Due to the implementation of IFRS 9, equity on the opening balance sheet on 1 January 2018 was EUR 404.9 million. The equity ratio was 7.0% (7.4), while it had been 7.3% at the end of 2017.

IMPACT OF THE IMPLEMENTATION OF IFRS 9

S-Bank adopted IFRS 9 Financial Instruments on 1 January 2018. This was due to amendments to the Financial Supervisory Authority's regulations and guidelines concerning accounting, financial statements and management report in the financial sector that came into effect on 15 February 2018. Due to the implementation of the IFRS 9 standard, financial instruments are processed in a slightly different manner than before. For S-Bank, the most important change is the manner in which expected losses from the lending portfolio are recognised. The effects of the IFRS 9 transition on S-Bank's equity are presented in more detail in the accounting policies concerning the interim report (Note 2, Table 4).

DEVELOPMENT OF EXPECTED CREDIT LOSSES

At the end of the review period, expected credit losses totalled EUR 13.4 million (EUR 14.1 million at the beginning of the period). The development of expected credit losses related to financial assets measured at amortised acquisition cost is discussed in more detail in Note 8 to the interim report.

ASSETS UNDER MANAGEMENT

The amount of assets being managed by FIM Asset Management Ltd was EUR 6,794.1 million (6,439.6) at the end of the review period, while it had been EUR 6,891.7 million at the turn of the year. Of the managed assets, the share of fund capital was EUR 5,961.5 million (5,622.1), and assets under management accounted for EUR 832.6 million (817.5). At the turn of the year, the share of fund capital had been EUR 6,029.8 million, and assets under management had accounted for EUR 861.9 million. Net subscriptions to mutual funds amounted to EUR -60.2 million in the review period (45.7). In 2017, net subscriptions totalled EUR 326.8 million. The number of unit holders in the funds was more than 230,000 at the end of June. FIM Asset Management Ltd manages the FIM and LocalTapiola Funds.

CAPITAL ADEQUACY AND OWN FUNDS

DISCLOSURE OF CAPITAL ADEQUACY AND RISK INFORMATION

S-Bank Group complies with the disclosure requirement by publishing extensive and comprehensive information about risks, risk management and capital adequacy in conjunction with its financial statements once a year. The disclosed information concerning capital adequacy and risks is always available on S-Bank's website.

In its interim reports, S-Bank discloses such capital adequacy and risk management information that is to be published more than once a year according to regulatory requirements. When necessary, S-Bank assesses the need to disclose this information more frequently, if the market situation, the company's financial development or material changes in its risk exposure so require, for example.

REQUIREMENTS ON OWN FUNDS

The Basel III regulatory framework sets the minimum requirements for banks' own funds. The minimum requirement for Common Equity Tier 1 capital ratio is 4.5%, and the Additional Tier 1 own funds requirement (AT1) is 1.5%. Tier 1 capital (T1) consists of Common Equity Tier 1 and Additional Tier 1. The minimum requirement for Tier 2 (T2) capital is 2%, so the minimum capital requirement (T1 + T2) is 8%. Furthermore, a fixed capital buffer requirement of 2.5% (non-discretionary) has been set for banks. The Financial Supervisory Authority may also set varying discretionarily additional capital requirements: a countercyclical capital buffer of 0–2.5% (Common Equity Tier 1), an O-SII buffer of 0–2% (Common Equity Tier 1) other systematically important institutions (does not concern S-Bank) and a bank-specific additional capital requirement (Pillar 2, Common Equity Tier 1) based on a review by the supervisory authority (SREP).

In addition to the varying additional capital requirements mentioned above, the Financial Supervisory Authority set a systemic risk buffer (CET1) for credit institutions on 29 June 2018. For S-Bank, this buffer is 1%. This requirement will come into effect on 1 July 2019 and will be reviewed annually.

The Financial Supervisory Authority has not set any countercyclical capital buffer requirements. However, the authorities in other countries have set such buffers, meaning that these requirements must be taken into account in capital adequacy calculations, taking the geographical distribution of significant credit exposures into consideration.

The following table illustrates the calculation of the institution-specific countercyclical capital buffer rate at S-Bank. On 30 June 2018, the countercyclical capital buffer rate was 0.06%.

Table 2: Geographical breakdown of relevant credit exposures for the calculation of the countercyclical capital buffer and the capital requirement (1555/2015) on 30 june 2018

Geographical breakdown, EUR million	Capital requirement of relevant credit exposures	Own funds requirements weights	Countercyclical capital buffer rate
Finland	169,6	95,36 %	0,00 %
Sweden	4,1	2,31 %	2,00 %
Norway	0,9	0,50 %	2,00 %
Other countries	3,3	1,83 %	0,00 %
Total	**177,9**	**100,00 %**	**0,06 %**

The following table presents S-Bank's capital requirements on 30 June 2018 as percentages and in euros. At the end of the review period, S-Bank's total capital requirement was 10.56%.

Table 3: S-Bank's total capital requirement 30.6.2018

Capital	Minimum capital requirement		Capital conservation buffer		Countercyclical buffer		Total capital requirement	
	%	EUR million	%	EUR million	%	EUR million	%	EUR million
CET1	4,5 %	117,6	2,5 %	65,3	0,06 %	1,5	7,06 %	184,4
AT1	1,5 %	39,2					1,50 %	39,2
T2	2,0 %	52,3					2,00 %	52,3
Total	**8,0 %**	**209,1**	**2,5 %**	**65,3**	**0,06 %**	**1,5**	**10,56 %**	**275,9**

On 30 January 2018, the Financial Supervisory Authority set a discretionary Pillar 2 requirement (SREP) on S-Bank based on the interest risk in the banking book and the credit risk's concentration risk. The additional capital requirement is 2.25% in total, and it will enter into force on 30 September 2018. The discretionary additional capital requirement is valid until further notice, but no longer than until 30 September 2021. The requirement must be met with Common Equity Tier 1. The additional capital requirement will increase S-Bank's capital requirement to 12.81% if the countercyclical capital buffer remains unchanged. As Note 6 ("Main items of capital adequacy information") indicates, S-Bank's current capital adequacy position is sufficient to cover the additional capital requirement as well.

OWN FUNDS

Common equity consists of restricted and non-restricted equity items, minority interest and retained earnings. Restricted equity is represented by share capital. The main items of capital adequacy information and their calculation are presented in more detail in Note 6. Retained earnings for the review 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.

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

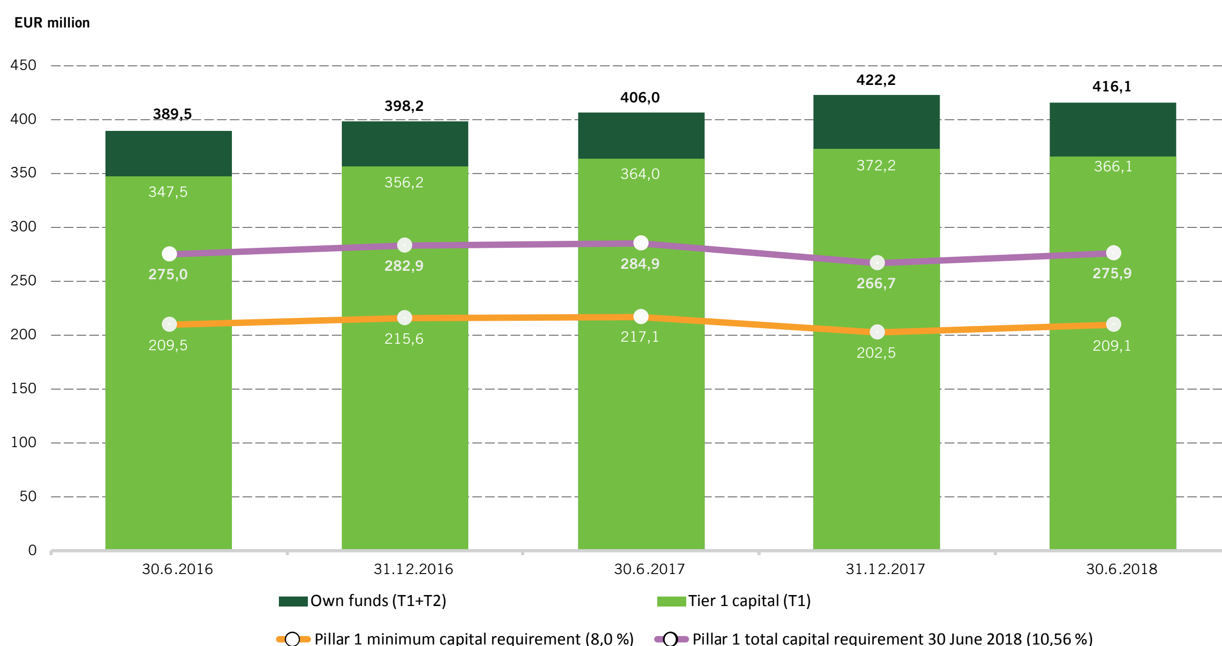
The Tier 2 own funds in the Group consist of two loans on debenture terms and a total nominal value of EUR 50 million. S-Bank does not have any items categorised as deductible from Tier 2 own funds, or jointly from Tier 1 and Tier 2 own funds.

CAPITAL ADEQUACY POSITION AND OTHER MATERIAL INFORMATION

S-Bank's capital adequacy ratio was 15.9% (15.0%) at the end of the review period. Capital adequacy improved during the review period, compared to the corresponding period last year. This was mainly due to an increase in own funds and a lower capital requirement for the credit risk. The requirements for the credit risk decreased in late 2017, as S-Bank's SME, agricultural and forestry business operations were transferred to Oma Säästöpankki on 30 November 2017. The main items of capital adequacy information are presented in Note 6 to the interim report, and an overview of risk exposure amounts is presented in Note 7.

The figure below illustrates changes in own funds and the capital adequacy position every six months between 30 June 2016 and 30 June 2018. As S-Bank does not have any Additional Tier 1 capital items, the Common Equity Tier 1 own funds are equal to the Tier 1 capital own funds.

Figure 1: Changes in own funds and the capital adequacy position (EUR million)



At the end of the review period, S-Bank's leverage ratio was 6.1% (6.4% at the end of 2017).

MINIMUM REQUIREMENT FOR OWN FUNDS AND ELIGIBLE LIABILITIES (MREL)

The Financial Stability Authority is the national resolution authority in Finland. It is responsible for the resolution planning of credit institutions and investment firms. The Financial Stability Authority may impose a minimum requirement for own funds and eligible liabilities (MREL) on banks. In terms of institutions placed under resolution, the MREL consists of the amount of covered losses and the recapitalised amount.

In 2017, the Financial Stability Authority started to collect information about S-Bank to determine the necessity for implementing an MREL. At the time when this interim report was being prepared, the analysis by the Financial Stability Authority was ongoing, and a decision on the matter is likely to be given during 2018.

SIGNIFICANT EVENTS AFTER THE REVIEW PERIOD

There were no significant events.

OUTLOOK FOR 2018

The outlook for the global economy is looking relatively bright for 2018. The strong growth will continue in developed economies. In the eurozone, the Euribor rates continue to be low, which limits increases in long-term interest rates. However, political uncertainty and the possible strengthening of protectionism are making the investment environment challenging.

The outlook for the Finnish economy is bright. Salary increases and the improved employment rate will maintain the purchasing power and consumption of households. A decrease in available capacity and the positive economic development will support investment activity. A solid order portfolio and high external demand will maintain the momentum in exports. Inflation will remain moderate, and housing prices will increase slowly.

S-Bank expects is result for 2018 to be lower than in 2017. Its short-term performance and volatility are affected by the competitive situation, the interest rate and investment environment and the fluctuation caused by the changes in valuation and impairment that arise from the implementation of the IFRS 9 standard at the beginning of the year.

Board of Directors, 2 August 2018

CONSOLIDATED BALANCE SHEET, INCOME STATEMENT AND CASH FLOW STATEMENT

BALANCE SHEET

ASSETS (EUR million)	30 Jun 2018	30 Jun 2017	31 Dec 2017
Cash and cash equivalents	184,0	246,3	493,0
Debt securities eligible for refinancing with central banks	923,4	850,5	860,5
Receivables from credit institutions	20,8	22,5	25,7
Receivables from the public and public sector entities	3 916,8	3 720,3	3 724,9
Debt securities	683,6	568,8	464,3
Shares and holdings	27,7	29,4	31,0
Shares and holdings in associated companies	0,0	0,0	0,0
Derivative contracts	0,7	1,4	1,0
Intangible assets	38,2	39,6	38,7
Tangible assets	0,2	0,4	0,2
Other assets	6,4	4,3	4,6
Accrued income and advances paid	29,0	25,5	25,1
Deferred tax asset	1,6	1,5	1,7
TOTAL ASSETS	**5 832,3**	**5 510,5**	**5 670,6**

EQUITY AND LIABILITIES (EUR million)	30 Jun 2018	30 Jun 2017	31 Dec 2017
LIABILITIES			
Liabilities to credit institutions	0,5	30,6	10,1
Liabilities to the public and public sector entities	5 271,4	4 878,3	5 047,5
Derivative contracts and liabilities held for trading	8,9	7,0	6,3
Other liabilities	64,2	111,6	112,1
Accrued expenses and advances received	20,4	26,4	19,8
Subordinated debt	50,0	42,0	50,0
Deferred tax liability	9,2	7,9	10,8
LIABILITIES, TOTAL	**5 424,7**	**5 103,8**	**5 256,5**
EQUITY AND MINORITY INTEREST			
Share capital	82,9	82,9	82,9
Revaluation reserve	0,0	0,0	0,0
Other restricted reserves	5,5	10,2	11,6
Non-restricted reserves	243,8	243,8	243,8
Retained earnings	71,5	63,3	63,3
Profit (loss) for the period	3,8	6,3	12,4
Equity attributable to minority interest	0,1	0,2	0,2
EQUITY AND MINORITY INTEREST TOTAL	**407,6**	**406,6**	**414,1**
EQUITY AND LIABILITIES TOTAL	**5 832,3**	**5 510,5**	**5 670,6**

OFF-BALANCE SHEET LIABILITIES (EUR million)	30 Jun 2018	30 Jun 2017	31 Dec 2017
Commitments given on behalf of a customer in favour of a third party	**23,5**	**24,2**	**24,9**
Guarantees and pledges	23,5	24,2	24,9
Irrevocable commitments given in favour of a customer	**158,8**	**133,8**	**145,7**
Other	158,8	133,8	145,7

INCOME STATEMENT

(EUR million)	1.1.–30.6.2018	1.1.–30.6.2017	1.1.–31.12.2017
NET INTEREST INCOME	**36,3**	**35,7**	**73,3**
Return from equity investments	**0,0**	**0,1**	**0,1**
Fee and commission income	**51,4**	**49,2**	**100,6**
Fee and commission expenses	**-20,9**	**-20,1**	**-41,4**
Net income from securities and currency trading	**1,1**	**0,1**	**-0,4**
Net income from securities trading	1,1	0,0	-0,6
Net income from currency trading	0,0	0,1	0,2
Net income from available-for-sale financial assets	**0,6**	**4,6**	**6,8**
Net result from hedge accounting	**-0,4**	**-0,2**	**-0,4**
Other operating income	**6,6**	**8,2**	**15,7**
Administrative expenses	**-56,7**	**-57,3**	**-113,2**
Personnel expenses	-23,1	-22,1	-46,2
Other administrative expenses	-33,6	-35,2	-67,1
Amortisation on consolidated goodwill and decrease in consolidation reserve	**-2,2**	**-2,2**	**-4,3**
Depreciation, amortisation and impairment on tangible and intangible assets	**-4,1**	**-4,4**	**-8,2**
Other operating expenses	**-2,8**	**-2,9**	**-6,0**
Impairment losses on loans and other commitments	**-2,9**	**-3,0**	**-6,6**
Share of results of associated companies	**0,0**	**0,0**	**0,0**
OPERATING PROFIT (LOSS)	**6,1**	**7,8**	**16,0**
Tax on income from operations	**-2,3**	**-1,4**	**-3,5**
PROFIT (LOSS) FROM ORDINARY ACTIVITIES AFTER TAXES	**3,9**	**6,4**	**12,5**
Profit or loss for the period attributable to minority interest	**-0,1**	**-0,1**	**-0,1**
PROFIT (LOSS) FOR THE PERIOD	**3,8**	**6,3**	**12,4**

CASH FLOW STATEMENT

(EUR million)	30 Jun 2018	30 Jun 2017	31 Dec 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit / loss for the period	6,1	6,4	16,0
Profit adjustments for the period	5,2	9,4	13,6
Increase / decrease in operating assets	**-198,8**	**-233,2**	**-239,3**
Receivables from the public and public sector entities	-191,2	-228,4	-233,9
Other assets	-7,7	-4,8	-5,3
Increase / decrease in operating liabilities	**169,9**	**300,0**	**443,8**
Liabilities to credit institutions	-9,6	5,6	-14,9
Liabilities to the public and public sector entities	223,9	294,4	463,7
Other liabilities	-44,4	-0,1	-5,0
Net cash from operating activities (A)	**-17,7**	**82,6**	**234,1**
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments in tangible and intangible assets	-7,4	-3,9	-8,5
Shares and holdings in associated companies	0,0	0,0	0,0
Net cash from investing activities (B)	**-7,4**	**-3,9**	**-8,5**
CASH FLOWS FROM FINANCING ACTIVITIES			
Subordinated debt	0,0	0,0	8,0
Dividends paid	-0,1	-0,1	-0,1
Change in non-controlling interests net income	-0,1	0,1	-0,1
Net cash from financing activities (C)	**-0,2**	**0,0**	**7,8**
NET CHANGE IN CASH AND CASH EQUIVALENTS (A+B+C)	**-25,3**	**78,8**	**233,4**
Cash and cash equivalents at beginning of period	1 868,9	1 635,4	1 635,4
Cash and cash equivalents at the end of period	1 839,9	1 714,3	1 868,9
Interest income	43,7	41,3	79,3
Interest expenses	-2,5	-4,8	-7,9
PROFIT ADJUSTMENTS FOR THE PERIOD			
Net result from hedge accounting	0,4	0,2	0,4
Amortisation, depreciation and impairment	6,3	6,6	12,5
Share of profit/loss accounted for using the equity method	0,0	0,0	0,0
Impairment losses on loans and other commitments	-0,7	0,3	0,6
Valuations	-0,4		
Adjustments not involving cashflow	-0,3	2,4	0,1
Profit adjustments for the period total	**5,2**	**9,4**	**13,6**
CASH AND CASH EQUIVALENTS			
Cash	184,0	246,3	493,0
Debt securities	1 607,5	1 419,6	1 323,7
Shares and holdings	27,7	25,9	26,4
Receivables from credit institutions	20,8	22,4	25,7
Cash and cash equivalents at the end of period	**1 839,9**	**1 714,3**	**1 868,9**

Liquid assets at the beginning of the period include an adjustment item arising from a classification change in accordance with IFRS 9.

NOTES TO THE INTERIM REPORT

NOTE 1: BASIC DETAILS

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 (8 August 2014/610). The bank engages in operations, as referred to in chapter 5, section 1 of the above-mentioned Act, and related activities, as well as offering investment services pursuant to chapter 1, section 15 of the Act on Investment Services (14 December 2012/747). As the parent company, S-Bank performs centralised tasks for the Group companies, including the Group's administration, guidance and supervision, for example.

S-Bank's headquarters are located at Fleminginkatu 34, 00510 Helsinki, Finland.

NOTE 2: ACCOUNTING POLICIES

ACCOUNTING POLICIES FOR THE INTERIM REPORT

The Interim Report for 1 January – 30 June 2018 has been prepared in accordance with the Accounting Act. In addition, as applicable, the interim report complies with the provisions of the Act on Credit Institutions, the Ministry of Finance decree on the financial statements and consolidated financial statements of credit institutions and investment service companies, as well as the Financial Supervisory Authority's new regulations concerning accounting, financial statements and management report in the financial sector, effective as of 29 March 2016 (including the amendments that came into effect on 15 February 2018). In addition, the Capital Requirements Directive (CRDIV) and the EU Capital Requirements Regulation (EU 575/2013), as well as regulations of the European Banking Authority and the Financial Supervisory Authority's statements were taken into account when preparing the interim report.

S-Bank complies with its accounting policies in the interim report as applicable.

The figures in the tables are presented in millions of euros, unless otherwise stated. As a rule, the figures are presented at an accuracy of one decimal place and rounded up or down, so amounts calculated based on individual figures may differ from the total amount presented.

IMPACT OF THE IMPLEMENTATION OF IFRS 9 ON 1 JANUARY 2018

S-Bank adopted IFRS 9 on 1 January 2018. This was due to amendments to the Financial Supervisory Authority's regulations and guidelines concerning accounting, financial statements and management report in the financial sector that came into effect on 15 February 2018. Due to the implementation of the IFRS 9 standard, financial instruments are processed in a slightly different manner than before. For S-Bank, the most important change is the manner in which expected losses from the lending portfolio are recognised. The following table illustrates the effects of the implementation of the standard on S-Bank Group.

Table 4: Impact of IFRS 9 on S-Bank's equity

	Share capital	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Minority interest	Equity total
Balance sheet on 31 Dec 2017 (EUR million)	**82,9**	**11,6**	**243,8**	**75,6**	**0,2**	**414,1**
Impact of the implementation of IFRS 9						
Impact of ECL		0,7		-9,9		-9,2
Reclassification of financial assets		-5,8		5,8		0,0
Opening balance 1 Jan 2018	**82,9**	**6,5**	**243,8**	**71,5**	**0,2**	**404,9**

In conjunction with the implementation of IFRS 9, S-Bank reclassified financial assets and liabilities in accordance with the standard. The classification of financial assets was carried out based on business models in the management of financial assets and on the contract-based cash flow properties of financial assets. The classification of S-Bank's financial liabilities was not changed in conjunction with the implementation of IFRS 9. The changes made to the classification of financial assets and liabilities are described in S-Bank Group's financial statements for 2017.

The impairment model according to IFRS 9 is based on the calculation of expected credit losses. The impairment model and the calculation of expected credit losses are described in more detail in the accounting policies later in this document.

During the review period, a model was introduced to adjust the total amount of expected credit losses to expectations of future economic development. The predicted economic development is based on economic scenarios prepared by S-Bank. Three scenarios are used: strong, basic and weak. Their probabilities are based on the bank's estimate. With regard to IFRS 9, macroeconomic scenarios are prepared three times a year. The effect of economic outlooks is taken into account by using a correction coefficient when calculating the amount of expected credit losses. The correction coefficient is based on the development of housing prices and the unemployment rate in various scenarios.

As information about the actual behaviour of the macroeconomic model and its impact on expected credit losses has only been accumulating since the beginning of 2018, a need for caution is recognised, and the impact of the model is assessed with reduced weight. The weight is based on the management's estimate, which takes into account the uncertainty related to the factors used in the model and their underlying assumptions, as well as on the model risk.

Table 5 includes bridge calculations on impairment according to IAS 39 and expected credit losses calculated in accordance with IFRS 9. Before the implementation of the macroeconomic model, the estimated level of expected credit losses on 1 January 2018 was EUR 15.9 million. After the implementation, the estimated level of expected credit losses was around EUR 14.1 million. In other words, the impact of the macroeconomic model (including the management's estimate) has caused the amount of expected credit losses to decrease by EUR 1.8 million. Impairment calculated in accordance with the previous model, which was based on IAS 39, totalled around EUR 4.2 million. Current economic forecasts are positive, which affects the level of expected credit losses in the review period.

As Table 5 indicates, with regard to expected credit losses calculated in accordance with IFRS 9, taking the introduction of the macroeconomic model into account, the most significant euro-denominated impact concerned impairment related to private customers, which totalled around EUR 10.9 million at the time of transferring to calculation in accordance with IFRS 9. Another major change is the recognition of expected credit losses from investment activities and corporate clients (around EUR 2.1 million). Around EUR 1.1 million was recognised in expected credit losses related to off-balance-sheet exposures. The impact

of the transition to IFRS 9 on total capital adequacy was around -0.4 percentage points, calculated based on the situation on 31 December 2017.

The presentation of impairment has been further specified in relation to the grouping described in the financial statements. The "Companies and entrepreneurs" and "Large enterprises" categories presented in the financial statements have been combined into a single category, which is presented as "Corporate clients" in the table below. The effect of the change is marginal: the expected credit loss presented for the "Companies and entrepreneurs" item in the financial statements was around EUR 100,000. In addition, the expected credit losses calculated for off-balance-sheet exposures are presented as a separate item (EUR 1.1 million) in the table below. In the financial statements, the expected credit losses related to off-balance-sheet exposures were included in the relevant items.

Table 5: IAS 39 – IFRS 9 bridge calculation, taking the macroeconomic model into account (EUR thousand)

Impairments, Expected Credit Losses (EUR thousand)	IAS 39 31 Dec 2017	IFRS 9 1 Jan 2018, before application of macroeconomic model (ECL)				IFRS 9 1 Jan 2018, after application of macroeconomic model (ECL)			
		Stage 1	Stage 2	Stage 3	Total IFRS 9	Stage 1	Stage 2	Stage 3	Total IFRS 9
Retail secured lending	919	318	3 075	1 254	4 647	282	2 729	1 113	4 125
Retail unsecured lending	3 301	1 044	5 931	620	7 595	926	5 265	550	6 741
Investments	-	823	-	-	823	731	-	-	731
Corporates	26	1 323	-	4	1 327	1 174	-	3	1 178
Corporates limited liabilities housing companies	-	86	137	-	223	76	122	-	198
Off-balance-sheet exposures	-	668	655	3	1 325	593	581	2	1 176
Total	**4 247**	**4 261**	**9 797**	**1 881**	**15 939**	**3 783**	**8 697**	**1 670**	**14 149**

Impairment during the review period is presented further below (Note 8, Table 6). In the future, the amount of expected credit losses is expected to be highly responsive to changes in economic forecasts. This may increase short-term fluctuation in terms of performance.

ACCOUNTING POLICIES IN ACCORDANCE WITH IFRS 9

After the initial recognition, financial assets are measured at amortised acquisition cost, fair value through comprehensive income statement items or fair value through profit or loss. In connection with the original recognition, each item included in financial assets is measured at fair value if the item is not a financial item measured at fair value through profit or loss. Financial items measured at fair value through profit or loss are measured at their fair value in connection with the original recognition, to which immediate transaction costs from the acquisition of the item are added or from which the immediate costs are deducted.

Financial liabilities are measured at amortised acquisition cost using the effective interest method, except for financial liabilities recorded at fair value through profit or loss, which include derivatives, for example. Such liabilities measured at fair value through profit or loss are later measured at fair value.

S-Bank applies a settlement-date practice in recognising financial assets and liabilities on the balance sheet, excluding assets and liabilities that must be measured at fair value through profit or loss. With regard to these financial assets and liabilities, a trading-date practice is applied to recognising the items on the balance sheet.

Hedge accounting at S-Bank complies with IAS 39 as laid down in Section 7.2.21 of IFRS 9, which gives the right to continue hedge accounting in accordance with the IAS 39 instead of Chapter 6 of the IFRS 9.

The treatment of financial assets and liabilities in accordance with IFRS 9 is presented in more detail in S-Bank Group's annual report for 2017. The following sections include a more detailed presentation of the impairment model based on IFRS 9.

IMPAIRMENT MODEL BASED OF IFRS 9

IFRS 9, effective as of 1 January 2018, introduced significant changes to the assessment of impairment. The new impairment model according to IFRS 9 is based on the calculation of expected credit losses (ECL), in which the ECL is calculated, in connection with the recognition of the agreement, for balance sheet items measured at amortised acquisition cost and recognised at fair value through items of other comprehensive income and for off-balance-sheet credit commitments and guarantee agreements. According to IFRS 9, a deductible item for a loss corresponds to the expected credit losses during the entire period of validity, if it is detected that the credit instrument's credit risk has significantly increased from the original entry date or the receivable is overdue by more than 30 days. The expected credit loss must be calculated for the entire period of validity also in cases where the change in the credit risk cannot be reliably assessed compared to the entry date. If the value of a receivable is deemed to have decreased (non-performing loans, for example), the deductible item for the loss also corresponds to the expected credit losses during the entire period of validity. If the credit risk has not significantly increased from the original entry date, the expected credit loss is calculated for 12 months.

In departure from the previous procedure under IAS 39, the entry of expected credit losses therefore also occurs in cases where there is no objective evidence of an increase in the credit risk. Another major change in the assessment of impairment is that the impairment treatment pursuant to IFRS 9 also applies to off-balance-sheet credit commitments, such as undrawn facilities or guarantees. In addition, future-oriented information must be taken into account in the calculations by estimating the impact of economic development on expected credit losses in various scenarios, for example. Thus, the estimation of expected credit losses according to IFRS 9 requires much more information than the assessment pursuant to IAS 39, as well as comprehensive credit risk modelling.

The calculation of expected credit losses involves significant judgements and assumptions that may affect the amount of expected credit losses, particularly through the following factors:

- Determination of a significant increase in the credit risk
- Taking future-oriented information into account

S-Bank assesses a significant increase of credit risk using risk estimates produced with the credit risk models (probability of default, PD). In the calculation of expected credit losses, a receivable for which an instalment or the interest on the receivable has been overdue for more than 90 days is considered to be in default. If the PD has significantly increased from the entry date of the receivable, the expected credit losses are recorded for the entire life cycle of the credit. The credit risk is deemed as significantly increased also in cases where the PD estimate exceeds a specified limit value, regardless of the risk level on the entry date. The criteria for a significant increase in the credit risk are determined separately for each product or customer group, and they are based on analyses of S-Bank's data and on expert assessments.

CALCULATION OF EXPECTED CREDIT LOSSES

S-Bank uses risk estimates in the calculation of expected credit losses (PD = probability of default; LGD = loss given default; EAD = exposure at default; CCF = credit conversion factor). The formula for calculating expected credit losses is PD x LGD x EAD. Risk estimates are calculated primarily using internal credit risk models. Suomen Asiakastieto's Rating Alfa or Bloomberg's risk parameters (PD) are also used, when necessary. LGD estimates for clients other than private customers are determined based on market data provided by Bloomberg. For off-balance-sheet commitments, expected credit losses are calculated in accordance with the same principle, where exposure at default is estimated based on a model or historical behaviour data.

Risk estimates describing the probability of default (PD) are used when assessing whether the credit risk concerning the loan has increased significantly since the entry date. The assessment is based on a 12-month estimate describing the probability of default, where changes are considered to provide a reliable indication of changes in the credit risk

during the entire life cycle of the agreement. In addition to the quantitative criteria mentioned above (changes in the PD between the entry date and time of reporting), loans overdue by more than 30 days are always considered to have a significantly increased credit risk and are processed in accordance with phase 2.

When calculating expected credit losses, loans are divided into three phases based on the following criteria:

Phase 1: Agreements where the credit risk has not increased significantly since the entry date. Expected credit loss is calculated for a period of 12 months, and effective interest rate is calculated for the gross carrying value.

- The increase in the PD is lower than the limits determined for the product, and
- The receivable is overdue by no more than 30 days

Phase 2: Agreements where the credit risk has increased significantly since the entry date. Expected credit loss is calculated for the entire agreement period, and effective interest rate is calculated for the gross carrying value. An agreement is transferred to phase 2 when one of the following criteria has been met:

- Risk on the entry date cannot be determined
- Risk at the time of reporting cannot be determined
- The probability of default (PD) has increased significantly since the entry date of the agreement
- An instalment or interest on the receivable has been overdue for more than 30 days

If an agreement in phase 2 is changed so that none of the criteria for phase 2 are any longer met, the agreement will be processed in accordance with phase 1. After this, the criteria for a transfer to phase 2 will apply to the agreement in the same manner as they apply to other agreements in phase 1.

Phase 3: Agreements with decreased value. Expected credit loss is calculated for the entire agreement period, and effective interest rate is calculated for the net carrying value. An agreement is transferred to phase 3 when:

- An instalment or interest on the receivable has been overdue for more than 90 days (agreements in default)

Expected credit losses related to debt securities measured at fair value through other comprehensive income are recognised through profit or loss, meaning that the credit loss will have an effect on the fair value reserve.

NOTE 3: DERIVATIVE CONTRACTS

30 Jun 2018 (EUR thousand)	Nominal value	Positive fair value	Negative fair value
For hedging purposes			
Interest rate derivatives			
Interest rate swaps	676 200	12	-7 345
Maturity of the derivatives in hedge accounting			
less than one year	105 000		
1-5 years	479 000		
more than five years	92 200		
For non-hedging purposes			
Interest rate derivatives			
Options, bought	200 000	224	0
Options, written	150 000	0	-887
Interest rate swaps	90 000	33	-286
Maturity of the derivatives other than those in hedge accounting			
less than one year	100 000		
1-5 years	310 000		
more than five years	30 000		

30 Jun 2017 (EUR thousand)	Nominal value	Positive fair value	Negative fair value
For hedging purposes			
Interest rate derivatives			
Interest rate swaps	471 200	274	-5 160
Maturity of the derivatives in hedge accounting			
less than one year	125 000		
1-5 years	235 000		
more than five years	111 200		
For non-hedging purposes			
Interest rate derivatives			
Options, bought	200 000	311	0
Options, written	200 000	0	-1 058
Interest rate swaps	175 000	187	-145
Maturity of the derivatives other than those in hedge accounting			
less than one year	75 000		
1-5 years	430 000		
more than five years	70 000		

NOTE 4: BREAKDOWN OF FINANCIAL ASSETS AND LIABILITIES BY MATURITY

30 Jun 2018 (EUR million)	Less than 3 months	3–6 months	6–12 months	1–5 years	More than 5 years	Total
Cash and cash equivalents	184,0	0,0	0,0	0,0	0,0	184,0
Debt securities eligible for refinancing with central banks	0,0	30,3	130,1	653,8	109,2	923,4
Receivables from credit institutions	20,8	0,0	0,0	0,0	0,0	20,8
Receivables from the public and public sector entities	173,4	133,4	267,9	1 262,1	2 079,9	3 916,8
Debt securities	350,6	76,1	75,4	162,0	19,6	683,6
Derivative contracts	0,0	0,0	0,2	0,4	0,0	0,7
Financial assets total	**728,7**	**239,8**	**473,6**	**2 078,3**	**2 208,8**	**5 729,2**
Liabilities to credit institutions	0,5	0,0	0,0	0,0	0,0	0,5
Liabilities to the public and public sector entities	5 267,9	0,5	0,3	2,8	0,0	5 271,4
Debt securities issued to the public	0,0	0,0	0,0	0,0	0,0	0,0
Subordinated debt	0,0	0,0	0,0	22,0	28,0	50,0
Derivative contracts and liabilities held for trading	0,0	0,0	0,2	7,4	1,3	8,9
Financial liabilities total	**5 268,3**	**0,5**	**0,6**	**32,1**	**29,3**	**5 330,8**

30 Jun 2017 (EUR million)	Less than 3 months	3–6 months	6–12 months	1–5 years	More than 5 years	Total
Cash and cash equivalents	246,3	0,0	0,0	0,0	0,0	246,3
Debt securities eligible for refinancing with central banks	2,0	11,0	113,2	581,9	142,4	850,5
Receivables from credit institutions	22,5	0,0	0,0	0,0	0,0	22,5
Receivables from the public and public sector entities	160,2	127,0	261,8	1 297,9	1 873,5	3 720,3
Debt securities	165,7	57,1	53,7	274,6	17,6	568,8
Derivative contracts	0,0	0,0	0,0	1,1	0,3	1,4
Financial assets total	**596,7**	**195,1**	**428,7**	**2 155,6**	**2 033,8**	**5 409,8**
Liabilities to credit institutions	0,6	20,0	10,0	0,0	0,0	30,6
Liabilities to the public and public sector entities	4 873,2	0,8	1,7	2,6	0,0	4 878,3
Debt securities issued to the public	0,0	0,0	0,0	0,0	0,0	0,0
Subordinated debt	0,0	0,0	0,0	13,6	28,4	42,0
Derivative contracts and liabilities held for trading	0,0	0,3	0,9	3,9	1,9	7,0
Financial liabilities total	**4 873,8**	**21,1**	**12,5**	**20,1**	**30,3**	**4 957,9**

NOTE 5: BREAKDOWN OF FINANCIAL ASSETS AND LIABILITIES BY INTEREST RATE MATURITY

30 Jun 2018 (EUR million)	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 and cash equivalents	184,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	184,0
Debt securities eligible for refinancing with central banks	90,4	81,0	39,4	15,1	46,6	73,9	467,8	109,2	923,4
Receivables from credit institutions	20,8	0,0	0,0	0,0	0,0	0,0	0,0	0,0	20,8
Receivables from the public and public sector entities	1 258,5	661,3	729,4	628,6	509,8	63,7	49,7	15,8	3 916,8
Debt securities	56,7	302,1	86,1	19,7	45,6	39,4	114,3	19,6	683,6
Financial assets, total	**1 610,3**	**1 044,4**	**854,9**	**663,4**	**602,0**	**177,1**	**631,9**	**144,6**	**5 728,5**
Liabilities to credit institutions	0,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,5
Liabilities to the public and public sector entities	5 267,2	0,6	0,5	0,2	0,1	0,4	2,4	0,0	5 271,4
Debt securities issued to the public	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Subordinated debt	0,0	0,0	16,0	8,0	26,0	0,0	0,0	0,0	50,0
Financial liabilities, total	**5 267,7**	**0,6**	**16,5**	**8,2**	**26,1**	**0,4**	**2,4**	**0,0**	**5 321,9**
Financial assets and liabilities, total	**-3 657,4**	**1 043,7**	**838,4**	**655,2**	**575,9**	**176,7**	**629,5**	**144,6**	**406,6**

30 Jun 2017 (EUR million)	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 and cash equivalents	246,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0	246,3
Debt securities eligible for refinancing with central banks	103,4	150,3	17,1	47,6	23,5	102,9	263,5	142,4	850,5
Receivables from credit institutions	22,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	22,5
Receivables from the public and public sector entities	1 091,1	573,4	723,7	513,2	589,0	108,1	105,0	16,8	3 720,3
Debt securities	57,4	156,6	99,8	19,1	10,0	64,9	143,3	17,6	568,8
Financial assets, total	**1 520,7**	**880,2**	**840,6**	**579,9**	**622,5**	**275,9**	**511,8**	**176,8**	**5 408,4**
Liabilities to credit institutions	0,6	0,0	20,0	10,0	0,0	0,0	0,0	0,0	30,6
Liabilities to the public and public sector entities	4 872,1	1,1	0,8	0,8	0,8	0,7	1,9	0,0	4 878,3
Debt securities issued to the public	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Subordinated debt	0,0	0,0	16,0	0,0	26,0	0,0	0,0	0,0	42,0
Financial liabilities, total	**4 872,7**	**1,1**	**36,8**	**10,8**	**26,8**	**0,7**	**1,9**	**0,0**	**4 950,9**
Financial assets and liabilities, total	**-3 352,1**	**879,1**	**803,8**	**569,1**	**595,7**	**275,2**	**509,9**	**176,8**	**457,5**

NOTE 6: MAIN ITEMS OF CAPITAL ADEQUACY INFORMATION

S-Bank Group's capital adequacy ratio was 15.9% (15.0%) at the end of the review period. Its capital adequacy ratio was 0.9 percentage points higher at the end of the review period than in the comparison period. The increase is explained by an increase in own funds and a lower capital requirement for the credit risk.

OWN FUNDS (EUR million)	30 Jun 2018	30 Jun 2017	31 Dec 2017
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**407,4**	**406,5**	**413,9**
Share capital	82,9	82,9	82,9
Reserve for invested non-restricted equity	243,8	243,8	243,8
Retained earnings	75,2	69,6	75,6
Previous years retained earnings	71,5	63,3	63,3
Profit or loss for the period	3,8	6,3	12,4
Fair value reserve	5,5	10,2	11,6
Other reserves	0,0	0,0	0,0
Common Equity Tier 1 (CET1) capital: regulatory adjustments	**41,4**	**42,5**	**41,7**
Intangible assets	38,2	39,6	38,7
Deferred tax assets	1,6	1,5	1,7
Value adjustments due to the requirements for prudent valuation	1,6	1,4	1,3
Common Equity Tier 1 (CET1) capital	**366,1**	**364,0**	**372,2**
Additional Tier 1 (AT1) capital before regulatory adjustments	**0,0**	**0,0**	**0,0**
Additional Tier 1 (AT1) capital: regulatory adjustments	**0,0**	**0,0**	**0,0**
Additional Tier 1 (AT1) capital	**0,0**	**0,0**	**0,0**
Tier 1 capital (T1= CET1 + AT1)	**366,1**	**364,0**	**372,2**
Tier 2 (T2) capital before regulatory adjustments	**50,0**	**42,0**	**50,0**
Subordinated debt	50,0	42,0	50,0
Tier 2 (T2) capital: regulatory adjustments	**0,0**	**0,0**	**0,0**
Tier 2 (T2) capital	**50,0**	**42,0**	**50,0**
Total own funds	**416,1**	**406,0**	**422,2**
Total own funds	416,1	406,0	422,2
Minimum requirement for own funds	209,1	217,1	202,5
Ratio of total own funds to risk-weighted assets, %	**15,9 %**	**15,0 %**	**16,7 %**
Tier 1 capital (T1= CET1 + AT1)	366,1	364,0	372,2
Minimum requirement for own funds	209,1	217,1	202,5
Ratio of Tier 1 capital (T1) to risk-weighted assets, %	**14,0 %**	**13,4 %**	**14,7 %**

Total risk weighted assets	**2 613,2**	**2 713,8**	**2 531,7**
of which: credit risk	2 332,8	2 410,4	2 251,9
of which: market risk	0,0	0,0	0,0
of which: operational risk	276,9	299,9	276,9
of which: credit value adjustment risk	3,5	3,5	2,9
Common Equity Tier 1 (CET1) capital as a percentage of risk exposure amount (%)	**14,0 %**	**13,4 %**	**14,7 %**
Tier 1 (T1) capital as a percentage of risk exposure amount (%)	**14,0 %**	**13,4 %**	**14,7 %**
Total capital as a percentage of risk exposure amount (%)	**15,9 %**	**15,0 %**	**16,7 %**

NOTE 7: OVERVIEW OF RISK EXPOSURE AMOUNTS

The table below includes a summary of all risk exposure amounts (REA). The table has been prepared in accordance with the EBA/GL/2016/11 guideline, which means that off-balance-sheet items are reported within the appropriate exposure classes. The table indicates the minimum capital requirement (8%) for each exposure amount.

The most significant item tying down own funds is the capital adequacy requirement of the credit risk and the items included therein: "Exposures secured by mortgages on immovable property", 35% of the total risk (31%), "Corporates", 23% of the total risk (25%) and "Retail exposure", 23% of the total risk (22%). The capital requirement for the operational risk calculated with the basic indicator method based on net income decreased from the comparison period.

	30 Jun 2018		30 Jun 2017		31 Dec 2017	
REAs and capital requirements (EUR million)	**Risk exposure amounts**	**Minimum capital requirements**	**Risk exposure amounts**	**Minimum capital requirements**	**Risk exposure amounts**	**Minimum capital requirements**
Credit and counterparty risk, stadardised approach	**2 332,8**	**186,6**	**2 410,4**	**192,8**	**2 251,9**	**180,2**
Central governments or central banks	0,0	0,0	0,0	0,0	0,0	0,0
Regional governments or local authorities	0,0	0,0	0,0	0,0	0,0	0,0
Public sector entities	1,4	0,1	1,4	0,1	1,4	0,1
Institutions*	107,8	8,6	143,6	11,5	128,0	10,2
Corporates	590,5	47,2	683,6	54,7	577,8	46,2
Retail	610,4	48,8	603,4	48,3	577,3	46,2
Secured by mortgages on immovable property	914,1	73,1	845,1	67,6	876,1	70,1
Exposures in default	15,8	1,3	15,2	1,2	14,8	1,2
Items associated with particularly high risk	0,0	0,0	40,1	3,2	0,0	0,0
Covered bonds	45,1	3,6	32,9	2,6	36,1	2,9
Collective investments undertakings	27,4	2,2	24,2	1,9	30,7	2,5
Equity exposures	0,3	0,0	0,3	0,0	0,3	0,0
Other exposures	19,9	1,6	20,6	1,7	9,6	0,8
Market risk	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**
Credit valuation adjustement (CVA)	**3,5**	**0,3**	**3,5**	**0,3**	**2,9**	**0,2**
Operational risk, basic indicator approach	**276,9**	**22,2**	**299,9**	**24,0**	**276,9**	**22,2**
Total	**2 613,2**	**209,1**	**2 713,8**	**217,1**	**2 531,7**	**202,5**

*The counterparty risk own funds requirement is EUR 0.1 million.

NOTE 8: IMPAIRMENT OF RECEIVABLES

At the end of the review period, expected credit losses totalled EUR 13.4 million (EUR 14.1 million at the beginning of the period). Current economic forecasts are positive, meaning that the effects of the macroeconomic model reduce the level of expected credit losses in the review period. The impact of the macroeconomic model has decreased the amount of expected credit losses by EUR 1.7 million. The macroeconomic model and its adoption are discussed in Note 2 ("Accounting policies").

The decrease in expected credit losses during the review period had a positive effect of EUR 0.7 million on the result. The total effect of realised credit losses and credit losses written back on the result was EUR -3.6 million in the review period.

Table 6: Distribution of impairment by the gross carrying value of exposures and by expected credit losses (30 June 2018, EUR million)

	Phase 1		Phase 2		Phase 3		Total	
	Gross carrying value	Expected credit loss	Gross carrying value	Expected credit loss	Gross carrying value	Expected credit loss	Gross carrying value	Expected credit loss
Secured lending to private customers	2 166,2	-0,3	332,5	-2,8	9,3	-1,1	2 508,0	-4,2
Unsecured lending to private customers	576,0	-1,0	65,3	-5,4	4,6	-0,7	645,9	-7,0
Treasury investments	1 177,7	-0,8	0,0	0,0	0,0	0,0	1 177,7	-0,8
Corporate clients	245,3	-0,6	14,5	0,0	0,0	0,0	259,8	-0,6
Corporate clients, housing corporations	521,1	-0,1	0,0	0,0	0,0	0,0	521,1	-0,1
Off-balance sheet	1 766,2	-0,2	71,0	-0,6	0,1	0,0	1 837,2	-0,7
Total	**6 452,4**	**-2,9**	**483,3**	**-8,8**	**14,0**	**-1,8**	**6 949,7**	**-13,4**

NOTE 9: COLLATERAL PROVIDED

	30 Jun 2018	30 Jun 2017
Collateral provided on own debt	Other collateral	
Balance sheet item		
Liabilities to credit institutions	163,7	161,7
Derivative contracts and liabilities held for trading	9,4	11,1
Collateral provided on own debt, total	**173,0**	**172,8**
Other collateral provided on own behalf	**0,3**	**0,2**
Collateral provided for others	**0,0**	**0,0**

NOTE 10: 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.

NOTE 11: FINANCIAL LEASING AND OTHER RENTAL LIABILITIES

	30 Jun 2018	30 Jun 2017
Within one year	3,4	1,1
Within one to five years	1,7	1,0
Total	**5,0**	**2,2**

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

NOTE 12: OFF-BALANCE-SHEET COMMITMENTS

The impairment of off-balance-sheet items is discussed above (Note 8, Table 6).

	30 Jun 2018	30 Jun 2017
Guarantees	23,5	24,2
Undrawn credit facilities	158,8	133,8
Total	**182,3**	**158,0**

The bank's off-balance-commitments provided for Group companies amount to EUR 5.1 million.

NOTE 13: BROKERAGE RECEIVABLES AND PAYABLES

	30 Jun 2018	30 Jun 2017
Savings in accordance with the Finnish Act Governing Long-term Savings Agreements	0,2	0,2
Other brokerage receivables and liabilities		
Purchases from brokers	39,4	77,1
Liabilities to customers	17,3	24,3
Total	**56,9**	**101,6**

NOTE 14: DEFERRED TAX ASSETS AND LIABILITIES

	30 Jun 2018	30 Jun 2017
Deferred tax assets attributable to losses	1,6	1,5
Deferred tax assets/liabilities arising from the fair value reserve	1,4	2,6
Deferred tax liability from appropriations	7,9	5,4

NOTE 15: CALCULATION OF KEY INDICATORS

Net income:

Net interest income + net fee and commission income + other income

Net interest income:

Interest income – interest expenses

Net fee and commission income:

Fee and commission income – fee and commission expenses

Other income:

Net income from securities trading and currency operations + net income from financial assets measured at fair value through the fair value reserve + net income from investment properties + other operating income

Operating expenses:

Administrative expenses + depreciation, amortisation and impairment on consolidated goodwill and tangible and intangible assets + other operating expenses

Cost/income ratio:

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

Net interest income + return on equity investments + net fee and commission income + net income from securities trading and currency operations + net income from available-for-sale financial assets + net income 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 tax

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

x 100

Return on assets (ROA), %:

Operating profit/loss – income tax

The average balance sheet total (the average at the beginning and end of year)

x 100

Equity ratio, %:

Equity and minority interest + accumulated appropriations less deferred tax liability*

Balance sheet total

x 100

Capital adequacy ratio, %:

Own funds, total

Total minimum capital requirement

x 8 %

Capital adequacy ratio of Tier 1 own funds, %:

Tier 1 own funds, total

Total minimum capital requirement

x 8 %

Leverage ratio, %:

Tier 1 own funds, total

Balance sheet and off-balance-sheet exposures

x 100

* Only in the calculation of company-specific KPIs; the Group does not have any appropriations or any related deferred tax liabilities.

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