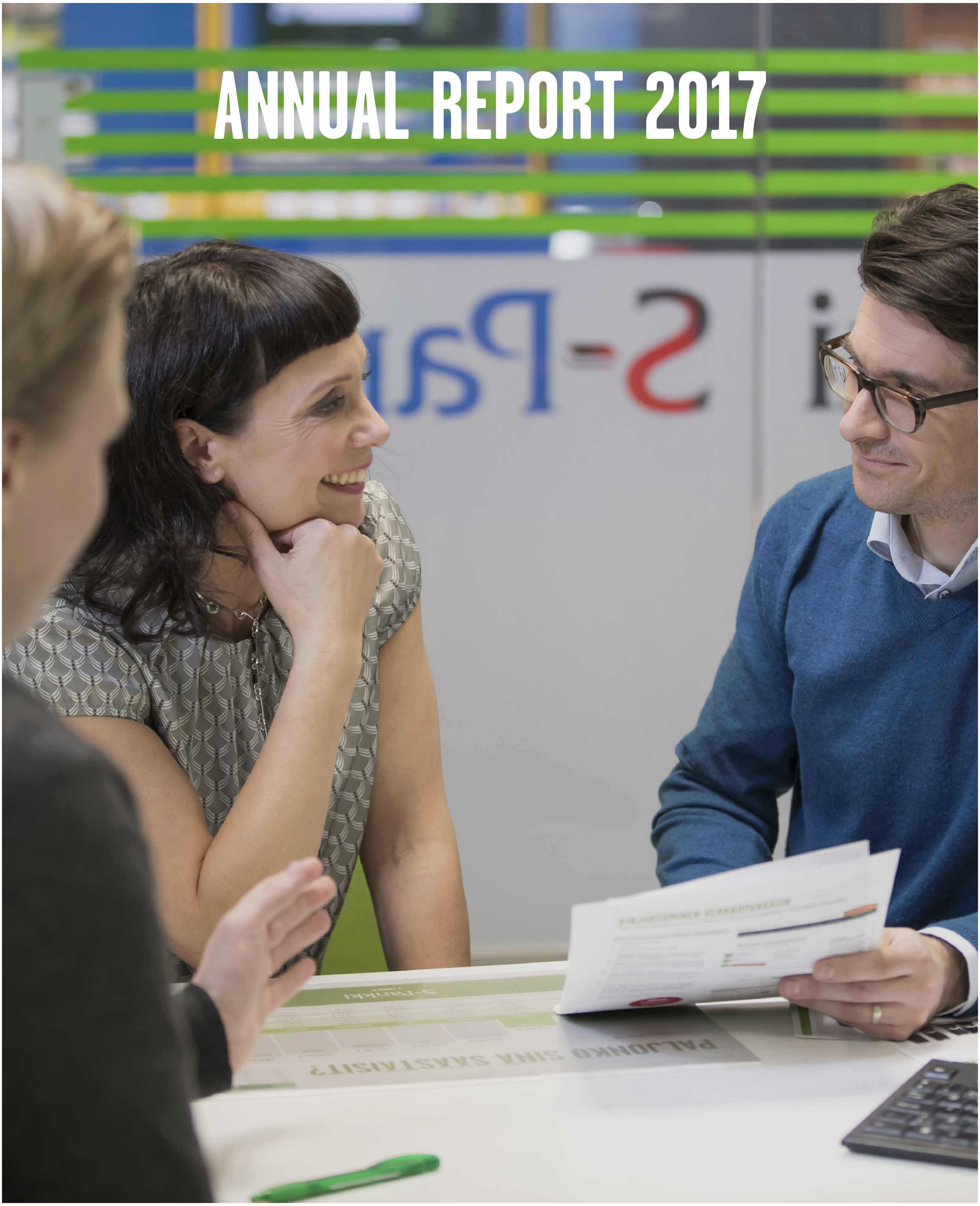
ANNUAL REPORT 2017



S-Bank

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This is a translation of a Finnish document, which should be taken into account in case of any discrepancy between the original document and the translation. If there are any discrepancies, the Finnish document takes precedence over the translated version.

S-BANK – BANKING SERVICES WITH UNPARALLELED CONVENIENCE AND BENEFITS

S-Bank is a Finnish full-service bank with a mission to make our customers' daily life easier. This is achieved by offering customers convenient and useful solutions in daily banking, saving, investment 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 focuses strongly on the development of digital services, and its objective is to deliver the best digital banking service experience in Finland. Spearheading the digital services is the internationally awarded S-mobiili application, which combines store and banking services and insurance by LocalTapiola in an ingenious manner. S-Bank's customers have embraced S-mobiili: more than 70% of the bank's electronic services are accessed using a mobile device.

Basic banking services i.e. current account, an international debit card and banking IDs for the electronic services, are offered free of charge to co-op members. This is a considerable benefit that S Group's co-op members receive from their very own bank. S-Bank provides daily banking services in more than 700 S Group outlets throughout the country. Withdrawing and depositing cash is possible at the checkouts of more than 1,000 S Group outlets. Customers can easily take care of their banking needs in the online bank, S-mobiili or customer service by phone, chat or social media.

S-Bank offers easy and convenient savings and investment options. S-Bank offers the services of private bankers and comprehensive asset management services under the FIM brand. The funds and asset management services offered by S-Bank Group are produced by FIM Asset Management.

In the case of more demanding banking assignments, customers can turn to an S-Banker. There is an S-Banker at every outlet in all key growth centres, and S-Bankers are available to customers regardless of location with the help of teleconferencing.

The owners of S-Bank are SOK Group (37.5%), the regional co-operatives that form the S Group (37.5%), LocalTapiola Insurance (10%), LocalTapiola Life (3.5%), the regional LocalTapiola insurance companies (10%) and Elo Mutual Pension Insurance Company (1.5%). S-Bank was awarded the right to use the Key Flag Symbol in recognition of the company's Finnish origins.

S-BANK'S KEY FIGURES AT THE END OF 2017

3.0 million customers | **2.1 million** international debit cards

1.8 million online banking IDs | **EUR 5,005.8 million** in deposits

EUR 3,724.9 million in granted loans | **EUR 6,892 million** in managed assets (FIM)

16.7 % capital adequacy ratio | **16.0 million** operating result

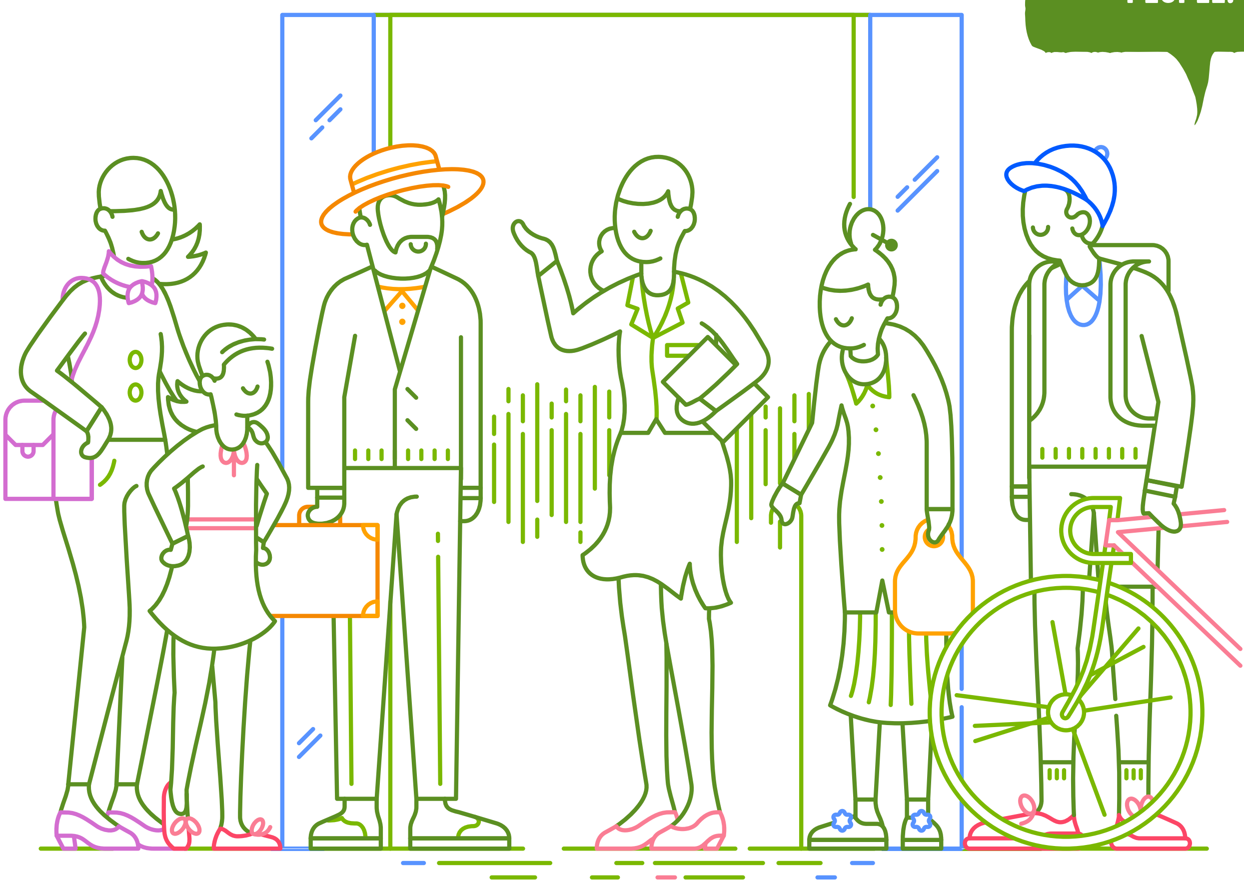
*) I'M SATISFIED. YOU ARE FAIR AND TRANSPARENT.

*) FREE USE OF THE ONLINE BANK AND BONUSES. INVESTMENT HAS ALSO BEEN MADE EASY.

*) THE SERVICES OFFERED FREE OF CHARGE IS A GREAT THING. I SAVE A LOT EVERY MONTH, AND THE TELEPHONE SERVICE IS SO FRIENDLY!

*) I'M VERY SATISFIED WITH YOUR CUSTOMER SERVICE. YOUR EMPLOYEES ARE PROFESSIONAL AND SKILFUL. IT'S PLEASANT TO SPEAK WITH NICE PEOPLE.

S-Bank



*) I'M VERY SATISFIED WITH ALL OF THE SERVICES OFFERED BY S-BANK. I CAN CONTACT THE CUSTOMER SERVICE VIA THE CHAT FEATURE WHEN I NEED QUICK ASSISTANCE. EVERYTHING IS OK!

*) I WAS ABLE TO TAKE CARE OF MY BUSINESS MUCH FASTER THAN EXPECTED, AND I WAS OFFERED ADDITIONAL INFORMATION ON THE SIDE. THANK YOU FOR YOUR HELP!

*) THE IDENTIFICATION SYSTEM WITH S-MOBIILI IS VERY CONVENIENT – I NO LONGER NEED TO USE THE CARD. AND I JUST REALISED THAT I CAN READ THE BAR CODE WITH THE CAMERA IN MY PHONE WHEN PAYING A BILL. THESE ARE GREAT THINGS!

*) Customer comments on S-Bank on Facebook and Twitter.

MANAGING DIRECTOR'S REVIEW

In October, we celebrated the 10th tenth anniversary of S-Bank's deposit banking operations. We made an incorrect estimate during the early days of S-Bank, which is funny in hindsight: when we opened the bank in mid-October 2007, we estimated that we would give out 10,000 debit cards by the end of the year. The actual figure was somewhat different. "The silent launch" turned into queues of hundreds of people, and finally we sold ten times more cards than expected.

A lot has changed and been developed over these ten years, but the basis on which S-Bank is built has not changed. Our services are still targeted to S Group's co-op members. In this respect, we sort of returned to our roots last year when we divested the SME and agricultural operations that we obtained through the merger with LocalTapiola Bank in order to better focus on our key competence area, i.e. services for private customers. Offering basic banking services free of charge has been at the core of our approach from the very beginning – all S Group co-op members get a bank account, a debit card and online banking IDs without any monthly or annual charge.

Naturally, our services have been developed and expanded a great deal over the ten years, through acquisitions and intense development work. During the early years, we strongly invested in the development of consumer credit products, in 2013 we expanded to funds and asset management services and in 2014 we introduced loans with collateral, such as mortgages. The digital revolution caused us to switch the focus of our development work to digital services. In light of the figures, one can say that this was the correct choice. At the end of last year, the S-mobiili application, which combines the services of the bank and the stores, as well as the insurance services of LocalTapiola, had been downloaded into more than 1.3 million mobile phones or tablets. Meanwhile, 73% of S-Bank's electronic services were accessed through S-mobiili.

Ten years ago a bank in connection with a grocery store seemed strange, but now they have become an established figure in the lives of Finns and in the Finnish field of banking services. We joined Finance Finland in mid-September. That does not mean that S-Bank is going to become a traditional bank. We will continue to be a challenger in the field of banking, a bank that is fair and protects its customers.

Significance of responsible business operations increases

Corporate responsibility is becoming more and more important. It is not enough for businesses to act responsibly from time to time: they must be responsible at all times and in everything they do. The foundation must be solid. The fact that S-Bank's roots are in the cooperative movement has influenced our attitude towards responsibility. The fact that our customers and owners are the same people sets the bar very high, because we cannot make profit by decreasing the quality or increasing the prices. The company form keeps the playing field leveled and the operations responsible.

S-Bank was selected by Finnish consumers as the most responsible bank for the fifth time in a row in the Sustainable Brand Index, which is the largest brand comparison in the Nordic countries focusing on sustainable development. We are pleased and proud of this recognition, but we are not even close to our target level yet. In the autumn of 2017, we started a responsibility project aimed at identifying S-Bank's material and characteristic responsibility themes. We will build action plans on the basis of these themes, which are "to benefit customers", "the wellbeing of the personnel" and "to benefit society". This does not mean empty words, but concrete actions. Some major and some minor, but all significant. The work continues. As part of the 2017 financial statements, we report for the first time not only financial information but also issues connected to corporate responsibility.

Responsible investment operations were publicly discussed several times in 2017. More and more investors consider responsibility in addition to profit when selecting an investment object. A good example of responsible investment is an impact investing project that we implemented in cooperation with alternative fund management company Epiqus. In the project, we have collected a total of EUR 13 million from investors to benefit the employment of immigrants. The project aims at employing a minimum of 2,000 immigrants who have received a residence permit in the course of three years. If successful, the project will introduce savings of EUR 28 million to the state. The investors will receive reasonable compensation. Impact investing projects, which have become a large phenomenon globally, pursue monetary profit, as well as positive and quantifiable social or environmental impact.

What does the bank of tomorrow look like?

The development of technology puts more and more focus on mobile services. Usability and ease of use are even more important than before. If a customer does not know how to use a service, it is the service that is to blame, not the customer. New services must guide the users.

When people can take care of their routing banking easily through an automated mobile service, personal customer service can focus on tasks that require assistance or advice, such as mortgage negotiations or investment advice, at a time that is convenient for the customer.

Technology can compensate for the limitations of the human mind in the planning or management of one's personal finances, or in issues involving investment products. A good example of this is the FIM Artificial Intelligence fund that was launched late last year. It uses AI and machine learning to detect causalities on the market that the human eye is unable to notice. The fund's share choices are based on the observations made by the AI.

We are tasked with the harnessing of technology so that we can all utilise it to make each tomorrow slightly better than today.

PEKKA YLIHURULA
Managing Director, S-Bank Ltd

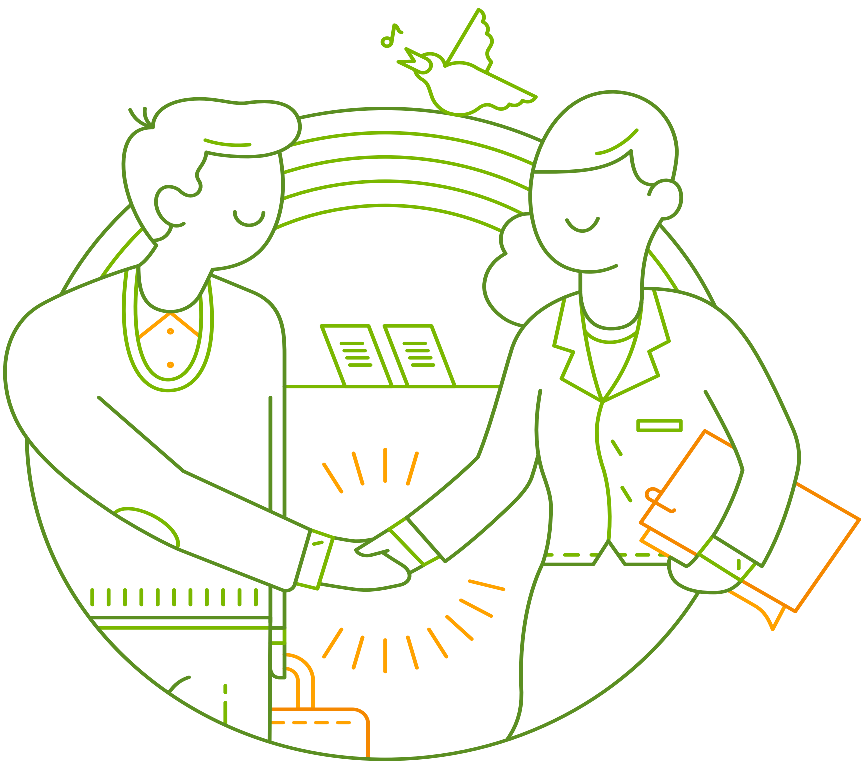
REPORT BY THE EXECUTIVE BOARD AND FINANCIAL STATEMENTS 2017

INCLUDING A CORPORATE RESPONSIBILITY REPORT, AS WELL AS INFORMATION ON CAPITAL ADEQUACY AND RISK MANAGEMENT IN ACCORDANCE WITH PILLAR 3

2 INTRODUCTION

S-Bank's 2017 financial statements consist of four parts: a report by the Executive Board, a corporate responsibility report, consolidated financial statements and financial statements of the parent company, as well as capital adequacy and risk management information in accordance with Pillar 3.

The corporate responsibility report is now published for the first time as part of the Annual Report. It includes a report on information other than financial information as required in Section 3(a) of the Accounting Act (29 December 2016/1376). Impact of IFRS 9 on financial assets and financial liabilities is presented as part of the accounting policies applied to the consolidated financial statements. The section on capital adequacy and risk management in accordance with Pillar 3 in the financial statements has been prepared in accordance with Part 8 of the EU Capital Requirements Regulation (575/2013) and the related instructions by the European Banking Authority. The section on capital adequacy and risk management also includes a description of the IFRS 9 impairment method.



3 REPORT BY THE EXECUTIVE BOARD

1 JAN TO 31 DECEMBER 2017

3.1 OPERATING ENVIRONMENT

The economic situation was favourable in 2017. Economic indicators strengthened and activities in the world trade accelerated. Economic growth was broad, as financial activities recovered in many key countries.

Political uncertainties cast a shadow on the financial environment in Europe and the United States in 2017. However, these uncertainties vanished during the year, and their impact on economic development was low. The tax package was finalized in the United States by the end of the year.

After the increase at the beginning of the year, the increase in consumer prices, i.e. the inflation rate, developed fairly moderately. During the latter half of the year, crude oil price was increasing, boosting the inflation rate of energy in some regions. European Central Bank kept central bank rates unchanged, and all Euribor rates were clearly negative in the euro region. In the USA, the Federal Reserve System increased the key interest rate three times.

The recovery of global economic growth and the light monetary policy increased share indices to record values in many main markets.

Recovery of the Finnish economy was very strong in 2017. Economic drivers – consumption, investments and exports – made good progress. Recovered global trade and good economic growth in the euro area accelerated Finnish exports. Good investment growth continued. Strong economic confidence and increased employment supported household consumption.

Demand for mortgages was fairly brisk in 2017. New mortgages were taken out at the rate of approximately EUR 1.5 billion per month. The mortgage portfolio increased at the rate of 2.2%. The low interest rate level, record-strong consumer confidence and growth in employment supported the housing markets. Housing prices increased throughout the country by approximately one per cent in 2017, compared to the previous year.

The amount of consumer loans taken out by households increased by 4.2%. Deposits by households increased, and the average growth in deposits was some three per cent. Corporate lending increased at a rate of a little over five per cent, supported by loans withdrawn by housing associations. The loan stock of housing associations increased by more than 10% last year. During the year, invested capital in funds registered in Finland increased by 8.9 per cent to EUR 116.2 billion, which is a record-high level. The total amount of fund capital increased as a result of positive net subscriptions and changes in the value of investments.

3.2 EVENTS DURING THE FINANCIAL YEAR

In late 2015, S-Bank further defined its strategy with regard to digitisation, among other issues. S-Bank's digital services focus on the S-mobiili application, which combines the services of stores and the bank, as well as insurance products from LocalTapiola. The most important product reforms in 2017 were supplements to S-mobiili.

In March, S-mobiili was complemented with the Siirto transfer service, which enables customers to transfer funds from their own account to a friend's account with a mobile phone, using just a phone number. In the Siirto service, joined system by banks, funds are transferred between accounts in different banks without delay as well. At the end of the year, Nordea and Osuuspankki had also joined the Siirto service.

In April, S-bank launched an identification service in S-mobiili. It enables the nearly three million S-Bank customers to use their fingerprint or a password they select themselves to access services requiring online banking IDs. Identification with the S-mobiili application is an alternative to using the PIN code table in paper format.

In April 2017, ABC mobile refuelling was expanded to cover all the ABC service stations. Now, paying for your fuel with S-mobiili is possible in the whole of Finland.

The simplification of the operations that was started in 2016 was continued in 2017.

In April, S-Bank Ltd and Oma Savings Bank Plc agreed on the transfer of S-Bank's SME and agricultural business operations to Oma Savings Bank Plc. The balance sheet items included in the transaction were transferred to Oma Savings Bank on 30 November 2017. S-Bank wants to concentrate on its core business, in other words services for private customers, which is why it divested the banking services aimed at small and medium-sized enterprises and farms. S-Bank will be involved in the financing of limited liability housing companies and the largest construction companies in the future as well.

S-Bank's organisational structure was renewed at the beginning of July 2017, and the banking business was centralised in one unit. Now S-Bank Group consists of three business areas: Banking, Digital Operations and Asset Management.

The bank's ownership base was expanded in late June when LocalTapiola General Mutual Insurance Company handed over half of its S-Bank's shares to the regional LocalTapiola insurance companies during an internal reorganisation. S-Bank received twenty new owners due to the change.

In December, FIM Asset Management Ltd and AM Asset Management agreed on an arrangement where customers of AM Asset Management moved to FIM Asset Management.

S-Bank joined Finance Finland in September 2017, because we want to develop financial services in Finland.

3.3 FINANCIAL POSITION

3.3.1 FINANCIAL PERFORMANCE AND PROFITABILITY

S-Bank Group's operating result decreased year-on-year to EUR 16.0 million (22.3). However, the comparable result increased by EUR 8.3 million when taking into account one-off items included in the previous year's net income. Result for the financial period after taxes totalled EUR 12.4 million (18.4).

The Group's cost/income ratio was 0.83 (0.82). Return on equity (ROE) decreased to 3.1 per cent (4.4), while return on assets (ROA) was 0.2 per cent (0.3).

S-Bank Group's own funds increased year-on-year due to the result and an increase of the supplementary capital. On the other hand, the own funds requirement decreased, mainly due to the divestment of the SME and agricultural business. At the end of the financial period, the Group's own funds totalled EUR 422.2 million (398.2), whereas the minimum requirement for own funds was EUR 202.5 million (215.6). Due to the positive development of the balance sheet, capital adequacy clearly improved to 16.7 per cent (14.8). More detailed information on risk management and the development of capital adequacy is available under Risk management and capital adequacy.

Table 1: Key financial indicators

KEY FINANCIAL INDICATORS (EUR MILLION)	12/2017	12/2016	12/2015
Operating result	16.0	22.3	16.6
Net income	154.3	160.5	153.8
Deposits	5,005.8	4,547.0	4,112.0
Lending	3,724.9	3,492.2	2,831.1
Assets under management	6,891.7	6,152.6	6,012.0
Debt securities	1324.8	1,481.5	1,594.2
Cost/income ratio	0.83	0.82	0.88
Return on equity (ROE)	3.1%	4.4%	3.2%
Return on assets (ROA)	0.2%	0.3%	0.3%
Equity ratio	7.3%	7.7%	8.2%
Capital adequacy ratio	16.7%	14.8%	15.4%

3.3.2 NET INCOME

Net income amounted to EUR 154.3 million (160.5). Comparable net income increased by EUR 6.8 million when taking into account one-off items included in the previous year's net income. Net interest income accounted for 47.5% of the net income. The net interest income increased by 5.6% year-on-year to EUR 73.3 million (69.4). Income from net interest income was mainly generated through the interest income received from lending, 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 increased by 10.9% year-on-year to EUR 59.2 million (53.4). Net fee and commission income accounted for 38.3% of net income. Net fee and commission income increased in all the business areas.

Other income totalled EUR 21.8 million (37.7). Net income from financial assets available for sale was EUR 6.8 million (22.6). The reference figure includes sales profit of EUR 13.4 from the shares of Visa Europe. Other operating income was EUR 15.7 million (15.5). Other operating income included the sales price received from the divestment of the banking operations for SMEs and agricultural operations. The comparison figure, in turn, includes the sales price received from investment properties that were divested in the spring of 2016. Other net income amounted to EUR -0.7 million (-0.5).

3.3.3 EXPENSES

Operating expenses decreased by 2.6% from the previous year to EUR 131.7 million in 2017 (135.2). Personnel expenses were nearly at the same level as in the previous year, EUR 46.2 million (45.9). Other administrative expenses decreased from the previous year to EUR 67.0 million (70.7). Depreciation during the financial period increased from the previous year to EUR 12.5 million (11.8). Other operating expenses decreased to EUR 6.0 million (6.7). The other operating expenses consisted of membership and supervision fees, facility, machinery and equipment rental expenses and vehicle expenses, for example.

3.3.4 CREDIT LOSSES AND IMPAIRMENTS

Gross credit losses and impairments including due to malpractice amounted to EUR 11.8 million (11.3). Reversed credit losses and impairments amounted to EUR 5.3 million (8.3). Thus, credit losses and impairments totaled EUR 6.6 million (3.0). The increase in the credit losses and impairments is mainly due to the growth of the credit portfolio. Proportioned to the size of the credit portfolio, the percentage of credit losses and impairments is low.

3.3.5 DEPOSITS

The deposit base experienced brisk growth during the period under review. On the closing date, the deposit portfolio totalled EUR 5,005.8 million (4,547.0). Growth compared to the previous year was 10.1%. The actual change was even higher when taking into account the deposit base of EUR 84.4 that was transferred to Oma Savings Bank in the divestment.

At year-end, the amount of demand deposits totalled EUR 5,000.0 million (4,529.3), and the amount of fixed-term deposits totalled EUR 5.8 million (17.7). Of these, deposits by private customers totalled EUR 4,004.6 million (3,601.1), including EUR 3,998.9 million (3,584.1) in demand deposits and EUR 5.8 million (17.0) in fixed-term deposits. Deposits by corporate customers totalled EUR 1,001.1 million (945.8). Of these, demand deposits totalled EUR 1,001.1 million (945.1) and fixed-term deposits amounted to EUR 0.0 million (0.7).

3.3.6 LENDING AND INVESTMENT OPERATIONS

Growth in lending continued to be strong in 2017. In total, the lending portfolio increased by EUR 232.7 million during the year to EUR 3,724.9 million at the end of the year (3,492.2). Growth compared to the previous year was 6.7%. The actual change was even higher when taking into account the credit base of EUR 146.9 that was in the above-mentioned divestment.

As in the previous year, mortgage portfolio grew faster than the markets by 10.5%. Lending by limited liability housing companies also grew substantially. This included EUR 2,959.0 million (2,647.8) in private customer credit and EUR 765.9 million (844.4) in credit to corporate customers. S-Bank's capital investments in the money and capital markets totalled EUR 1,324.8 million (1,481.5).

3.3.7 EQUITY

At the year-end, equity totalled EUR 414.1 million (401.4), of which the minority interest was EUR 0.2 million (0.1). The equity increased as a result of the good performance in the financial period.

The balance sheet growth decreased the equity ratio to 7.3% (7.7), despite the growth in equity.

3.3.8 ASSETS UNDER MANAGEMENT

The amount of assets being managed by FIM Asset Management Ltd was EUR 6,891.7 million (6,152.6) at the end of the year. Growth compared to the previous year was 12%. Of the managed assets, the share of fund capital was EUR 6,029.8 million (5,389.6), and asset management capital accounted for EUR 861.9 million (763.0). Net subscriptions to mutual funds amounted to EUR 326.8 million during the period under review (-100.5). The number of unit holders in the funds exceeded 200,000 at the end of December. FIM Asset Management manages the FIM and LocalTapiola Funds.

3.4 OPERATIONS OF S-BANK'S SUBSIDIARIES

FIM ASSET MANAGEMENT LTD

FIM Asset Management Ltd manages the FIM and LocalTapiola funds and provides services related to asset 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 for the period under review was EUR 0.5 million (-1.6).

FIM PRIVATE EQUITY FUNDS LTD

FIM Investment Services gave up its investment service authorisation and continued its operations with a new authorisation for alternative investment funds management under the name FIM Private Equity Funds Ltd. S-Bank owns 100% of FIM Private Equity Funds Ltd's share capital. The operating profit of FIM Private Equity Funds Ltd for the period under review was EUR -0.2 million (-1.2).

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. FIM Private Equity Funds owns 80% of FIM Real Estate. The operating profit of FIM Real Estate Ltd for the period under review was EUR 0.8 million (0.5).

S-ASIAKASPALVELU OY

S-Asiakaspalvelu Oy is a 100% 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 (610/2014).

The turnover of S-Asiakaspalvelu Oy during the period under review was EUR 6.2 million (7.2), of which EUR 4.7 million (5.6) came from inside the Group. Other revenue consisted of telephone services for co-op members that are offered to the cooperative enterprises. A majority of the expenses was related to personnel. S-Asiakaspalvelu's operating result was EUR 0.6 million (0.5).

3.5 ADMINISTRATION

3.5.1 ANNUAL GENERAL MEETING

The Annual General Meeting was held on 7 April 2017. The Annual General Meeting adopted the 2016 financial statements and discharged the Executive Board and Managing Director from liability. Seven members and three deputy members were appointed to the Executive Board. KPMG Oy Ab, Authorised Public Accountants, was selected as the auditor.

3.5.2 EXECUTIVE BOARD

The Annual General Meeting confirms the number of members in the Executive Board and nominates the Board members for a term of one year. The Board elects a chairman and a 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 is obligated to manage the bank in a professional manner and in compliance with sound and good banking practices. The Board meets at least eight (8) times per year.

At the Annual General Meeting of S-Bank, the following members were elected to S-Bank's Executive Board: Jari Annala, CFO of SOK; Juha Ahola, Financial Manager of SOK; Harri Lauslahti, Innovation Director of the LocalTapiola Group; Juha Mäkinen, Senior Managing Director at LocalTapiola East, Matti Niemi, Managing Director of the HOK-Elanto Cooperative Society Elanto; and Olli Vormisto, Managing Director of the Hämeenmaa Cooperative Society as a new member. In addition, Heli Arantola, EVP Categories and Concepts at the HKScan Plc. was appointed to the Board as an independent member.

Jari Annala was elected as the chairman of the Board and Harri Lauslahti as its vice chairman.

The deputy members nominated by S Group and elected to S-Bank's Executive Board were Hannu Krook, Managing Director of the Varuboden-Osla Handelslag Cooperative Society, and Harri Miettinen, Managing Director of the Kymenseutu Cooperative Society.

Erik Valros, Managing Director of LocalTapiola Uusimaa, was elected as a deputy member of S-Bank Ltd's Executive

Board, appointed by the LocalTapiola Group. Veli-Matti Puutio resigned from the Executive Board.

The Board convened 14 times during the financial period (12), and the average attendance rate of members was 97 per cent (98). The fees paid to Board members totalled EUR 30,000 (30,000).

3.5.3 MANAGING DIRECTOR

S-Bank's Executive Board appoints the managing director. The managing director is responsible for the bank's routine management duties in accordance with instructions and regulations issued by the Executive Board, applicable legislation and regulations, the Articles of Association. 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 their decision-making power. If the managing director is prevented from attending to his or her duties, they will be replaced by the deputy managing director.

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

3.5.4 PERSONNEL

Compared to the previous year, S-Bank Group's number of personnel decreased by 10 people. At the end of the year, S-Bank Group employed a total of 656 people (666). Of them, 526 (466) worked for S-Bank Ltd, 91 (126) for S-Asiakaspalvelu Oy, and 39 (74) for the FIM companies. S Group's regional cooperative enterprises and LocalTapiola Group's regional companies operate as S-Bank's agents.

3.5.5 WAGES, SALARIES AND REMUNERATION

-Bank Group has remuneration principles confirmed by the Executive Board. S-Bank's Executive Board decides on all available remuneration methods and regularly assesses the performance of the remuneration systems and compliance with the operating principles and procedures.

S-Bank Executive Board's Compensation and Nomination Committee is a body assisting the Board and 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. S-Bank's Executive Board's Compensation and Nomination Committee, for its part, ensures that the bank's principles on wages, salaries and remuneration are in line with good and efficient risk management and do not encourage 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.

In S-Bank Group, remuneration model consists of a basic salary and possible variable compensation. The objective of the variable compensation models is to encourage employees to focus on activities that are the most important in terms of reaching the strategic and operational goals. S-Bank Group's variable compensation systems are valid for a maximum of one calendar year at a time. In the variable compensation models, the targets are based on the entire bank's shared targets, unit-level and/or personal targets and they can vary by person group. The performance-based compensations are paid in cash.

The salaries and fees paid to personnel at S-Bank Group totalled EUR 37.4 million (36.7) in 2017. The recognised salaries and wages at S-Bank totalled EUR 27.0 million (23.5) and other remuneration totalled EUR 3.4 million (1.8). The recognised salaries and wages at S-Asiakaspalvelu totalled EUR 2.9 million (3.2) and other remuneration totalled EUR 0.2 million (0.2). The recognised salaries and wages at the FIM companies totalled EUR 3.1 million (6.6) and other remuneration totalled EUR 0.7 million (1.4).

The fees paid to S-Bank Ltd's Executive Board members totalled EUR 30,000 (30,000). Fees paid to the members of the Board of FIM Asset Management totalled EUR 9,000. Fees paid to the members of the Board of FIM Real Estate totalled EUR 11,000 (7,250). In 2017, the persons whose actions essentially affect the credit institution's risk profile were paid EUR 4.9 million (4.1) in salaries and EUR 0.7 million (0.7) in other remuneration. A total of 56 persons (51) received these salaries and remuneration. These salaries and wages in the FIM companies totalled EUR 2.1 million, while remuneration totalled EUR 0.5 million in 2017. A total of 23 persons received these salaries and remuneration.

In accordance with S-Bank's remuneration principles, variable compensation is postponed if the remuneration of the individual in question exceeds EUR 50,000 for an earnings period of one year. In 2017, the variable compensation was postponed for two people (1).

More information on the salary and remuneration policy is available on S-Bank's website at www.s-pankki.fi.

3.6 SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL PERIOD

S-Bank Group started to apply the IFRS 9 regulations on 1 January 2018. As a result of the adaptation of the IFRS 9, financial instruments are processed in a slightly different manner. The most important change from the perspective of S-Bank is the manner in which expected losses from the lending portfolio are recorded. The estimated impact on S-Bank's equity is explained in more detail in the accounting policies section (Table 6 at the end of Section 5.4.4).

On 30 January 2018, the Financial Supervisory Authority set a discretionary Pillar 2 requirement (SREP) on S-Bank based on the banking book interest rate risk and the credit risk's concentration risk. These issues are described in more detail in the section on capital adequacy and risk management (Section 5.5.8.1).

3.7 OUTLOOK FOR 2018

The outlook for the global economy is looking bright for 2018. Economic growth will continue on a broad spectrum of sectors and central banks will carry on their stimulant monetary policy, although small steps will be taken towards normalising the monetary policy. The interest environment will stay low in the euro area.

The outlook for the Finnish economy is bright. Economic growth will remain strong, albeit decelerate slightly. Salary increases and improved employment situation will support the purchasing power and consumption of households. A decrease in available capacity, low interest rates and the good economic situation will maintain active investments. A solid order portfolio and high external demand will support exports. Inflation will remain moderate and housing prices will increase.

S-Bank will continue to grow, focusing on better understanding of its customers and thus deeper customer relations with private customers. Development will continue to focus on digital services. The Group's result is expected to be slightly better than in 2017.

3.8 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 122,445.87, be entered in the retained earnings account and that no dividend be distributed.

3.9 CALCULATION OF KEY PERFORMANCE 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 available-for-sale financial assets + 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:

$$\frac{\text{Administrative expenses + depreciation, amortisation and impairment on tangible assets and intangible assets + other operating expenses (excluding impairment losses)}}{\text{Net interest income + return on equity investments + net fee and commission income + net income from securities trading and currency operations + net income from available-for-sale financial assets + net income from hedge accounting + net income from investment properties + other operating income + share of equity earnings in associated companies (net)}}$$

Return on equity (ROE), %

$$\frac{\text{Operating profit/loss – income tax}}{\text{Equity and minority interest + accumulated appropriations less deferred tax liability (the average at the beginning and end of the year)*}} \times 100$$

Return on assets (ROA), %

$$\frac{\text{Operating profit/loss – income tax}}{\text{The average balance sheet total (the average at the beginning and end of year)}} \times 100$$

Equity ratio, %

$$\frac{\text{Equity and minority interest + accumulated appropriations less deferred tax liability*}}{\text{Balance sheet total}} \times 100$$

Capital adequacy ratio, %

$$\frac{\text{Own funds, total}}{\text{Total minimum capital requirement}} \times 8\ \%$$

Capital adequacy ratio of Tier 1 own funds, %

$$\frac{\text{Tier 1 own funds, total}}{\text{Total minimum capital requirement}} \times 8\ \%$$

Leverage ratio, %

$$\frac{\text{Tier 1 own funds, total}}{\text{Balance sheet and off-balance sheet exposures}} \times 100$$

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

4. CORPORATE RESPONSIBILITY REPORT

S-Bank is a young bank, only ten years old. The roots of S-Bank extend more than a hundred years into the past, however: the foundation was laid during the period of S Group's savings funds. Therefore, the bank has a strong cooperative value base, which is why responsibility is a natural key area for S-Bank.

The identified key responsibility themes for the operations of S-Bank are benefiting customers and society, as well as ensuring the wellbeing of the personnel. These themes were identified based on background analyses, the views of key stakeholders and management workshops in the autumn of 2017. As part of the 2017 financial statements, S-Bank reports for the first time also issues related to corporate responsibility, not only financial figures and KPIs.

4.1 BUSINESS MODEL OF S-BANK GROUP

S-Bank Ltd is a Finnish bank which focuses on products and services for private customers. Most of its services are targeted to S Group's co-op members. The cash benefits of co-op membership, such as the bonus and payment method benefit, are paid to the customer's account in S-Bank.

S-Bank serves its customers under two brands. Asset management and private bank services are offered under the FIM brand. S-Bank also offers targeted services to businesses. For more information on the operations of the subsidiaries, please see Section 3.4.

S-Bank's deposit banking operations started on 15 October 2007. S-Bank has grown organically and through acquisitions. Citibank's consumer credit business was acquired in March 2010. A majority of the investment service provider FIM was acquired in August 2013, and the rest of FIM's shares were acquired in June 2016. S-Bank was merged with LocalTapiola Bank in May 2014. Banking services for SMEs and agricultural business were divested in late 2017.

Basic banking services form the core of the bank's services: current accounts, debit cards and banking IDs. S-Bank's comprehensive product range consists of current accounts and savings accounts, consumer credits, mortgages and other secured credits, as well as international debit cards. S-Bank Group offers its customers fund investment and asset management services through FIM Asset Management Ltd, a subsidiary of S-Bank.

S-Bank serves its customers at customer service points at its offices located in connection with S Group outlets, through its online bank, through S-mobiili and via the telephone. S-Bankers serve customers, mainly in mortgage issues, at 13 locations. In addition, FIM's private bankers offer their services at six locations.

The regional cooperatives of S Group act as agents and offer S-Bank's banking services at their outlets.

S-Bank's services are designed to be easy to use and transparently priced. The bank aims to retain a reasonable price level. All basic banking services are offered free of charge to all co-op members and their families.

The bank's earnings model is based on the reception of deposits, the granting of loans and investment operations. The bank's largest source of income, net interest income, is the difference between interest income received and interest expenses paid. Interest income mainly comes from credits and loans granted to customers. Interest expenses depend on the interest paid on deposits and the interest paid for assets obtained from other funding sources.

In addition to the net interest income, the Group's earnings depend on net fee and commission income, which comes from, for instance, services related to lending, payment traffic, services related to the use of cards, the fund business and securities brokerage. Fee and commission expenses include for example expenses related to the fund business and service fees paid to service providers for the use of cards. Personnel expenses, IT expenses and other administration expenses, including agency fees paid to the cooperatives, form a majority of all the expenses.

Profitable business requires efficient management of the balance sheet, risks and expenses. The bank's duty is to ensure sufficient capital adequacy and solvency under all conditions.

The business practiced by S-Bank Group is subject to a licence, widely regulated and supervised by the authorities.

4.2 TO BENEFIT CUSTOMERS

In accordance with its vision, "Superior ease and benefits", S-Bank wants to be a fair partner for its customers that allows them to easily and conveniently take care of their banking needs.

At S Group, "co-op member" equals "customer", which means that the bank's services also exclusively cater to the needs of co-op members to make their everyday lives easier. For example, S-Bank offers basic banking services free of charge to all co-op members and their families.

S-Bank has been successful in communicating this to its customers: in 2017, S-Bank was selected by Finns as the most responsible bank for the fifth time in a row in the Sustainable Brand Index, which is the largest brand comparison in the Nordic countries focusing on sustainable development[1]. The trust and satisfaction of customers are some of the most important indicators of success for S-Bank.

The ease of doing business with the bank is a combination of a variety of issues. S-Bank's services and products are easy to use and the pricing system is clear. The services are developed in cooperation with the customers.

The services are easy to reach: in addition to the digital channels and telephone service, customers can take care of their banking at a customer service point when visiting their local grocery store. Furthermore, withdrawing and depositing cash is possible at the checkouts of more than 1,000 S Group outlets all around Finland. The goal is seamless service between channels.

S-Bank tries to use language that is easy to understand in its communications. The bank wishes to ensure that different customer groups have equal access to the banking services. Accessibility of the bank's physical and digital services will be assessed in 2018 as part of S Group's accessibility project.

S-Bank monitors customer satisfaction at two levels. The quality of customer service through the different channels is continuously measured in connection with service events, and a more comprehensive survey is realised twice a year to measure customer satisfaction as a whole.

Table 2: Ease of doing business with S-Bank (on a scale of one to five)

Telephone service [2]	4.1
Customer service points [2]	4.6
Online bank [2]	4.4
S-mobiili [3]	4.6

[1] In the Sustainable Brand Index 2017, more than 30,000 consumers assessed more than 750 brands. Each brand was assessed by at least 1,000 people over the age of 16.

[2] The figures are channel-specific mean values from 2017. The source is S-Bank's customer service event measurements January–December 2017 (realised by Bisnode).

[3] Ease of use has been measured from the bank section of S-mobiili after transfers between a customer's own accounts and new payments. The figure is the mean value of monthly weighted averages. The source is a survey on S-mobiili in January–December 2017.

4.3 FOR THE WELLBEING OF THE PERSONNEL

S-Bank wants to challenge common practices of the industry. Success of this goal depends on skilled and committed employees. Therefore, the management and wellbeing of personnel are key focus areas for the success of S-Bank.

Number of personnel

At the end of 2017, a total of 656 (666) people had an active employment relationship with S-Bank Group.

Most employment relations with S-Bank are permanent and full-time. However, part-time work is appropriate in some positions in customer service and back office. Part-time work may also be based on the employee's own choice, because they want to work flexibly while studying, for instance. S-Bank offers internships for students in addition to part-time employment. An employment relationship may be a fixed-term one in the case of a temporary post or a temporary resource need, for example.

Combining work with the other aspects of your life is easy when working with S-Bank. Over the course of the year, 65 people took family leave (excluding part-time child-care leave); of these people, 38 were women and 27 men. At the end of the year, 17 employees were on study leave.

A total of 131 new employees started work at S-Bank over the course of the year. A total of 133 employees left the bank; six of them retired. No employees stopped working because of a disability, and no employment relationships were terminated for production-related or financial reasons.

Figure 1: Nature of employment and working hours

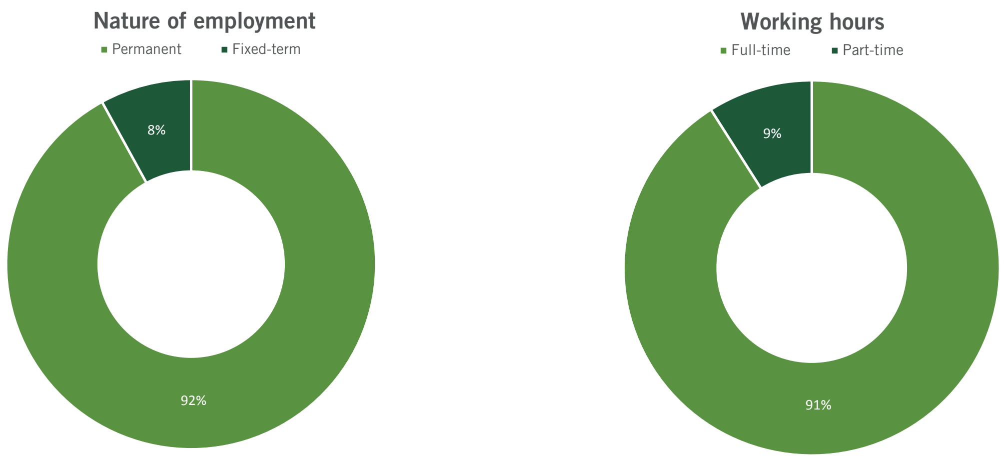
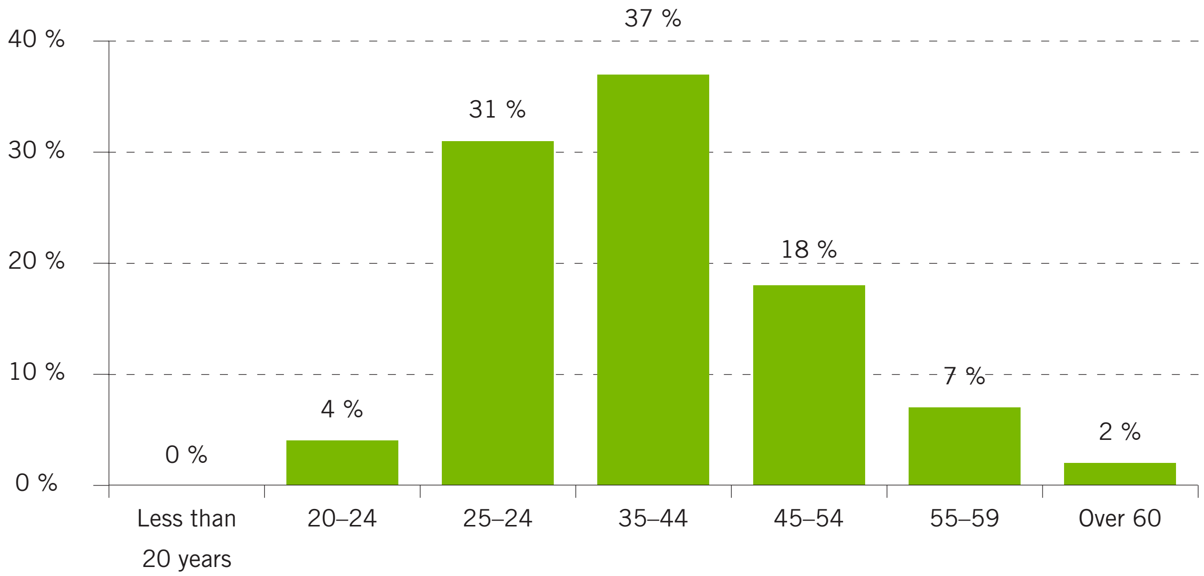


Table 3: Personnel gender distribution

	MALE	FEMALE	TOTAL
Permanent full-time	232	321	**553**
Permanent part-time	9	44	**53**
Fixed-term full-time	9	32	**41**
Fixed-term part-time	3	6	**9**

Figure 2: Personnel age distribution



68% of S-Bank's employees are between the ages of 25 and 44.

Personnel satisfaction and good management

S-Bank offers versatile job descriptions and the opportunity to participate in the development of the operations so that you can influence your own job description. S-Bank monitors personnel satisfaction and the wellbeing of the personnel with an annual personnel survey. In 2017, the work satisfaction index consisting of key questions from the questionnaire was 70.8 (on a scale of 0–100). The result was 1.9 better than in the previous year. The response rate was excellent in 2017, 90.5%.

There has been positive development in all areas, which indicates that the implemented development measures have been successful. According to the results, the employees are highly satisfied with communication, participation and supervisory work, in particular.

S-Bank has identified good management as a key issue influencing personnel motivation and commitment. Investments in supporting and developing supervisory work are made by, for instance, actively communicating with supervisors and arranging training/discussion events and supervisor events.

S-Bank invests in good cooperation and open discussion between the management and employees. 92% of the employees are covered by the collective labour agreement. The cooperation between the personnel and the management is realised in, for instance, a cooperation committee that convenes four times per year to discuss a review of the business and any topical issues pertaining to the employees. S-Bank also has an occupational health and safety committee, which convenes four times per year.

Development of expertise

The bank having the correct kind of expertise and the expertise being continuously developed as the requirements and operating environment change are key issues for the realisation of the S-Bank strategy.

A single employee's level of expertise is annually assessed in a performance appraisal discussion where a supervisor and a team member assess the team member's expertise and agree on any necessary development measures. In addition to the one-on-one performance appraisal discussions, S-Bank uses team-level expertise discussions where the entire team can ponder about the team's existing and required expertise.

As the operating environment changes and digitalisation progresses, learning something new is part of the everyday life of all employees, and the learning often occurs while working. In addition to personal learning, internal mobility allows the opportunity to improve cooperation and communication between units.

The development of expertise is also supported by means of a variety of training and coaching solutions.

Rewarding

Rewarding supports the S-Bank vision, the achievement of the strategic goals and the values. Competitive, motivating and fair rewarding supports commitment of the personnel to profitable operations and the company in the long term. The rewarding principles are annually confirmed.

At S-Bank, remuneration model consists of a basic salary and a variable compensation. The objectives of the variable compensation models are to supplement the salary and promote the achievement of the strategic and operational goals. S-Bank uses a variety of rewarding models for different personnel groups. They are based on the result of the business units and the performance of the employees.

S-Bank uses an assessment system for the degree of difficulty of job duties to assist in the determination of a fair and motivating salary level. Differences between the salaries of women and men are annually reviewed. No gender-based differences in salaries were detected in 2017.

S-Bank also offers its personnel comprehensive employee benefits.

4.4 TO BENEFIT SOCIETY

S-Bank is part of S Group, and the duty of S Group is to provide benefits and services, and thus wellbeing, for the co-op members. Wellbeing does not always mean financial wellbeing, however: the goal is to make Finland a better place to live together with the co-op members. In a program called Paras paikka elää ("The best place to live") that was published in 2016, S Group implements concrete actions to benefit society, to combat climate change, to promote the circular economy, to promote an ethical business culture, to promote human rights and to promote wellbeing and health.

4.4.1 OPEN AND TRANSPARENT OPERATIONS

S-Bank complies with all laws and regulations. In its ethical principles, the bank has committed to operating in an open, fair and transparent manner. With transparency in the case of service and product pricing, for instance, S-Bank wants to promote openness in the banking industry and society at large.

The ethical principles also take into account principles on good banking – which cover banking secrecy and customers' privacy protection, among other issues – by Finance Finland. The ethical principles are reviewed with each new employee before they start work. Furthermore, training on the ethical principles is arranged to all the employees.

Personal interests of an employee or their inner circle must not influence any decisions made. Employees are obligated to report any observed conflicts of interest to their supervisor or the Compliance unit. S-Bank's Compliance unit supervises compliance with the internal guidelines, ethical principles and regulations in accordance with its annual plan. Furthermore, the business and support functions conduct internal supervision to ensure compliance with the instructions. Any ethical violations or conflicts of interest can be reported through a confidential channel.

S-Bank is committed to honouring all internationally recognised human rights, and expects the same from its partners.

S-Bank regularly surveys its business risks. No risks pertaining to the environment, social issues or personnel issues, human rights, or the prevention of corruption and bribery that would likely hamper S-Bank's operations have been identified.

Preventing money laundering and terrorist financing

Processes aiming at the prevention of money laundering and terrorist financing are part of S-Bank's daily operations. They ensure that the bank's services and systems are not directly or indirectly used for any illegal purposes. To prevent money laundering, S-Bank has the obligation to know its customers. S-Bank's customer registers and the account events of customers are continuously monitored and compared with sanction lists published by the authorities in order to prevent terrorist financing.

S-Bank regularly trains its personnel in relation to the prevention of money laundering and terrorist financing.

Insider and trading guidelines

S-Bank's insider and trading guidelines include regulations that apply to all the employees on the possession of insider information, the maintenance of insider lists and trading rules. The guidelines aim to ensure that insider information is correctly managed. Trading conducted by all persons in the insider registers and persons exercising significant influence is regularly monitored.

Related party lending

S-Bank's related party lending policy specifies terms and procedures applied to credits or other forms of funding granted to the bank's related parties. S-Bank regularly monitors the terms applied to credits or other forms of funding granted to related parties.

Assessment of reliability

Each new employee undergoes a reliability clearance to determine any conflicts of interest. Reliability of members of the Group companies' Boards, the acting management and persons in key positions is regularly assessed.

4.4.2 ENVIRONMENT

S-Bank does not have an extensive network of own offices; instead, the bank operates at outlets of the regional S Group cooperatives. S-Bank's head office is also located at the SOK head office, which means that S-Bank's own operations do not have any major direct environmental impact. However, as part of S Group, S-Bank is involved in the finding of best solutions to reduce S Group's climate and environmental impact.

4.4.3 RESPONSIBLE INVESTMENTS

Responsible investing is important for S-Bank. S-Bank's subsidiary FIM Asset Management Ltd manages the FIM and LocalTapiola funds and provides services related to funds and asset management to the entire S-Bank Group.

FIM has signed the UN Principles for Responsible Investment, and international norms on employees, human rights, the environment and governance (including the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the UN Declaration on the Rights of the Child). FIM is a member of Finland's Sustainable Investment Forum (Finsif) and the international Carbon Disclosure Project (CDP).

Considerations of the environment, society and governance (ESG) are also taken into account in the investment activities. FIM's fund managers meet with representatives of investment objects and potential investment objects hundreds of times per year at different events.

The investment funds do not invest directly in companies operating in the tobacco, pornography, nuclear weapon, anti-personnel mine or cluster weapon industries. FIM's partner GES Investment Services reviews all holdings of the FIM funds twice a year, and if any violations of the norms are detected, FIM initiates a process to eliminate the violation.

If necessary, FIM exercises its voting rights on behalf of the funds at the annual general meetings of the investment object companies. The purpose is to supervise the long-term interests of the investment fund unit holders.

FIM publishes the carbon footprints of its funds twice a year. The goal is to improve the transparency and comparability regarding the carbon emissions of the products. The carbon footprint is published for funds investing directly into shares where more than half of the companies report their emissions.

FIM is a trailblazer of impact investing in Finland. Impact investing aim for positive, quantifiable social and environmental impact in addition to financial gain.

5 CONSOLIDATED FINANCIAL STATEMENTS

5.1 CONSOLIDATED BALANCE SHEET

EUR 1,000

ASSETS	Note	31 DEC 2017	31 DEC 2016
Cash	18	**493,015**	**96,964**
Debt securities eligible for refinancing with central banks	3,15,16,18	**860,478**	**930,242**
Other		860,478	930,242
Receivables from credit institutions	1,15,16,18	**25,737**	**31,214**
Repayable on demand		14,823	19,462
Other		10,914	11,751
Receivables from the public and public sector entities	2,15,16,18	**3,724,854**	**3,492,232**
Repayable on demand		2,977	2,998
Other		3,721,877	3,489,234
Debt securities	3,15,16,18	**464,280**	**551,296**
From others		464,280	551,296
Shares and holdings	4,16,18	**30,965**	**30,605**
Shares and holdings in associated companies	4,16,18	**5**	**3**
Derivative contracts	5,15,16,18	**999**	**1,278**
Intangible assets	6,16	**38,696**	**42,466**
Goodwill		892	1,716
Consolidated goodwill		8,931	13,267
Other non-current expenses		28,873	27,482
Tangible assets	6,16	**232**	**503**
Other tangible assets		232	503
Other assets	7	**4,605**	**3,872**
Accrued income and prepayments	8	**25,071**	**21,769**
Deferred tax assets	9	**1,674**	**1,129**
ASSETS TOTAL		**5,670,612**	**5,203,571**

EQUITY AND LIABILITIES	Note	31 DEC 2017	31 DEC 2016
LIABILITIES		,	,
Liabilities to credit institutions	15,16,18	**10,109**	**25,006**
To credit institutions		10,109	25,006
Repayable on demand		109	6
Other		10,000	25,000
Liabilities to the public and public sector entities	15,16,18	**5,047,522**	**4,583,846**
Deposits		5,005,766	4,546,959
Repayable on demand		4,999,990	4,529,267
Other		5,775	17,693
Other liabilities		41,757	36,887
Repayable on demand		39,747	30,513
Other		2,010	6,374
Debt securities issued	10,15,16,18	**0**	**11,000**
Other		0	11,000
Derivative contracts and other liabilities held for trading	5,15,16,18	**6,260**	**11,523**
Other liabilities	12,16	**112,110**	**97,798**
Other liabilities		112,110	97,798
Accrued expenses and prepayments received	13	**19,781**	**22,760**
Subordinated debts	14,15,16,18	**50,000**	**42,000**
Other		50,000	42,000
Deferred tax liabilities	9	**10,763**	**8,209**
LIABILITIES TOTAL		**5,256,546**	**4,802,143**
EQUITY AND MINORITY INTEREST			
Share capital	19	**82,880**	**82,880**
Other restricted reserves	19	**11,590**	**11,359**
Fair value reserve (available for sale)			
On measurement at fair value		11,590	11,359
Non-restricted reserves	19	**243,813**	**243,813**
Reserve for invested non-restricted equity		243,813	243,813
Retained earnings (losses)	19	**63,262**	**44,858**
Profit (loss) for the period	19	**12,352**	**18,404**
Equity attributable to minority interest		**169**	**114**
EQUITY AND MINORITY INTEREST TOTAL	19	**414,066**	**401,428**
EQUITY AND LIABILITIES TOTAL		**5,670,612**	**5,203,571**

OFF-BALANCE SHEET LIABILITIES	34		
Irrevocable commitments given in favour of a customer		170,542	196,174
Other		1,407,963	965,317

5.2 CONSOLIDATED INCOME STATEMENT

EUR 1,000	Note	1 JAN – 31 DEC 2017	1 JAN – 31 DEC 2016
Interest income	20	81,175	77,872
Interest expenses	20	-7,910	-8,479
NET INTEREST INCOME		**73,265**	**69,393**
Return on equity investments	21	**58**	**9**
From associated companies		40	0
From other companies		19	9
Fee and commission income	22	**100,612**	**88,745**
Fee and commission expenses	22	**-41,413**	**-35,372**
Net income from securities and currency trading	23	**-395**	**0**
Net income from securities trading		-561	30
Net income from currency trading		166	-30
Net income from available-for-sale financial assets	24	**6,809**	**22,577**
Net income from hedge accounting	25	**-367**	**-545**
Net income from investment properties	26	**0**	**209**
Other operating income	27	**15,728**	**15,458**
Administrative expenses		**-113,214**	**-116,626**
Personnel expenses		-46,155	-45,879
Wages, salaries and fees		-37,410	-36,729
Indirect personnel expenses		-8,745	-9,150
Pension costs		-7,196	-7,070
Other indirect personnel expenses		-1,549	-2,080
Other administrative expenses		-67,058	-70,747
Depreciation, amortisation and impairment on consolidated goodwill	29	**-4,336**	**-3,394**
Depreciation and impairment on tangible and intangible assets	29	**-8,183**	**-8,439**
Other operating expenses	28	**-5,982**	**-6,729**
Impairment losses on loans and other receivables	30	**-6,563**	**-3,009**
Impairment losses on other financial assets	30	**0**	**-21**
Share of results of associated companies		**1**	**0**
OPERATING PROFIT (LOSS)		**16,020**	**22,256**
Income tax		**-3,541**	**-4,975**
PROFIT (LOSS) FROM ORDINARY ACTIVITIES AFTER TAXES		**12,479**	**17,281**
Profit or loss for the period attributable to minority interest		**-127**	**1,123**
PROFIT (LOSS) FOR THE PERIOD		**12,352**	**18,404**

5.3 CONSOLIDATED CASH FLOW STATEMENT

EUR MILLION	2017	2016
Cash flow from operations		
Result for the period	16	17
Adjustments of the result for the period	14	4
Increase (-) or decrease (+) in operating assets	-239	-652
Exposures to the public and public sector entities	-234	-659
Other assets	-5	7
Increase (+) or decrease (-) in operating liabilities	444	421
Liabilities to credit institutions	-15	13
Liabilities to the public and public sector entities	464	437
Other liabilities	-5	-29
Cash flow from operations total (A)	**234**	**-210**
Cash flow from investing activities		
Investments in tangible and intangible assets	-8	-7
Acquired shares in subsidiaries	0	-16
Divested shares in subsidiaries	0	3
Shares and holdings in associated companies	0	0
Cash flow from investment activities total (B)	**-8**	**-20**
Cash flow from financing activities		
Subordinated loans	8	-1
Other monetary additions of equity items	0	0
Other monetary deductions of equity items	0	0
Dividends paid and other distribution of profits	0	-1
Change in minority interest	0	0
Cash flow from financing activities total (C)	**8**	**-2**
Net change in liquid assets (A+B+C)	**233**	**-231**
Liquid assets at the start of the period	1,635	1,867
Liquid assets at the end of the period	1,869	1,635
Interest income	79	74
Interest expenses	-8	-8
Profit adjustments for the period		
Net income from hedge accounting	0	1
Depreciation according to plan	13	12
Share of results of associated companies	0	0
Impairment losses on loans and other receivables	1	1
Items without payment transactions and other adjustments	0	-9
Adjustments, total	**14**	**4**
Liquid assets		
Cash	493	97
Debt securities	1,324	1,484
Shares and holdings	26	24
Receivables from credit institutions	26	31
Liquid assets total	**1,869**	**1,635**

5.4 ACCOUNTING POLICIES

5.4.1 GENERAL

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 (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 offers investment services pursuant to Chapter 1, section 11 of the Act on Investment Services (14 December 2012/747). 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 are located at Fleminginkatu 34, 00510 Helsinki, Finland.

On 7 February 2018, the Executive Board approved the financial statements for the period 1 January – 31 December 2017.

Accounting policies

The financial statements have been prepared in accordance with the Finnish Accounting Act and decree, the Act on Credit Institutions, the Ministry of Finance decree on financial statements, consolidated financial statements and Board of Directors' review of credit institutions and investment service companies, as well as the Financial Supervisory Authority's regulations and instructions concerning the accounting, financial statements and Board of Directors' reports in the financial sector, effective as of 29 March 2016. When preparing the financial statements, the general instructions issued by the Finnish Accounting Standards Board (KILA) have also been considered, as applicable.

As laid down in report 69/2017 published by the Financial Supervisory Authority on 8 December 2017, the financial statements also include information on the impact of the IFRS 9 requirements that are applied as of 1 January 2018.

In addition, the capital requirements directive (CRDIV), the EU Capital Requirements Regulation ("CRR", EU 575/2013) and the related implementation regulations, as well as regulations of the European Banking Authority and the Financial Supervisory Authority's reports 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 Group has the right to control the principles of the company's finances and operations in order to gain benefits from its operations. The following are included in the consolidated financial statements: FIM Asset Management Ltd, FIM Private Equity Funds Ltd (previously FIM Investment Services Ltd), FIM Real Estate Ltd, S-Asiakaspalvelu Oy and FIM Infrastructure Mezzanine Debt Fund GP Oy.

Subsidiaries established/acquired during the period under review are consolidated into the consolidated financial statements as of the date of establishment/acquisition using the acquisition cost method. The associated companies S-Crosskey Ab and ASIAN Pro Oy have been consolidated using the equity method.

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

Comparability

The new companies established in 2017, FIM Infrastructure Mezzanine Debt Fund GP Oy and ASIAN Pro Oy, have not started their business yet, which is why they do not influence the comparability of the figures.

On 1 August 2013, S-Bank Ltd acquired 51% of the share capital and control of FIM Corporation, and the remainder (49%) was acquired on 1 June 2016. FIM Corporation's holding in FIM Real Estate Ltd (80%) was transferred to FIM Investment Services Ltd through a transfer of shares on 31 October 2016. FIM Corporation was merged with S-Bank Ltd on 30 November 2016. After the merger, S-Bank Ltd owns 100% of FIM Asset Management Ltd and FIM Investment Services Ltd, and FIM Investment Services Ltd owns 80% of FIM Real Estate Ltd. The business operations of FIM Investment Services Ltd were transferred to S-Bank on 31 December 2016. In addition, S-Bank sold the shares of Kiinteistöosakeyhtiö Lempäälän terminaali and Kiinteistöosakeyhtiö Limingan terminaali property companies to a party outside the bank Group on 1 March 2016.

FIM Investment Services Ltd is now called FIM Private Equity Funds Ltd.

5.4.2 ITEMS DENOMINATED IN FOREIGN CURRENCIES

The financial statements are presented in euro. Transactions in foreign currencies are recorded at the rates of exchange prevailing at the day of the transaction. 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 accounts payable, in the other administrative expenses.

5.4.3 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 measured at fair value through profit or loss. For financial assets and liabilities measured at fair value through profit or 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 measured at fair value through profit or 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.

5.4.3.1 Financial assets

The IAS 39 standard is applied to financial assets, which are divided into four valuation categories:

- Financial assets measured at fair value through profit and loss
- Available-for-sale financial assets
- Investments held to maturity
- Loans and other receivables

Measuring financial instruments at fair value

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 derivative contracts (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 measured at fair value through profit and loss

Financial assets or liabilities measured 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, as well as derivative contracts to which hedge accounting has not been applied.

Financial assets or liabilities measured 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 measured 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.

Investments held to maturity

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.

S-Bank does not have held-to-maturity investments in its balance sheet.

Loans and other receivables

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.

Available-for-sale financial assets

Debt securities and other domestic and foreign securities, not recorded in financial assets measured 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.

5.4.3.2 Financial liabilities

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.

Derivative contracts

Derivative contracts are classified as hedging and held for trading, and in S-Bank, they include interest derivatives, currency derivatives and derivatives with options. Derivative contracts are primarily made for hedging purposes and always valued at fair value.

In accordance with S-Bank's principles, the positive value changes of derivatives are presented as total assets and negative value changes are presented as derivative liabilities. The value changes of derivatives held for trading are recognised in the income statement item "Net income from securities trading". The value changes of derivatives included in hedge accounting are recognised in "Net income from hedge accounting".

Embedded derivatives

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 IAS 39.10-13 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. If an embedded derivative is separated from the main contract, the main contract must be handled in accordance with IAS 39 in the case of a financial instrument and in accordance with other relevant standards, if it is not a financial instrument.

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 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.

Hedge accounting

All derivatives are measured at fair value. 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. S-Bank's hedge accounting complies with IAS 39.

Hedging should be effective when hedge accounting is applied. The actual hedging must be 80–125 per cent. Effectiveness is measured monthly, both prospectively and retrospectively. If the hedging relationship does not meet the effectiveness requirements, hedge accounting is discontinued and the derivative is recognised in item "Net income from securities trading since the latest effectiveness test".

Fair value hedging

S-Bank applies fair value hedging to derivatives, which have been made for the purpose of hedging the fair value changes of assets related to the interest rate risk. In S-Bank, the risk being hedged, related to the changes in the fair value, mainly concerns securities with a fixed interest rate, which generate interest rate risk.

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". When hedging is effective, the changes in the fair value offset each other and the net result is close to zero. S-Bank has approved interest rate swaps as derivatives for hedging.

Fair value hedging is discontinued in the following situations: the hedging instrument matures, is sold, dissolved or redeemed, the hedging relationship no longer meets the documented conditions of hedge accounting or the hedging relationship is severed.

5.4.4 FINANCIAL ASSETS AND LIABILITIES IN ACCORDANCE WITH IFRS 9 AS OF 1 JANUARY 2018

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

5.4.4.1 Financial assets

IFRS 9 is applied to financial assets, which are divided into the following valuation categories:

- Financial assets measured at fair value through profit or loss
- Financial assets measured at fair value through comprehensive income statement items
- Financial assets measured at amortised cost

Measuring financial instruments at fair value

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 derivative contracts (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.

The market is deemed functional if price quotes are easily and regularly available and they depict actual, recurring market transactions between independent parties.

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 measured at fair value through profit or loss

An item included in financial assets must be measured at fair value through profit or loss if it is not measured at amortised acquisition cost or at fair value through comprehensive income statement items in accordance with IFRS 9.

Financial assets measured at fair value through profit or 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 or as part of the management of the short-term liquidity position, as well as derivative contracts to which hedge accounting has not been applied. Furthermore, all available-for-sale share holdings and fund units that do not meet the prerequisites laid down for measuring at amortised acquisition cost or at fair value through comprehensive income statement items are also measured at fair value through profit or loss.

Financial assets measured at fair value through profit or 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 measured 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.

Financial assets measured at amortised acquisition cost

Items that meet the following prerequisites are measured at amortised acquisition cost: the item is held in compliance with a business model that aims at the possession of financial assets in order to collect cash flows based on agreements and the contractual terms specify payments at specific times that are solely payments of the capital and the interest for the remaining capital.

At S-Bank, 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 measured at amortised acquisition cost.

After the initial recognition, the assets measured at amortised acquisition cost are valued using the effective interest method. The transaction costs are included in the amortised acquisition cost measured using the effective interest method and amortised through profit or loss over the term-to-maturity of the receivable, provided that they have been determined as part of the effective interest method in IFRS 9.

Financial assets measured at fair value through comprehensive income statement items

Items that meet the following prerequisites are measured at fair value through comprehensive income statement items: the item is held in compliance with a business model that aims at the possession of financial assets in order to collect cash flows based on agreements and in order to sell financial assets, and the contractual terms specify payments at specific times that are solely payments of the capital and the interest for the remaining capital.

Financial assets measured at fair value through comprehensive income statement items include debt securities and other domestic and foreign securities that are not recognised in financial assets measured at fair value through profit or loss. Financial assets measured at fair value through comprehensive income statement items through profit or loss are valued 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.

S-Bank has not measured at fair value through comprehensive income statement items any equity instruments where an irreversible choice to measure the changes in fair value through comprehensive income statement items instead of through profit or loss has been made.

5.4.4.2 Financial liabilities

At S-Bank, financial liabilities are measured at amortised acquisition cost using the effective interest method, except for derivatives, which are recorded at fair value through profit or loss, and any other financial assets measured at fair value through profit or loss.

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.

Derivative contracts

Derivative contracts are classified as hedging and held for trading, and in S-Bank, they include interest derivatives, currency derivatives and derivatives with options. Derivative contracts are primarily made for hedging purposes and always valued at fair value.

In accordance with S-Bank's principles, the positive value changes of derivatives are presented as total assets and negative value changes are presented as derivative liabilities. The value changes of derivatives held for trading are recognised in the income statement item "Net income from securities trading". The value changes of derivatives included in hedge accounting are recognised in "Net income from hedge accounting".

Embedded derivatives

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.

A hybrid contracts where the host contract is an item included in financial assets is processed in accordance with IFRS 9 in its entirety.

If a hybrid contract includes a host contract that is not included in the scope of application of IFRS 9, the embedded derivative is separated from the host contract and processed in accounting in accordance with IFRS 9, provided that the embedded derivative's characteristics or risks are not closely connected to the financial characteristics of risks of the host contract, in which case it is a separate instrument with the same terms as the embedded derivative and complies with the definition of a derivative, and the hybrid contract is not measured at fair value by recording the changes in fair value through profit or loss.

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 does not separate embedded derivatives from the main contracts in the case of the above-mentioned debenture loans based on IFRS 9.

Hedge accounting

All derivatives are measured at fair value. 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. 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.

Hedging should be effective when hedge accounting is applied. The actual hedging must be 80–125 per cent. Effectiveness is measured monthly, both prospectively and retrospectively. If the hedging relationship does not meet the effectiveness requirements, hedge accounting is discontinued and the derivative is recognised in item “Net income from securities trading since the latest effectiveness test”.

Fair value hedging

S-Bank applies fair value hedging to derivatives, which have been made for the purpose of hedging the fair value changes of assets related to the interest rate risk. In S-Bank, the risk being hedged, related to the changes in the fair value, mainly concerns securities with a fixed interest rate, which generate interest rate risk.

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”. When hedging is effective, the changes in the fair value offset each other and the net result is close to zero. S-Bank has approved interest rate swaps as derivatives for hedging.

Fair value hedging is discontinued in the following situations: the hedging instrument matures, is sold, dissolved or redeemed, the hedging relationship no longer meets the documented conditions of hedge accounting or the hedging relationship is severed.

Table 4: Preliminary changes caused by the IFRS 9 classification system on the Group's financial assets available for sale or financial assets measured at fair value through profit or loss (EUR million)

Balance sheet	IAS 39	IFR S9
Cash	**493.0**	**493.0**
Receivables from the public and public sector entities	**3,724.9**	**3,724.9**
Receivables from credit institutions	**25.7**	**25.7**
Financial assets measured at fair value through profit or loss (IFRS 9 VPNL)	**0.0**	**235.6**
Debt securities, acquisition cost	0.0	0.0
Debt securities, valuation 31 Dec 2017	0.0	0.0
Shares and holdings, acquisition cost	0.0	25.1
Shares and holdings, valuation 31 Dec 2017	0.0	5.6
Certificates of deposit, acquisition cost	0.0	204.7
Certificates of deposit, valuation 31 Dec 2017	0.0	0.1
Financial assets available for sale	**1,355.7**	**1,120.1**
Debt securities, acquisition cost	1,112.8	1,112.8
Debt securities, valuation 31 Dec 2017	7.1	7.1
Certificates of deposit, acquisition cost	204.7	0.0
Certificates of deposit, valuation 31 Dec 2017	0.1	0.0
Shares and holdings, acquisition cost	25.1	0.0
Shares and holdings, valuation 31 Dec 2017	5.6	0.0
Other shares	0.2	0.2
Derivative contracts	**1.0**	**1.0**
Financial assets, total	**1,356.7**	**1,356.7**
	,	,
Financial liabilities measured at fair value through profit or loss	**0.0**	**0.0**
Derivative contracts	**6.3**	**6.3**
Other financial liabilities	**50.0**	**50.0**
Financial liabilities, total	**56.3**	**56.3**
Other comprehensive income statement items	**11.6**	**7.0**
Change of the valuation of financial assets available for sale to fair value	14.5	8.7
Deferred value	-2.9	-1.7

Changes in classification are processed in accordance with Section 6.6.7 of IFRS 9 and in accordance with the transition regulations. According to the transition regulations, profit or loss is not to be reclassified to profit or loss; instead, it is to be reclassified as retained earnings in equity.

Table 5: Preliminary changes caused by the IFRS 9 change on the fair value reserve and the retained earnings (EUR million)

Changes in recognition practices		
Fair value reserve		
	Value according to IAS 39 on 31 Dec 2017	**11.6**
	Changes to the classification in accordance with IFRS 9	-4.6
	Opening balance according to IFRS 9 on 1 Jan 2018	**7.0**
Retained earnings		
	Value according to IAS 39 on 31 Dec 2017	**63.3**
	Changes to the classification in accordance with IFRS 9	4.6
	Opening balance according to IFRS 9 on 1 Jan 2018	**67.9**

The table below presents the estimated impact of IFRS 9 on the equity. The assessments are based on preliminary impact analyses. According to the current calculations, the impact consists of changes in the classification of financial instruments, the fair value reserve and the calculation of expected credit losses (ECL) on impairment. The impact of impairment is discussed in more detail in the section of capital adequacy and risk management, Section 5.5.9.2.6, and the estimated financial impact of the ECL calculation is described in Table 27: IAS 39 – IFRS 9 bridge calculation. According to the preliminary estimates, the ECL will be some EUR 15.9 million. The total impact of this sum on equity will be EUR 11.7 million when taking into account the impairment according to IAS 39 (EUR 4.2 million).

Table 6: Preliminary changes in equity caused by IFRS 9 (EUR million)

	Share capital	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Profit for the period	Equity total
Balance sheet 31 Dec 2017	**82.9**	**11.6**	**243.8**	**63.3**	**12.4**	**413.9**
Assessment on impact of the implementation of IFRS 9						
Impact of ECL				-11.7		-11.7
Reclassification (deferred value has been taken into account)		-4.6		4.6		0.0
Opening balance 1 Jan 2018	**82.9**	**7.0**	**243.8**	**56.2**	**12.4**	**402.2**

5.4.5 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. Fees that are an essential part of the effective interest of loans, receivables or deposits are recognised as interest income and expenses.

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.

Impact of the application of IFRS 9 as of 1 January 2018

The introduction of IFRS 9 is not expected to cause any major changes in the principles of income recognition of S-Bank Group, because all material items have already been recognised in accordance with IAS 39.

5.4.6 DEPRECIATION AND IMPAIRMENT

Intangible assets

Intangible assets mainly consist of licence fees for software and connection charges. Software expenses also include costs arising from modification of the software licensed to the Group. Intangible assets are measured at original acquisition cost and amortised over their estimated economic lifetime, using the straight-line method.

Amortisation periods for intangible assets:
IT systems and licensing fees: 5 years
Connection charges: 5 years
Goodwill: 5 years
Renovations of rented premises: 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.

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

Impairment losses

At the end of the financial period, the Group assesses whether there is any evidence that the value of a receivable or an asset item is impaired. If there is evidence of impairment, the amount recoverable from the receivable item or asset item is estimated based on objective criteria. The recoverable amount is defined as the higher of the asset item fair value less cost to sell and value in use. An impairment loss is recognised when the carrying value of the asset item is higher than the monetary amount recoverable from it. With receivables, the amount corresponding to the estimated amount of the expected credit losses, generated through a review of impairment, is recognised as impairment loss. The impairment loss is recognised on the balance sheet and result, using a review of impairment, at least four times per year.

Impairments have been recognised for items entered separately in the secured credit group and in a group-specific manner in the secured and unsecured credit groups.

If there is objective evidence of considerable and more permanent impairment of available-for-sale equity or liability instruments on the balance sheet date, the loss accumulated in equity is recognised as an impairment loss in the income statement. If the fair value of notes or bonds classified as available-for-sale later increases and the increase can be objectively related to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised through profit or loss. If the fair value of a share subsequently increases, the increase in value is recognised in equity.

Impairments related to available-for-sale financial assets were not recognised in 2017.

Impact of the application of IFRS 9 on impairment as of 1 January 2018

Introduced on 1 January 2018, IFRS 9 causes significant changes in the recognition of impairment. The new impairment model according to IFRS 9 is based on the calculation of expected credit losses (ECL): the ECL is calculated in connection with recognition for all items included in the scope of the standard, regardless of their credit risk level. For more information on the impact of IFRS 9 on impairment, please see the section of capital adequacy and risk management, Section 5.5.9.2.6, and the estimated financial impact of the ECL calculation is described in Table 27: IAS 39 – IFRS 9 bridge calculation.

5.4.7 INCOME TAX

Income taxes include current taxes for the financial period and corrections to taxes for previous periods, as well as changes in deferred tax assets and liabilities. 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 future tax rate.

5.5 CAPITAL ADEQUACY AND RISK MANAGEMENT

5.5.1 S-BANK GROUP'S SIGNIFICANT RISKS AND RISK STATEMENT

This chapter provides a summary of the overall risk profile and risk management arrangements of S-Bank Group (hereinafter "S-Bank"). The chapter includes a concise risk statement approved by the Board of Directors, as laid down in article 435 of the EU Capital Requirements Regulation (575/2013), which succinctly describes the institution's overall risk profile associated with the business strategy, as well as a declaration on the adequacy of the risk management arrangements of the institution providing assurance that the risk management systems put in place are, according to the view of the Board of Directors, adequate with regard to the institution's profile and strategy.

According to its strategy, S-Bank seeks strong, yet controlled growth in the coming years, focusing especially on services to private customers and the growth of its asset management business. The most significant external risk factors related to the bank's profitability, capital adequacy and liquidity include the unfavourable development of business volumes, the margins in lending and borrowing, the general interest rate level, economic development and credit losses, as well as cost-effective operations. Furthermore, customer behaviour and competition in the provision of banking services may influence the success of the growth strategy. As part of setting the goals of the growth strategy and its implementation, S-Bank has determined key change programmes and actions for the management of the aforementioned risks in the short and long term. The management of strategic and business risks is strongly supported by the overall risk strategy approved by S-Bank's Board of Directors, which determines S-Bank's risk-bearing capacity and risk appetite, as well as the goals and arrangement of risk management. The overall risk strategy also describes the identified key risks and their management, as well as policies for the measurement and management of risks and quality assurance. The risk budget included in the overall risk strategy sets numerical goals, acceptable risk levels, limitations and limits, decision-making levels and other risk measures.

The risk-bearing capacity sets the maximum limit for risk-taking, business growth and the Group's negative profitability that can be borne in the short and long term. Securing sufficient capital adequacy, liquidity and going concern are key factors of the risk-bearing capacity.

Risk appetite reflects the approved amount and type of exposure that S-Bank Group is willing to take in its business operations over a certain period of time while pursuing its set objectives. The business involves taking risks whose expected returns must be adequate in relation to the risks taken. The risks are taken in a controlled manner within the framework of the risk appetite. The factors influencing the risk-taking level relate principally to internal choices and changes in the external business environment, which are manifest as the business risk and strategic risks. The starting point for S-Bank's risk appetite is:

- Achieving a stable and adequate return on equity in the short and long term. On the basis of this, the pricing of products and services must account for cost structures and risks.
- Achieving a level of capital adequacy where the risk appetite is the risk-bearing capacity plus the buffers determined by the Board of Directors. The amount of own funds required to cover the risks arising from the business must be assessed realistically at a high level of solidity.
- Achieving a level of liquidity where the risk appetite is the risk-bearing capacity plus the buffers determined by the Board of Directors.
- Securing undisturbed, continuous operations.
- Ensuring that risk-taking is controlled and planned.
- Ensuring that operations meet regulatory requirements.
- Ensuring that the operations of S-Bank comply with its customer promises.

The risk appetite is reflected in the risk budget through the set limits.

At the end of the period under review, S-Bank's capital adequacy ratio was 16.7% (14.8%), which clearly exceeds the target level of 13% set by the Board of Directors. S-Bank's capital clearly exceeds the target level set by the Board of Directors in the capital adequacy assessment according to Pillar 2. Pillar 2 also takes into account risk areas other than those relevant for S-Bank, which are covered in the assessment according to Pillar 1 (such as business risk and strategic risk, the credit risk's concentration risk and the interest rate risk in the banking book). The capital buffer in relation to the minimum requirement of Pillar 1 (8%) is EUR 219.7 million, EUR 155.5 million in relation to the Pillar 1 capital requirement (10.53%) and

EUR 108.2 in relation to the Pillar 2 capital requirement. S-Bank's liquidity position was excellent during the period under review and the liquidity coverage ratio (LCR) which describes it was 163% at year-end, whereas the minimum level set by the authorities is 80%. The minimum LCR will increase to 100% on 1 January 2018, and S-Bank's Board of Directors has set the target level for the indicator at 110% as of the beginning of 2018.

The credit risk constitutes 89% of S-Bank's total risk exposure amount (REA), which means that it is clearly the most significant individual risk area for S-Bank. The most significant items tying down the capital of credit risks include exposures secured by mortgages on immovable property (35% of the total risk exposure), retail exposures (23% of the total risk exposure) and exposures to corporates (23% of the total risk exposure). The credit risk is managed within the framework of the principles and limits defined in the overall risk strategy and the credit risk strategy. This allows for ensuring that adequate capital is reserved for the risks taken and that the risk appetite and risk management objectives are met.

Operational risk accounts for 11% of S-Bank's total risk exposure, which makes it the second largest risk area. Losses attributable to operational risks realised during the period under review were very low in comparison to the own funds reserved for them. S-Bank's operational risk profile is materially impacted by products and services, the agency operating model applied by S-Bank, the procurement of information systems from different system providers and the increase in the importance of digital channels. The consequences of realised operational risks may manifest as financial losses or, indirectly, as a weakening of S-Bank's reputation and the respect and confidence it enjoys. The primary objective of S-Bank's operational risk management is to manage the reputational risk and to secure undisturbed, continuous operations in both the short and long term. In addition, operational risk management aims to identify and assess operational risks that may play a significant role in the achievement of the goals set for operations, to define management methods for the risks identified, i.e. the measures that aim to prevent, detect and reduce various disturbances, defects, errors and unauthorised use, as well as to ensure that the controls at the different levels of the company's organisation are functional, appropriate, cost-effective and adequate.

The sections of the financial statements concerning capital adequacy and risk management present the extensive and comprehensive information on risks, risk management and capital adequacy required by regulations. Based on the continuous risk reporting it receives, and by approving these financial statements and the summary on the overall risk profile associated with S-Bank's business strategy given in this chapter, the Board of Directors is of the opinion that the financial statements provide external stakeholders with a comprehensive view of S-Bank's risk management and risk profile (Article 435 (1f) of the EU Capital Requirements Regulation). Based on the same grounds, the Board of Directors furthermore considers the risk management systems put in place to be adequate with regard to the institution's profile and strategy (Article 435(1e) of the Capital Requirements Regulation).

5.5.2 INTRODUCTION TO DISCLOSURE OF CAPITAL ADEQUACY AND RISK DATA

Part Eight of the EU Capital Requirements Regulation (575/2013) sets out requirements on disclosure by institutions and the disclosure of information on banks' risks, risk management and capital adequacy. The disclosure of this information is covered in more detail in several other regulations: for example, the European Banking Authority (EBA) has further specified the disclosure requirements in its guidelines.

S-Bank Group ("S-Bank") complies with the disclosure requirement by publishing extensive and comprehensive information on risks, risk management and capital adequacy in its financial statements once a year. The disclosed information concerning capital adequacy and risks is always available on S-Bank's website as part of the Board of Directors' Report and the financial statements. In its interim reports, S-Bank discloses such information in terms of capital adequacy and risk management 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 or material changes in the company's financial development or its risk exposure so require, for example.

Section 5.5.10 presents a list indicating where the information required by Articles 435–451 of the Capital Requirements Regulation is disclosed. Any information that is non-material or which would have a negligible potential impact on S-Bank's profitability, profit-making ability, balance sheet or capital adequacy may be omitted from the disclosures. The disclosure of proprietary or confidential information may also be omitted. If information is not disclosed, the grounds for the omission are provided in section

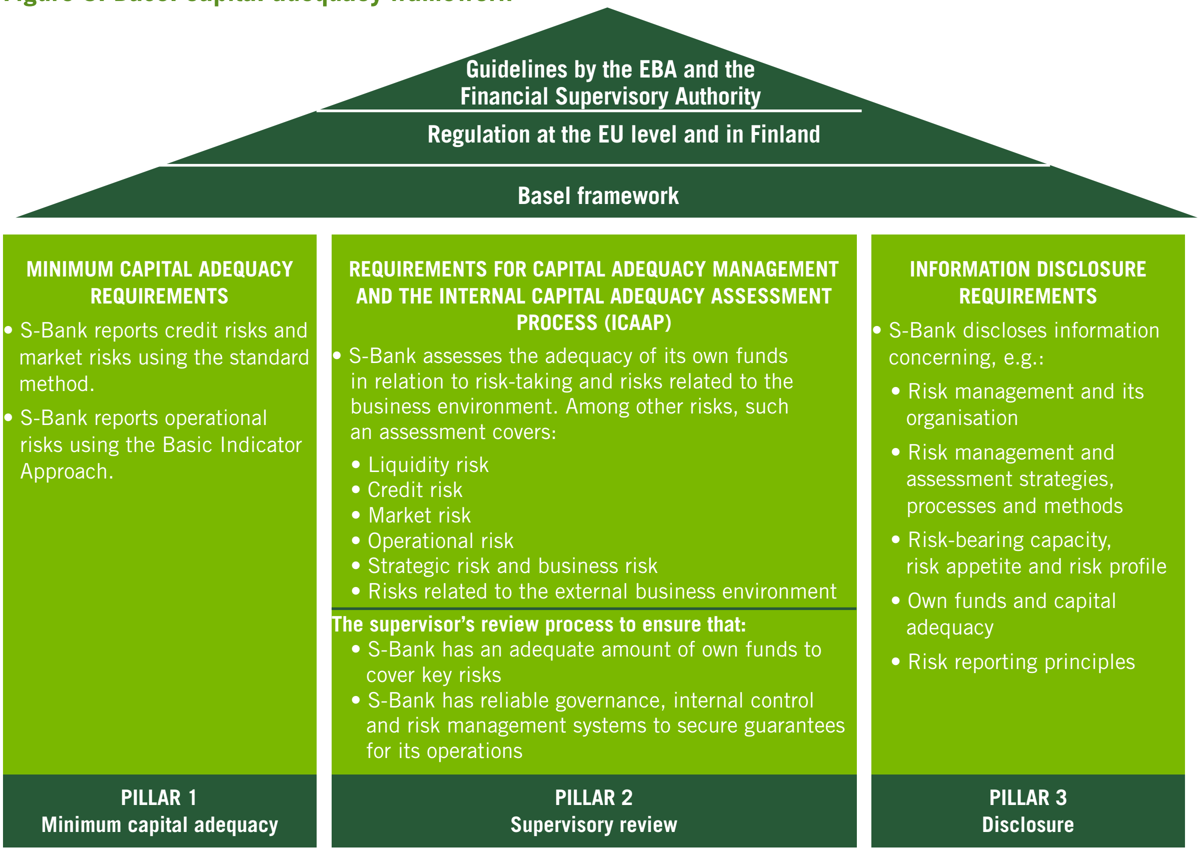
5.5.10 and in connection with the relevant subject matter. If necessary, general information on the items not disclosed is published.

Subsidiaries included in S-Group are specified in section 3.4. Companies included in the consolidated financial statements and their consolidation are discussed in the accounting policies section (section 5.4). There are no other significant differences in the consolidation principles that influence the preparation of the financial statements or the capital adequacy requirements.

5.5.3 REGULATION

The Basel capital adequacy framework is comprised of three interlinked entities, or Pillars, illustrated below. The regulation of the Basel framework is deployed through EU-level directives, regulations, standards, guidelines and national legislation. The capital adequacy framework is also specified in regulations and guidelines of the European Banking Authority (EBA) and the Financial Supervisory Authority.

Figure 3: Basel capital adequacy framework



The minimum capital adequacy requirements under Pillar 1 relate to credit, market and operational risks.

Pillar 2 obligates banks to undertake an internal assessment of their capital adequacy management and the adequacy of their own funds in relation to the risk profile of their entire operations and the risks of their business environment. This allows for a comprehensive consideration of the bank's risks in the assessment process concerning the risk-based capital requirement, while also assessing the risks remaining outside Pillar 1. Pillar 2 also sets qualitative requirements for risk management and internal control. In addition, Pillar 2 guides the annual supervisory review and evaluation process (SREP) of the supervisory authorities, the organisation of capital adequacy management and risk management and the adequacy of own funds.

Pillar 3 supplements the first two pillars by defining disclosure principles. Its key goal is to promote market transparency related to capital adequacy and risks.

The regulation applicable to capital adequacy and banks' risk management in general has undergone considerable change in recent years. The authorities are working on a

number of projects and legislative drafts which will reform the regulation concerning banks in the future as well. Among other things, these reforms concern capital adequacy, credit risks, market risks, liquidity risks and operational risks, governance and control, accounting and auditing, securitisation, as well as the prevention of money laundering and the financing of terrorism. S-Bank constantly strives to develop its risk management conventions and ensure their uniformity with valid and planned capital adequacy and risk management regulations.
The Basel Committee on Banking Supervision has published updates (often referred to as Basel IV) to the 2010 Basel III standards. The updates aim to improve the comparability of banks' capital adequacy figures, restore credibility in the calculation of risk-weighted assets and reduce the risk of unjustified differences in capital adequacy requirements between different banks and different countries. The updated standards will be implemented in Europe through the EU capital adequacy requirements.

S-Bank will apply IFRS 9 (Financial Instruments) as of 1 January 2018. In the future, this will affect financial instruments and related processes, and therefore also risk management and capital adequacy and the information disclosed about them. The most important changes related to IFRS 9 involve the classification and measuring of financial liabilities and financial assets, impairment, expected credit losses and their calculation, and the realisation of hedge accounting. The changes and decisions connected to the transition will also have a direct or indirect impact on the result of S-Bank. The accounting policies (section 5.4.4) provide a more detailed description of the basis for IFRS 9 and the impact of the classification. In addition, section 5.5.9.2.6 deals with IFRS 9 impairment.

5.5.4 OBJECTIVES OF RISK MANAGEMENT

Comprehensive risk management is a continuous process integrated in S-Bank's strategy, processes, decision-making, reporting and internal control. Risk management refers to the procedures used to identify, assess, measure and monitor risks related to the company's operations, and to maintain and develop management methods for keeping the realisation of risks or the related consequences at an acceptable level. Risk management covers all material risks related to business operations.

The primary objective of risk management is to maintain the level of profitability, capital adequacy and liquidity above the limits defined by the Board of Directors, to manage the reputational risk and to secure undisturbed, continuous operation in both the short and long run. The risk management culture followed by the entire Group supports the achievement of business objectives by ensuring that material risks are identified, and that their impact is analysed and managed.

S-Bank Group follows an overall risk strategy confirmed by the parent company's Board of Directors. This strategy describes the Group's risk-bearing capacity and risk appetite, as well as the objectives and organisation of risk management in the Group. The document also specifies the key limits to be imposed on the risk appetite and risk-bearing capacity, which are discussed in more detail in sections 5.5.4.1 and 5.5.4.2. In addition, the overall risk strategy includes the definitions of the key risks and the general principles that help the bank secure its capital adequacy, liquidity and the continuity of its operations. The overall risk strategy is binding on all Group companies and their business and support functions. The overall risk strategy is supplemented with risk category-specific principles and procedures. In addition, the Group's business units and support units compile more specific work instructions and descriptions to support the risk management of their own operations.

5.5.4.1 Risk-bearing capacity and risk appetite

As part of the overall risk strategy, the Board of Directors defines the risk-bearing capacity which sets the maximum limit for risk-taking, business growth and the Group's negative profitability that can be borne in the short and long run. The Board of Directors also determines the risk appetite, which reflects the amount and type of approved risks that S-Bank is willing to take in its business operations over a certain period of time while pursuing the set objectives. The risk-bearing capacity sets the absolute maximum limits for the risk appetite. The risk-bearing capacity and risk appetite are reflected in the Group's operations and risk-taking through the set limits. These limits are updated regularly and whenever needed, should observations related to identifying and assessing the risks in the business operations and the operating environment so require.

The business involves taking risks whose expected returns must be adequate in relation to the risks taken. The risks are taken in a controlled manner within the framework of the risk appetite. The starting point is to achieve a stable and adequate return on the Group's equity in the short and long run. The goal is to achieve a level of capital adequacy and liquidity where the risk appetite matches the definitions and determinations of the Board of Directors. The purpose is also to secure the undisturbed continuation of operations and to ensure that S-Bank's risk-taking is controlled, planned and complies with the regulatory requirements. The review of the risk appetite includes an assessment of the set growth aspirations and the willingness to expand business into new areas and product groups.

5.5.4.2 Risk limits

The Board of Directors sets and regularly updates risk category-specific numerical goals, acceptable risk levels, limitations and decision-making levels for S-Bank derived from the risk-bearing capacity and risk appetite. The Board of Directors delegates authorisations to an appropriate level to ensure smooth decision-making in the daily control of business operations.

Separate risk appetite goals, limitations and limits for each business unit are derived from the Group-level limits set by the Board of Directors. These are monitored and controlled as part of the regular follow-up and reporting procedure (section 5.5.5.2). Allocation of capital to the business units is also implemented via the business plan and budgeting. Limits for groups of connected clients are set especially for the purpose of supporting credit risk management. These limits are set at the Group level. The business and support functions are responsible for their respective risks within the provided limits. The impact that any possible solutions have on the risk-based capital requirement and S-Bank's capital adequacy are taken into account both when the decision is being made and in the future, even in the case of individual credit decisions, if need be.

EBA guidelines (EBA/GL/2016/11) require the disclosure of the approved limits to which institutions are subjected. S-Bank discloses information concerning its risk appetite and risk-bearing capacity in its financial statements. The specific amounts of the limits are not disclosed, given that they fall under the scope of proprietary information.

Figure 4: Three lines of defence in risk management

5.5.5 RISK MANAGEMENT IN S-BANK

S-Bank's risk management is built on three lines of defence as illustrated in the figure below. No changes in the management of the second and third line of defence took place in 2017.

The first line of defence consists of the Group's business and support functions, which conduct business operations in accordance with S-Bank's strategy and business plan. The business and support functions are responsible for risk-taking in line with the policy confirmed by the Board of Directors, identifying the risks related to the operations and goals, the day-to-day management of the risks they own and the related procedures, as well as for the reporting related to risk monitoring.

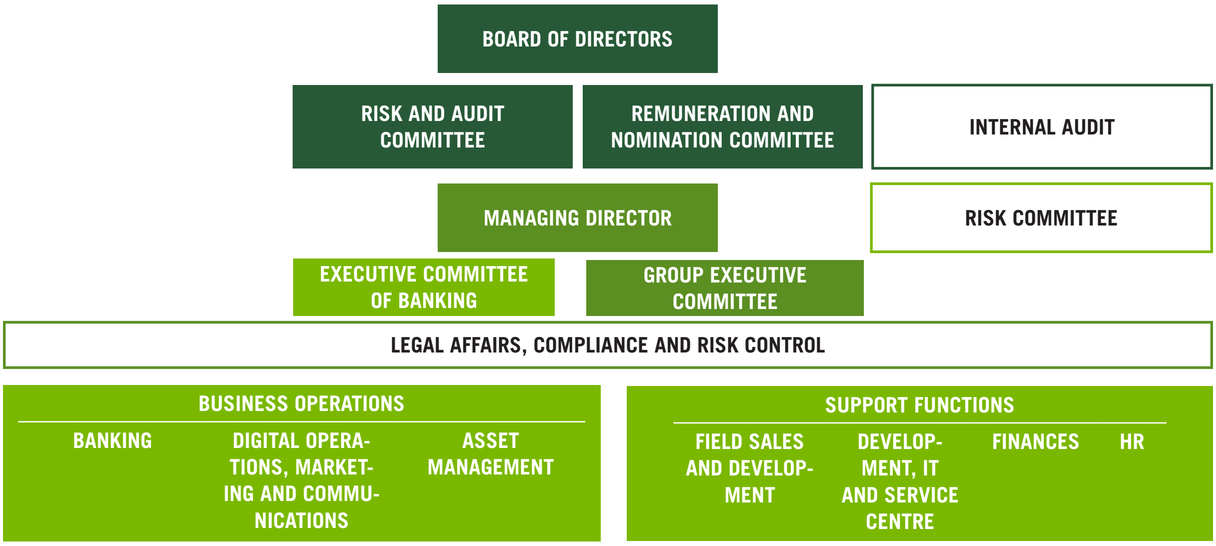
The second line of defence consists of Group-level functions which are independent of the business operations, such as Risk Control and Compliance. Risk Control monitors and assesses the Group's risk-taking, as well as the identification and management of risks. Risk Control monitors the realisation of the overall risk strategy and total risk exposure in relation to the risk-bearing capacity and risk appetite, as well as the adequacy of capital and liquidity. Compliance assesses and monitors compliance with the external regulations that obligate S-Bank, internal operating instructions and decisions by the management of S-Bank.

Internal Audit is the third line of defence and is independent of the functions being audited. Internal Audit is charged with auditing and assessing the effectiveness of the risk management and internal control measures carried out by the Group. Therefore, Internal Audit also assesses the actions taken by Risk Control and Compliance.

5.5.5.1 Roles and responsibilities of important governing bodies in terms of risk management

The figure below depicts S-Bank's administrative structure, which also describes the risk management organisation. The roles and responsibilities of important governing bodies in terms of risk management are described below.

Figure 5: S-Bank's administrative structure



Board of Directors

Responsibility for the overall risk management in S-Bank Group rests with the parent company's Board of Directors, which ensures that the Group's operations are appropriately organised pursuant to applicable laws and regulations. The Board of Directors confirms the overall risk strategy and defines the objectives of S-Bank's risk-bearing capacity, risk appetite and risk management, and ensures that the Group has operating and risk management principles supporting and executing them. In addition, the Board of Directors approves the risk category-specific principles related to the management and control of risks and the principles of risk modelling and calculation, and sets sufficient limits on risks as part of the overall risk strategy.

The Board of Directors ensures that S-Bank continuously has adequate capital to cover all material risks arising from the business operations and changes in the external business environment and that the Group's risk-bearing capacity is adequate. All material risks, reports on compliance to the set limits, instructions concerning risk management and any changes thereto are discussed by the Board of Directors on a regular basis.

The Board of Directors delegates decision-making authority to executive management, monitors the scope and effectiveness of risk management and ensures the adequacy of control functions independent of the business operations. The Board of Directors also supervises that Internal Audit regularly assesses the effectiveness and scope of risk management and control.

Members of the Board of Directors must possess sufficient and diversified expertise and experience in the banking business and of the risks related to the bank and its operations.

The Board of Directors is assisted by the Risk and Audit Committee, as well as by the Remuneration and Nomination Committee, which have no independent decision-making power. Both committees consist of members of the Board of Directors. The Risk and Audit Committee assists the Board of Directors in matters concerning S-Bank's overall risk strategy and risk-taking. The Committee monitors the effectiveness of S-Bank's internal control, internal audit and risk management and assists the Board in ensuring that S-Bank's executive management complies with the overall risk strategy confirmed by the Board. The Committee also processes and prepares S-Bank's capital plan and matters related to the allocation and risk limits of capital for the Board's approval. The Remuneration and Nomination Committee prepares matters related to remuneration and nomination, among other things, for the Annual General Meeting and the Board of Directors, and ensures the appropriateness of related procedures.

Managing Director and Executive Committee

S-Bank Ltd.'s Managing Director, assisted by the Group's Executive Committee, is responsible for the practical execution of risk management in accordance with the principles established by the Board of Directors. The Managing Director and the Executive Committee ensure that legislation and regulations, as well as all risk management principles and methods in compliance with the Articles of Association and overall risk strategy are taken into account in the Group's ongoing operations. The Managing Director and Executive Committee are also responsible for the achievement of the set objectives and the monitoring and management of any risks threatening the objectives, and for ensuring that the Group's risk-bearing capacity is adequate in relation to risk-taking. In addition, the Managing Director and the Executive Committee ensure that the responsibilities, authorisations, processes and reporting relationships related to risk management have been clearly defined and described, and that the risk management resources are adequate.

Banking Executive Committee

The Banking Executive Committee is responsible for the execution, implementation and monitoring of the quantitative and qualitative goals set in the strategy and action plan approved by the Board of Directors and the Group Executive Committee. The Banking Executive Committee and the Banking unit are responsible for the banking business of S-Bank for private customers and corporate customers, as well as for the development and profitability of the business. Their duties also include ensuring the adequacy of capital, managing the balance sheet and decentralising sources of funding. If necessary, the Executive Committee can apply limits that are stricter than those adopted by the Board of Directors and set its own risk limits.

Risk Committee

The main duty of the Risk Committee is to ensure that the Board of Directors and the Risk and Audit Committee are provided with adequate and appropriate information on S-Bank's risks, risk management and capital adequacy so as to be able to carry out their duties and to support their decision-making. The Risk Committee confirms the essential principles and procedures related to risk management, including the overall risk strategy, the principles for the disclosure of risks and capital adequacy information, as well as the key resolution proposals related to the capital adequacy and liquidity status and the Group-level risk limits for the Risk and Audit Committee to process and for the Board of Directors to decide on. Furthermore, the Committee ensures that the proposals comply with the regulations and the risk-bearing capacity and risk appetite determined by the Board of Directors.

The Risk Committee monitors and assesses S-Bank's risks and the risk-taking by the business units and the management of these risks. The Risk Committee reports on functions independent of the business operations (Risk Control and Compliance) to the management of S-Bank, the Risk and Audit Committee and the Board of Directors.

Independent functions

S-Bank's Board of Directors has established control functions which are independent of the business operations to ensure effective and comprehensive internal control. Control functions independent of the business operations consist of Risk Control, Compliance and Internal Audit.

Risk Control is tasked with the comprehensive monitoring and assessment of S-Bank's risk-taking level and the realisation of risk management. The Board of Directors approves the risk monitoring policies which determine the general responsibilities applicable to all categories of risk and more detailed risk category-specific responsibilities. Risk Control is organised so that each category of risk has been designated a person in charge of it. The key issues to be monitored – which ensure the achievement of objectives as well as appropriate and efficient operations – are determined annually in the context of operational planning and updated whenever necessary. To carry out its duties, Risk Control has the authorisation to receive any information it needs from the Group's business units and supporting functions.

Risk Control monitors the execution of the overall risk strategy and the total risk exposure and ensures that the risks taken by the Group are appropriately proportioned to its risk-bearing capacity and the defined objectives, and that the Group's risk-taking complies with the limits and principles set by the Board of Directors. Risk Control maintains and develops risk measurement, assessment and reporting methods, and supports business operations in the identification and management of risks. Risk Control prepares regular reports on the risks, risk exposure and risk management level of S-Bank to S-Bank's management, the Risk Committee, the Risk and Audit Committee, the Board of Directors and the authorities.

Compliance is tasked with ensuring that S-Bank has adequate and appropriate policies and procedures for ensuring compliance with regulations. Compliance monitors changes in legislation and regulations and ensures compliance with them within the Group. In addition, Compliance monitors and assesses the adequacy and effectiveness of any measures taken to remedy non-compliance with regulations.

Internal Audit refers to independent assessment and verification operations, tasked with auditing the adequacy, functionality and effectiveness of internal control and risk management. The adequacy, functionality and effectiveness are estimated in a risk-oriented manner in accordance with the auditing plan approved by the Board of Directors every year. When conducting audits according to plan, Internal Audit uses auditing criteria that are based on external regulations, internal guidelines and the set objectives.

Legal Affairs

The Legal Affairs function is part of the Legal Affairs, Compliance and Risk Control unit shown in Figure 5. The task of Legal Affairs is to support business operations and support functions in legal issues. Legal Affairs ensures that legal issues related to agreements, individual products and service processes are handled as well as possible in terms of quality, and in a business-driven manner within the framework of the relevant regulations.

Business operations and support functions

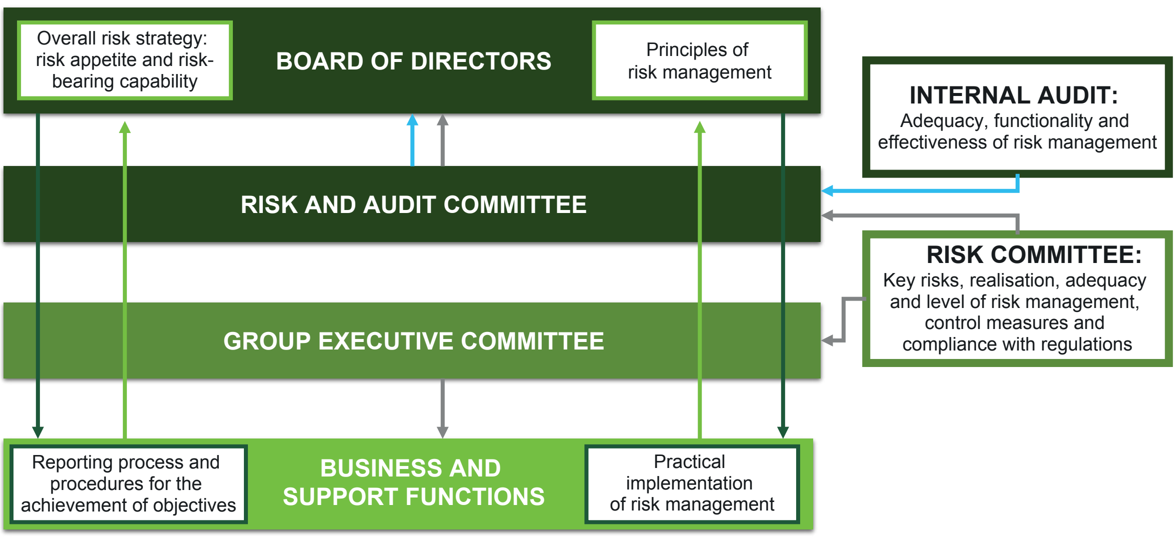
The directors of S-Bank's business operations and support functions are primarily responsible for the risks in their respective areas of responsibility and for ensuring that the operations of their units are carried out in accordance with S-Bank's guidelines and principles. In addition, the business operations and support functions are responsible for their respective risks within the limits provided. Therefore, business operations and support functions are responsible for identifying and assessing the risks related to their operations, for managing and monitoring these risks and reporting on them in accordance with the instructions given. Each business operation and support function ensures that the framework, operational conditions and risk management prerequisites of the operations it owns have been described clearly and adequately.

5.5.5.2 Monitoring, management and reporting of risks

S-Bank monitors risks on a continuous basis as part of its day-to-day routines. Each employee must be aware of their own responsibilities towards risk management, and they are tasked with observing the realisation of risk management within their area of responsibility, and with reporting any deviations and shortcomings in risk management in accordance with agreed procedures.

S-Bank's internal risk reporting process and the related procedures include, alongside financial reporting, regular analyses on the achievement of the objectives established by the Board of Directors. Risk-taking in relation to the risk-bearing capacity is monitored regularly and assessed when updating the capital plan, for example, as well as in the context of strategy processing and when making decisions on business projects or investments that are important for S-Bank. The figure below illustrates the risk reporting process.

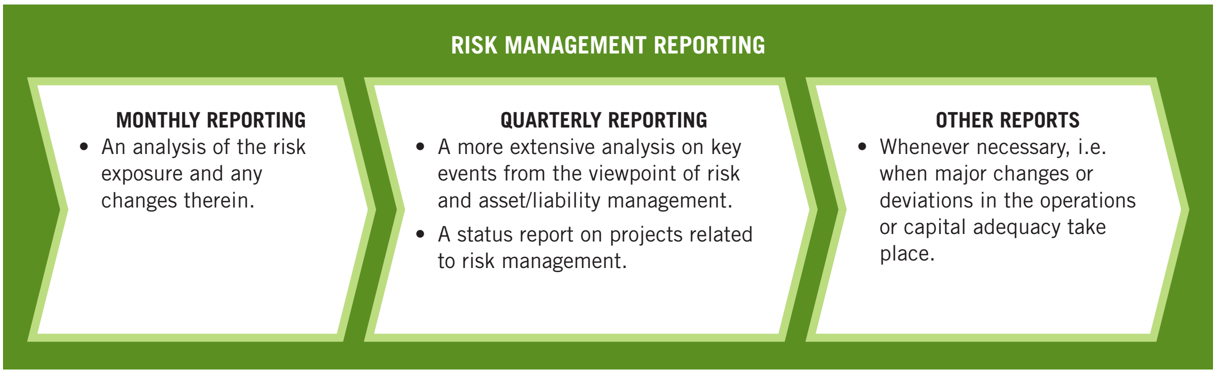
Figure 6: Risk reporting



As part of continuous risk reporting, the risk exposure of S-Bank and the Group companies is assessed daily on the basis of the risk limits. Market and liquidity risks are monitored and reported on daily. Credit risks, capital adequacy and operational risks are monitored continuously and reported on monthly, quarterly and whenever necessary.

Risk Control is responsible for producing reports on key risks and the level of risk management to S-Bank's management, the Risk Committee, the Risk and Audit Committee and the Board of Directors as illustrated in the figure below. Risks are measured, tracked, monitored and reported in such a way that the Board of Directors and line management has adequate and relevant information on operational risks and their management. In addition to regular reports, the aforementioned bodies receive a separate report and analysis if any major changes or deviations which may have an influence on risks or capital adequacy take place.

Figure 7: Risk management reporting



Internal Audit assesses the processes concerning the management of risks and capital assessment in accordance with the annual auditing plan. Internal Audit regularly reports on the results of the audits, key audit observations, any recommendations aiming to improve the operations and the realisation of the audit plan to the Risk and Audit Committee and the Board of Directors, as well as any other necessary bodies.

5.5.6 CAPITAL ADEQUACY ASSESSMENT

Capital adequacy assessment and capital planning are part of risk management. Capital adequacy assessment specifies the connection between S-Bank's strategy and capital plans. Capital goals are set and the adequacy of capital is assessed on the basis of S-Bank's strategy, risk appetite and risk-bearing capacity. These are the starting points for transforming risks into a capital goal. The objective of capital adequacy assessment is to ensure the efficient use, adequate amount and quality of capital. This also aims to ensure S-Bank's undisturbed operations and preparedness for possible unexpected losses and emergency situations.

5.5.6.1 Capital adequacy assessment and capital planning

Capital adequacy management is based on a proactive approach, and its starting points are S-Bank's strategy and operations planning and the overall risk strategy. Capital adequacy assessment and capital planning begin with a comprehensive identification of risks, taking into consideration the nature and extent of the business operations, as well as the changes in the external business environment.

The amount of own funds required by the Group and the risk-based capital goal derive from the identified and analysed risks within the limits of the set risk-taking level and risk appetite. The process takes into consideration the return targets as well as the structure and availability of capital. At the same time, various capital adequacy forecasts, stress tests, scenarios and sensitivity analyses are compiled in order to maintain the capital adequacy target, taking into account all material risks arising from the operations and changes in the external business environment.

The capital adequacy assessment process and the assessment of the risk-based capital requirement pursuant to Pillar 2 account for all material categories of risk from S-Bank's perspective. This integrates the Group's capital adequacy assessment and capital planning with the comprehensive management of risks. Risk analyses impacting capital adequacy and the determination of the risk appetite also account for the strategy and business plan. The annual strategy process involving the Board of Directors and the Group's Executive Committee consists of a strategic analysis, making strategic choices and, ultimately, the execution of the strategy. The strategic analysis includes an assessment of the industry, market, key competitors, the development of regulation by the authorities and S-Bank's own operations. The strategy is approved by the Board of Directors. The Group's business plan and vision, strategic goals, and the risk-bearing capacity and risk appetite derived from these described in the overall risk strategy, are defined at the stage of making strategic choices. The strategic execution stage involves the determination of critical success factors, for which indicators and annual goal levels are created. The top-level risk limits and the risk-based capital requirement are determined simultaneously on the basis of these goals. S-Bank's capital plan is created as a result of the strategy execution stage.

The capital plan (ICAAP) is based on S-Bank's business plan and the forecasts included in the plan concerning the changes in the volume of operations and risk levels over an agreed time frame. The capital plan provides forecasts on the development of the capital goal, capital adequacy and liquidity at the Group level and at the level of the individual companies. The plan covers and analyses the minimum capital requirements and minimum capital adequacy pursuant to Pillar 1. In addition, the capital plan defines the capital requirement and adequacy of liquidity in accordance with Pillar 2, taking into account the risk category-specific risk assessments, and sets the capital adequacy goals. The capital adequacy goals also aim to ensure that the Group has adequate capital buffers for unexpected losses. The capital plan is approved by S-Bank's Board of Directors.

5.5.6.2 Stress tests

S-Bank uses a variety of stress tests to estimate how any potentially unfavourable changes could affect the development of capital adequacy or liquidity in the Group or in an individual company over a certain time frame. Factors to be taken into consideration include macroeconomic changes in the business environment and scenario-specific changes in business volumes, and their impact on S-Bank and the financial forecasts pursuant to its strategy. The analyses account for the simultaneous impact of single selected risk factors and several variables on S-Bank's risk exposure and profitability development.

Stress tests also make use of various sensitivity analyses, which allow for an assessment of the impact of assumptions and parameters used in category-or-risk calculation on the risk models in question. The sensitivity analyses illustrate the effects that the likelihood of various risks and possible losses have on S-Bank's capital adequacy position and capital buffers. The stress tests and sensitivity analyses are conducted primarily as part of the annual capital plan.

The sections below discuss the stressing of capital adequacy and liquidity. The stressing of the interest rate risk in the banking book is discussed in more detail in Section 5.5.9.3.2.

Capital adequacy stress tests

The risk-based capital requirements applied in S-Bank's capital plan are based on stressed values of internal model parameters. In addition to the risk category-specific stressed capital requirements, the capital plan includes a comprehensive stress test based on an analysis of the capital adequacy and profitability in the budget scenario and six stress scenarios. The stress scenarios assume negative development paths in the development of the macroeconomy and/or S-Bank's business volumes. Given that a risk is a deviation from an expected value, the comprehensive stress testing assessment includes a comparison of the deviation between the budget scenario and the stress scenarios for each profit and balance sheet item, which are sensitive to scenario-specific negative assumptions on the macroeconomy and S-Bank's business volumes. The following are applied as the stress test scenarios:

- Business assumptions pursuant to the budget
- A macroeconomic shock in the euro area
- Business development at a level weaker than the budgeted level
- A run on the banks and business development at a level weaker than the budgeted level
- Unbalanced growth in terms of the funding of lending and capital
- A macroeconomic shock in the euro area and business development at a level weaker than the budgeted level
- A macroeconomic shock in the euro area, a run on the banks and business development at a level weaker than the budgeted level

The negative effects of the stressed business volumes are calculated via interest and commission income to the income statement items. The scenario techniques use sensitivity analyses of risk categories in respect of changes in the macroeconomic environment. The income risk due to the interest rate risk is calculated from the deviation of the net interest income according to the scenario-specific business assumptions from the budgeted net interest income. The effects of the changes assessed from history data of the credit premium risk (spread) are modelled by simulating the fair value reserve with credit premium risk levels corresponding to the scenario. Credit loss sensitivities are calculated with the stressed values of the PD and LGD parameters, in addition to which one-off concentration risk losses from corporate counterparty receivables are calculated. The effects of potential changes in the value of immovable property collateral are also taken into account as part of the capital adequacy stress tests.

Liquidity stress tests

The liquidity stress testing is based on testing the adequacy of the 30-day liquidity in different scenarios based on the LCR analysis. The starting point in the liquidity stress testing is the adequacy of S-Bank's liquid assets to cover unexpected outflows included in the stress scenario and still being adequate to cover the deferred requirements of the LCR regulation after that. As S-Bank's business model is based on deposit funding, using scenarios corresponding to the customer escape scenario used in the capital plan in the liquidity risk stress testing is also considered appropriate. It is important, in terms of the liquidity risk, to determine the customer segment from which the deposit funding is fleeing in more detail, as this will influence the structure of the liquidity position subsequent to the flight of customers and the restoration of adequate liquidity.

The scenarios with the internal LCR liquidity model:

- A run on the banks by retail customers over a period of 30 days, no changes in limit usage rate
- A run on the banks by large-scale enterprises over a period of 30 days, an increase in the usage rate of large-scale enterprise limits
- A partial flight of the financial sector, large-scale enterprise and the deposit base's investment accounts over a period of 30 days, an increase in the usage rate of financial sector customer limits
- A run on the banks pursuant to the weight per customer segment over a period of 30 days, no changes in limit usage rate

Scenario with a liquidity model pursuant to the Capital Requirements Regulation:

- A run on the banks by retail customers over a period of 30 days, no changes in limit usage rate

5.5.6.3 Risk-based Pillar 2 capital requirement and action limits in capital adequacy assessment

The risk appetite pursuant to the overall risk strategy defines what is referred to as the Pillar 2 capital requirement in capital adequacy assessment alongside the Pillar 1 capital adequacy requirement set by the authorities. Group companies are also subject to a set limit in the risk budget of the overall risk strategy and to an alarm limit for the minimum capital adequacy goal. A plan must be drawn up for capitalisation within the Group in case the company's capital adequacy falls below the alarm limit. The plan will be executed if the amount of capital falls below the actual capital adequacy limit.

S-Bank Group, its parent company and subsidiaries apply the following capital adequacy assessment limits of Pillar 2, approved by the Board of Directors. These limits define the capital adequacy position as normal, impaired or critical.

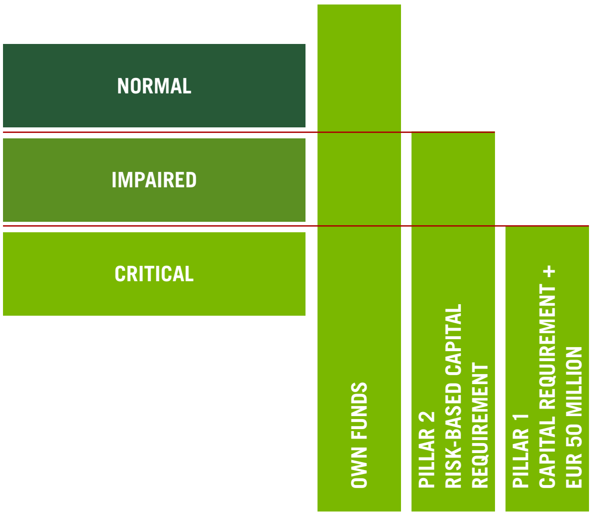
The Pillar 2 capital adequacy position is normal when the Group's own funds exceed the risk-based capital requirement. The capital adequacy position is impaired if the Group's own funds fall below the risk-based capital requirement. The capital adequacy position is critical when the Group's own funds fall below the Pillar 1 own funds requirement, plus EUR 50 million.

In addition to setting Pillar 2 risk-based capital adequacy position assessment limits, the Board of Directors has set corresponding limits for the Pillar 1 capital adequacy position. The minimum goal of the Pillar 1 capital adequacy ratio is 13%, and the capital adequacy position is normal when the ratio is higher than 13%. The capital adequacy position is impaired if the capital adequacy ratio is less than 13% but more than 10.5%. The capital adequacy position is critical if the capital adequacy ratio falls below the limit of 10.5%.

The capital plan takes into consideration the set action limits and defines the measures to be taken to restore the Group's capital adequacy to the position set in the objectives, if needed. When the amount of own funds approaches the capital goal, passive methods are primarily used to reduce risks and normalise the situation. Passive methods to reduce risks restrict additional risk-taking by cutting unused risk limits, for example. The active capital adequacy assessment methods are applied only after doing this.

The Board of Directors decides on any capitalisation and financing arrangements and the execution thereof, as well as the application of risk mitigation methods. In addition to the restrictions described above, the Group's capital adequacy and liquidity are assessed comprehensively and proactively.

Figure 8: Risk management reporting



A summary of S-Bank's key risks and risk-based capital requirement are described below.

5.5.7 RECOVERY PLAN

S-Bank annually draws up a recovery plan approved by the Board of Directors. The recovery plan covers the available courses of action and measures to secure the continuity of operations in a situation in which S-Bank's financial position would be considerably weakened. The recovery plan includes analyses of the development of S-Bank's own funds and capital adequacy in various scenarios, as well as more detailed accounts of the capital and liquidity measures, arrangements and procedures needed to maintain the financial position. The recovery plan also includes a description of the related administration, organisation, responsibilities and execution.

The Financial Stability Authority is the national resolution authority in Finland. It is responsible for the resolution planning of credit institutions and investment firms as well as the decision-making concerning the restructuring of institutions in financial difficulties. Pursuant to the Recovery and Resolution Directive (2014/59/EU), 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 to collect information on S-Bank to determine the necessity for implementing an MREL. At the time when these financial statements were being prepared, the analysis by the Financial Stability Authority was ongoing, and a decision on the matter is likely to be given during 2018.

5.5.8 OWN FUNDS AND CAPITAL ADEQUACY

5.5.8.1 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 is 2%, which means that the minimum capital requirement is 8%. Furthermore, a fixed capital buffer requirement of 2.5% (non-discretionary) has been set for banks. In addition, the Financial Supervisory Authority can set varying discretionarily additional capital requirements: a countercyclical capital buffer of 0–2.5% (Common Equity Tier 1) to prevent system risks, an O-SII buffer (Common Equity Tier 1) of 0–2% for banks systemically important for the financial system and a bank-specific additional capital requirement (Pillar 2, Common Equity Tier 1) on the basis of a review by the supervisory authority (SREP).

In addition to the aforementioned varying additional capital requirements, the Financial Supervisory Authority has, pursuant to the Act on Credit Institutions, as of 1 January 2018, the option to set an additional capital requirement for banks and investment firms based on the structural properties of the financial system (a systemic risk buffer of 0–5%, Common Equity Tier1). This requirement can be set for an individual bank or the entire banking sector. Further provisions on the grounds for imposing buffer requirements will be issued by a decree of the Ministry of Finance.

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

The table below illustrates the calculation of the institution-specific countercyclical capital buffer in S-Bank. On 31 December 2017, the buffer was 0.03%.

Table 7: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer and the capital requirement (1555/2015)

Geographical distribution, EUR million	Capital requirement for relevant credit exposures	Own funds requirement weights	Countercyclical capital buffer rate
Finland	164.4	96.80%	0.00%
Sweden	2.2	1.32%	2.00%
Norway	0.6	0.36%	2.00%
Other countries	2.6	1.52%	0.00%
Total	**169.8**	**100.00%**	**0.03%**

The potential O-SII buffer does not apply to S-Bank, and in 2017, S-Bank did not have any Pillar 2 additional capital requirements imposed by an authority. The table below presents S-Bank's capital requirements on 31 December 2017 as percentages and in euros.

Table 8: S-Bank's capital requirements on 31 December 2017

Capital	Minimum capital requirement		Fixed additional capital requirements		Countercyclical capital buffer		Capital requirement total	
	%	EUR million	%	EUR million	%	EUR million	%	EUR million
CET1	4.5%	113.9	2.5%	63.3	0.03%	0.8	7.03%	178.1
AT1	1.5%	38.0					1.50%	38.0
T2	2.0%	50.6					2.00%	50.6
Total	**8.0%**	**202.5**	**2.5%**	**63.3**	**0.03%**	**0.8**	**10.53%**	**266.7**

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 at least 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 12.78%. As Table 11 indicates, S-Bank's current capital adequacy position is sufficient to cover the additional capital requirement as well.

5.5.8.2 Own funds

Own funds and capital adequacy are presented pursuant to Commission Implementing Regulation (EU) 1423/2013 in the financial statements.

Common Equity Tier 1 consists of restricted and unrestricted equity items, minority interest and retained earnings. Restricted equity is represented by share capital. The unamortised portion of the acquisition costs of intangible assets is deducted from Common Equity Tier 1. Pursuant to the Capital Requirements Regulation, the fair value reserve is calculated in accordance with the corporate tax rate less the deferred tax liability of Common Equity Tier 1. Any negative fair value reserve is deducted from Common Equity Tier 1. Retained earnings for the past financial period 2017 are included in Common Equity Tier 1 on the basis of permission granted by the Financial Supervisory Authority pursuant to Article 26 of the 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 issued a new debenture of EUR 8 million in December 2017. In accordance with the Capital Requirements Regulation, the key model and terms for capital instruments, such as debenture loans, are disclosed in the notes to the financial statements (Group note 14 and S-Bank Ltd note 14). 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.

The table below includes a summary of S-Bank's own funds pursuant to the Capital Requirements Regulation. The first two rows of the table illustrate how the exposure values of the presented own funds can be derived from the equity on the balance sheet.

Table 9: S-Bank's own funds, summary

Own funds, EUR million	12/2017	12/2016
S-Bank Group's equity	**414.1**	**401.4**
Minus the share of owners with no control	-0.2	-0.1
Common equity (CET1) before deductions	**413.9**	**401.3**
Share capital	82.9	82.9
Reserve for invested unrestricted equity	243.8	243.8
Retained earnings	75.6	63.3
Fair value reserve	11.6	11.4
Deductions from common equity	**-41.7**	**-45.1**
Intangible assets	-38.7	-42.5
Deferred tax assets	-1.7	-1.1
Value adjustment due to conservative valuation	-1.3	-1.5
Common Equity Tier 1	**372.2**	**356.2**
Additional Tier 1 capital	**0.0**	**0.0**
Tier 1 capital	**372.2**	**356.2**
Debenture loans	50.0	42.0
Tier 2 capital	**50.0**	**42.0**
Own funds, total	**422.2**	**398.2**

The following consists of the general own funds disclosure template pursuant to Annex IV to Regulation No. 1423/2013.

Table 10: S-Bank's own funds (EU 1423/2013)

Own funds, EUR million	Disclosure date		CRR article reference
	12/2017	12/2016	
Common Equity Tier 1: capital instruments and reserves			
1. Capital instruments and related share premium accounts	82.9	82.9	Article 26(1), Articles 27, 28 and 29
2. Retained earnings	63.3	44.9	Article 26(1)c
3. Accumulated other comprehensive income (and other reserves)	255.4	255.2	Article 26(1)
5a. Interim profits audited by an independent party from which all anticipated expenses or dividends have been deducted	12.4	18.4	Article 26(2)
6. Common Equity Tier 1 before regulatory adjustments	**413.9**	**401.3**	
Common E Tier 1: regulatory adjustments			
7. Other value adjustments (negative amounts)	-1.3	-1.5	Article 34, Article 105
8. Intangible assets (from which related tax liabilities have been deducted; negative amount)	-38.7	-42.5	Article 36(1)b, Article 37
10. Deferred tax assets that rely on future profitability, excluding assets that arise from temporary differences (less related tax liabilities if the terms of Article 38(3) are met; negative amount)	-1.7	-1.1	Article 36(1)c, Article 38
28. Regulatory adjustments to Common Equity Tier 1, total	**-41.7**	**-45.1**	
29. Common Equity Tier 1	**372.2**	**356.2**	
44. Additional Tier 1 capital	**0.0**	**0.0**	
45. Tier 1 capital (T1 = CET1 + AT1)	**372.2**	**356.2**	
Tier 2 capital: Instruments and provisions			
46. Capital instruments and related share premium accounts	50.0	42.0	Article 62, Article 63
58. Tier 2 capital	**50.0**	**42.0**	
59. Capital, total (TC = T1 + T2)	**422.2**	**398.2**	
60. Risk-weighted assets, total	**2 531.7**	**2 695.1**	
Capital adequacy ratio and buffers			
61. Common Equity tier 1 (as a percentage of the total risk exposure amount)	14.7%	13.2%	Article 92(2)a
62. Tier 1 capital (as a percentage of the total risk exposure amount)	14.7%	13.2%	Article 92(2)b
63. Total capital (as a percentage of the total risk exposure amount)	16.7%	14.8%	Article 92(2)c
64. Institution-specific buffer requirement (Common Equity Tier 1 requirement pursuant to Article 92(1)a, plus requirements on general capital buffer and countercyclical buffer, plus systemic buffer, plus buffer for systemic institution as a percentage of the total risk exposure amount)	2.53%	2.52%	Articles 128, 129, 130, 131 and 133 of the Capital Adequacy Directive
65. of which: requirement concerning general capital buffer	2.5%	2.5%	
66. of which: requirement concerning countercyclical buffer	0.03%	0.02%	
68. Common Equity Tier 1 available for meeting the buffer requirements (Common Equity Tier 1) (as a percentage of the total risk exposure amount)	10.2%	8.7%	Article 128 of the Capital Adequacy Directive

5.5.8.3 Capital adequacy position

S-Bank's capital adequacy ratio was 16.7% (14.8%) at the end of the year under review. The capital adequacy ratio clearly exceeded the target level of 13% set by the Board of Directors. S-Bank's capital also exceeds the target level set by the Board of Directors in the Pillar 2 capital adequacy assessment. The table below illustrates S-Bank's capital adequacy indicators. 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.

At the end of the period under review, S-Bank's capital adequacy ratio was 1.9 percentage points higher than on 31 December 2016. This was mainly due an increase in own funds in relation to the end of 2016 (+ EUR 24 million). Furthermore, S-Bank's SME, agricultural and forestry business was transferred to Oma Säästöpankki on 30 November 2017, which reduced the credit risk capital adequacy requirement.

Table 11: S-Bank's capital adequacy indicators

Capital adequacy ratio, %	31 Dec 2017	31 Dec 2016
Common Equity Tier 1 capital adequacy ratio	14.7%	13.2%
Tier 1 (CET1+AT1) capital adequacy ratio	14.7%	13.2%
Total capital adequacy ratio	**16.7%**	**14.8%***

* In February 2017, S-Bank specified handling collateral on corporate bonds in capital adequacy calculations. Own funds and capital adequacy are presented in accordance with the calculation methodology specified in the financial statements. Due to the methodology, the comparison figures for capital adequacy presented here deviate from the information published in the 31 December 2016 financial statements. The impact of the changes on the Group's total capital adequacy was -0.3 per cent on 31 December 2016.

The table below includes a summary of all risk-weighted exposure amounts (RWAs). The table has been prepared by applying 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 (29% in 2016), "Corporates", 23% of the total risk (28% in 2016) and "Retail exposure", 23% of the total risk (21% in 2016). The risk-weighted exposure amounts of the credit risk decreased by approximately 6% from 2016, mainly due to the aforementioned divestment. The capital requirement for the operational risk calculated with the basic indicator method based on net income also decreased from 2016.

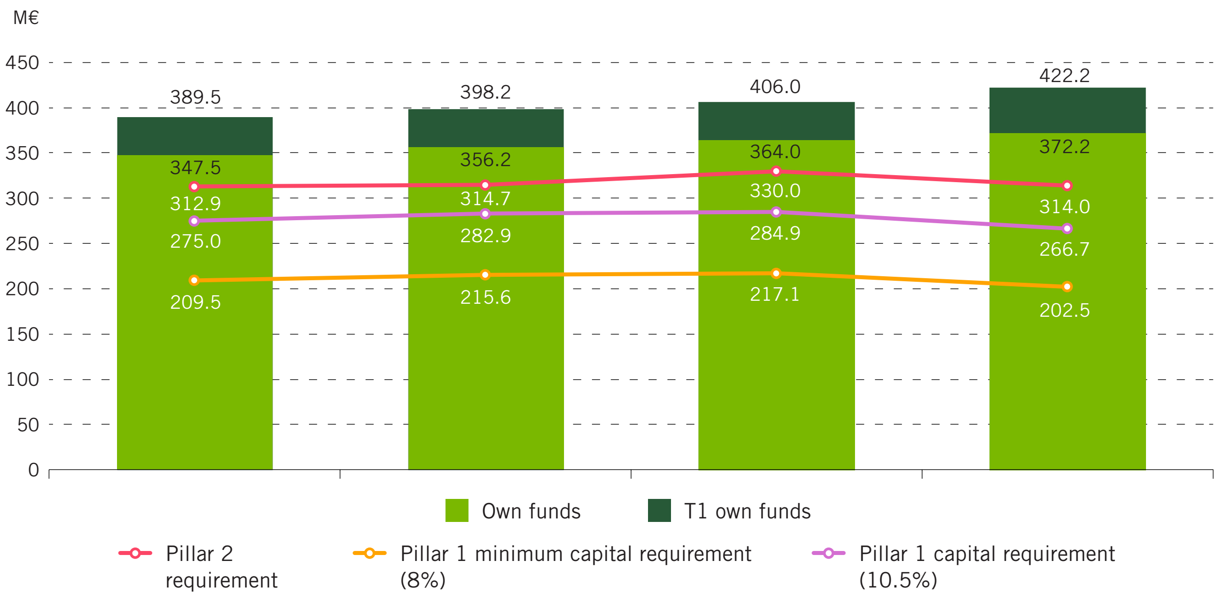
Table 12: Overview of RWAs (EU OV1)

RWAs and capital requirements, EUR million	31 DEC 2017 RWAs	31 DEC 2017 Minimum capital requirements	31 DEC 2016 RWAs	31 DEC 2016 Minimum capital requirements
Credit and counterparty risk, standardised approach	**2,251.9**	**180.2**	**2,391.3**	**191.3**
Central governments or central banks	0.0	0.0	0.0	0.0
Regional governments or local authorities	0.0	0.0	0.0	0.0
Public sector entities	1.4	0.1	3.4	0.3
Multilateral development banks	0.0	0.0	0.0	0.0
Institutions*	128.0	10.2	186.1	14.9
Corporates	577.8	46.2	749.2	59.9
Retail exposure	577.3	46.2	565.9	45.3
Exposures secured by mortgages on immovable property	876.1	70.1	777.8	62.2
Exposures in default	14.8	1.2	15.3	1.2
Exposures associated with particularly high risk	0.0	0.0	26.6	2.1
Covered bonds	36.1	2.9	28.2	2.3
Collective investment undertakings	30.7	2.5	25.0	2.0
Equity exposures	0.3	0.0	0.8	0.1
Other exposures	9.6	0.8	12.8	1.0
Market risk	**0.0**	**0.0**	**1.5**	**0.1**
Credit valuation adjustment	**2.9**	**0.2**	**2.4**	**0.2**
Operational risk, basic method	**276.9**	**22.2**	**299.9**	**24.0**
Total	**2,531.7**	**202.5**	**2,695.1**	**215.6**

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

The figure below illustrates changes in own funds and the capital adequacy position every six months between 30 June 2016 and 31 December 2017.

Figure 9: Changes in own fund and capital adequacy position



5.5.8.4 S-Bank's risk-based capital requirement

The summary below describes the relation of the Pillar 1 capital requirement and Pillar 2 risk-based capital requirement to own funds for the above-mentioned risks in S-Bank.

Table 13 also provides a summary of the Group's overall risk profile. The capital buffer in relation to the minimum requirement of Pillar 1 is EUR 219.7 million, in relation to the Pillar 1 capital requirement EUR 155.5 million, and in relation to the Pillar 2 capital requirement EUR 108.2 million.

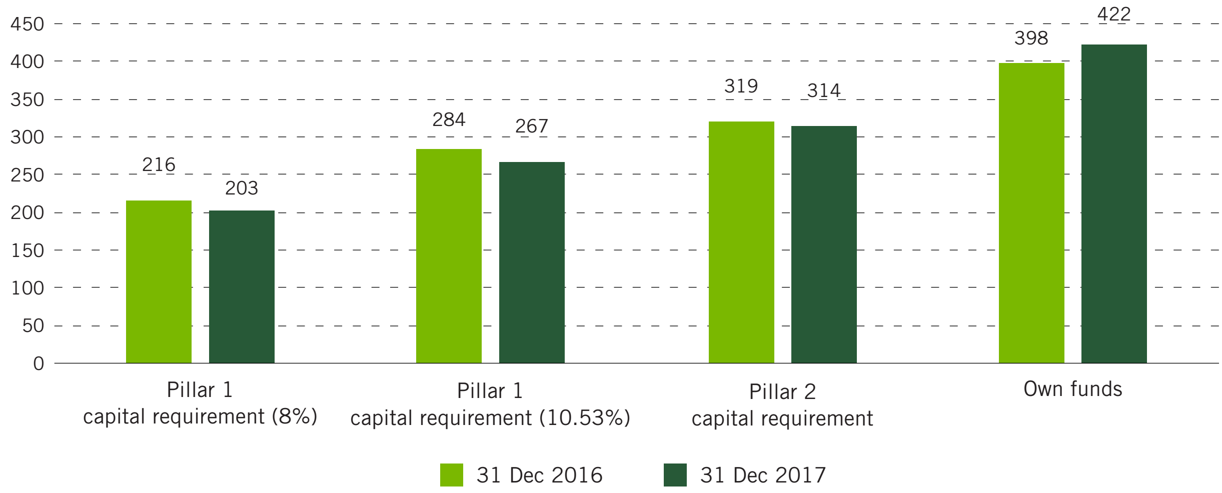
The risk-based capital requirement (Pillar 2) for the credit risk comprises the Pillar 1 capital requirement and the concentration risk calculated for the largest corporations. In departure from the Pillar 1 capital requirement, the credit risk of the Treasury's investment operations is handled as a spread risk under Pillar 2 as part of the market risk. Moreover, the market risks related to the Treasury's (banking book) positions are handled in their entirety in the Pillar 2 market risk review, whereas in the Pillar 1 review, these risks are part of the capital requirement for the credit risk. The Pillar 2 capital requirements for strategic risks and business risks are analysed on a scenario basis. The Pillar 2 capital requirement for the operational risk is based on the Pillar 1 capital requirement.

Table 13: Pillar 1 capital requirement and Pillar 2 capital requirement

Pillar 1 capital requirement and Pillar 2 capital requirement, EUR million	31 DEC 2017	31 DEC 2016
Pillar 1 capital requirement, total	**202.5**	**215.6**
Credit risk	180.2	191.3
Market risk	0.0	0.1
Operational risk	22.2	24.0
Credit valuation adjustment	0.2	0.2
Pillar 2 capital requirement, total	**314.0**	**319.5**
Credit risk	190.6	188.5
Spread risk	52.6	69.3
Other market risk	22.8	20.3
Operational risk	22.2	24.0
Strategic risk	10.6	6.7
Business risk	15.3	10.8
Own funds	**422.2**	**398.2**
Capital buffers		
Pillar 1 minimum capital requirement (8%)	**219.7**	**182.6**
Pillar 1 capital requirement (10.53%)	**155.5**	**114.4**
Pillar 2 capital requirement	**108.2**	**78.7**

The figure below separately illustrates the development of the Pillar 1 minimum capital requirement (8%), the capital requirement (10.53%), the Pillar 2 capital requirement and own funds in relation to the previous accounting period. As shown in the figure, the capital requirements have reduced in relation to the situation at the end of 2016 and own funds have increased.

Figure 10: Own funds and capital requirements, EUR million



5.5.8.5 Leverage and leverage ratio

The table below depicts the information related to S-Bank's leverage ratio as referred to in the Capital Requirements Regulation, the Commission Delegated Regulation (EU) 2015/62 and the Commission Implementing Regulation (EU) 2016/200. In addition, the bottom part of the table includes a qualitative description of the processes used for the management of the risk of excessive leverage and the factors which have influenced the leverage ratio. S-Bank's leverage ratio – 6.38% (6.69%) – is strong.

Table 14: Leverage ratio (EU 200/2016)

Leverage ratio, EUR million		
Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures	**31 DEC 2017**	**31 DEC 2016**
Total assets as per published financial statements	5,670.61	5,203.57
Adjustments for derivative financial instruments	3.70	3.32
Adjustment for securities financing transactions (SFTs)		
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	197.84	160.59
Other adjustments	-40.37	-43.59
Leverage ratio total exposure measure	**5,831.78**	**5,323.89**

Table LRCom: Leverage ratio common disclosure	31 DEC 2017	31 DEC 2016
On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	5,629.24	5,158.68
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**5,629.24**	**5,158.68**
Derivative exposures		
Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	4.70	4.60
Total derivatives exposures	**4.70**	**4.60**
Other off-balance-sheet exposures		
Off-balance-sheet exposures at gross notional amount	1,578.50	1,161.49
(Adjustments for conversion to credit equivalent amounts)	-1,380.67	-1,000.90
Other off-balance-sheet exposures	**197.84**	**160.59**
Capital and total exposure measure	,	,
Tier 1 capital	**372.20**	**356.24**
Leverage ratio total exposure measure	**5,831.78**	**5,323.87**
Leverage ratio	**6.38%**	**6.69%**

Table LRSpl: Split-up of on-balance-sheet exposures (excluding derivatives, SFTs and exempted exposures)	31 DEC 2017	31 DEC 2016
Total on-balance-sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**5,629.24**	**5,158.68**
Trading book exposures	**0.00**	**0.00**
Banking book exposures, of which:	**5,629.24**	**5,158.68**
Covered bonds	360.60	282.31
Exposures treated as sovereigns	783.38	323.00
Exposures to regional governments, multilateral development banks (MDBs), international organisations and public-sector entities (PSEs) not treated as sovereigns	7.08	17.11
Institutions	394.72	640.28
Secured by mortgages of immovable properties	2,505.67	2,224.63
Retail exposures	1,006.50	920.85
Corporate	518.88	681.99
Exposures in default	11.88	12.14
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	40.54	56.37

Table LRQua: Free format text boxes for disclosure on qualitative items	Free format

Description of processes used to manage risk of excessive leverage

S-Bank monitors the risk of excessive leverage as part of its continuous reporting, and an internal minimum target level has been set for the Group's equity ratio as part of risk budgeting in the overall risk strategy.

A description of factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers.

S-Bank's equity ratio decreased from 6.7% to 6.4% during the financial year. The equity ratio was calculated in accordance with the Capital Requirements Regulation and the Commission Delegated Regulation (EU) 2015/62. The change during the financial year is attributable to the increase of EUR 509 million in the total leverage ratio exposure measure. Correspondingly, the Tier 1 own funds increased by EUR 16.9 million.

5.5.8.6 Asset encumbrance

The table below illustrates the information on assets available for securing funding in compliance with the Regulation (EU) 2017/2295. Pursuant to the Regulation, the table presents the encumbrances of all on-balance-sheet items and all off-balance-sheet items separately. The figures in the table are median values. The median values are determined by interpolating them as quarterly values from the previous 12 months.

S-Bank does not hold any collateral related to derivatives, which is why the template is only used to report S-Bank's assets.

Table 15: Assets encumbrance (EU) 2017/2295, EUR million

Template A: Encumbered and unencumbered assets

		Carrying amount of encumbered assets		**Fair value of encumbered assets**		**Carrying amount of unencumbered assets**		**Fair value of unencumbered assets**	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	**Assets of the reporting institution**	**182.6**				**5,337.3**			
030	Equity instruments	0.0				30.0			
040	Debt securities	168.3		168.3		1,200.3		1,200.3	
050	of which: covered bonds	10.1		10.1		320.6		320.6	
060	of which: asset-backed securities	0.0		0.0		0.0		0.0	
070	of which: issued by general governments	14.7		14.7		242.8		242.8	
080	of which: issued by financial corporations	153.6		153.6		619.6		619.6	
090	of which: issued by non-financial corporations	0.0		0.0		348.8		348.8	
120	Other assets	3.5				57.5		,	

Template B – Collateral received

				Unencumbered	
		Fair value of encumbered collateral received or own debt securities issued		**Fair value of collateral received or own debt securities issued available for encumbrance**	
			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	060
250	Total assets, collateral received and own debt securities issued	182.6			

Template C – Sources of encumbrance

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and asset-backed securities (ABSs) encumbered
		010	030
010	**Carrying amount of selected financial liabilities**	**7.4**	**11.4**
011	of which: over-the-counter (OTC) derivatives	7.4	11.4

TEMPLATE D – ACCOMPANYING NARRATIVE INFORMATION

The tables below present information on asset encumbrance and debts related to encumbered assets. The figures are given as a median for the quarters of 2017. Assets are considered encumbered if they have been pledged or given as collateral, or if they guarantee a transaction included in the balance sheet. Other assets that are not freely available to the Group are also considered encumbered. In most cases, the encumbered assets are related to derivatives and collateral connected to trading. Of the unencumbered other assets, intangible and tangible assets, accrued income and tax liabilities, among others, cannot be used as collateral.

5.5.9 S-BANK'S RISKS

5.5.9.1 General

A risk refers to an uncertainty regarding future financial performance. According to financial theory, risk elimination means low but predictable returns. In general, a risk-free return level is so low that if the risk-free return level is secured, it will result in a minor uncertainty in the financial performance, whereas operations will remain unprofitable after operating expenses. Therefore, business operations call for taking risks in a controllable manner within the framework offered by the risk appetite. In this way the return expectation is sufficient in relation to the expected risks.

The following discusses the definitions of S-Bank's key risks, according to the category of risk, and covers the methods used for measuring and managing, monitoring and reporting, as well as the formation of the risk-based capital requirements. S-Bank's risk-based capital requirement is presented at the end.

5.5.9.2 Credit risks

5.5.9.2.1 Definition, measurement and management of credit risk

Credit risk refers to the probability of a counterparty failing to meet its payment obligations as agreed, in other words, failing to meet its payment obligation to S-Bank, which causes a credit loss for S-Bank. A risk may arise in a situation where granting credit was not based on true and fair information or where the customer's financial standing or the value of collateral has changed during the lifecycle of the credit. A credit risk may also arise from off-balance sheet commitments, such as unused credit facilities, credit limits and guarantees. Moreover, credit and counterparty risks arise from S-Bank's investment activities, stock brokerage, counterparties' inability to meet their payment obligations and in asset management operations due to customers' outstanding commission payments.

S-Bank does not have any securitisation operations that could result in credit, counterparty or market risks.

The credit risk strategy ensures that credit risk management complies with good banking and lending practices and external regulation. The Board of Directors sets key lending goals and limits each year as part of the credit risk strategy. The set goals and limits are based on S-Bank's strategy, the action plan derived from it and the overall risk strategy. The Board of Directors steers the Group's lending levels by means of the credit risk strategy, as well as the related objectives, limits, credit decision authorisations and other relevant principles. Credit risk management includes the lending process, limits, factors that reduce the credit risk such as collateral management and guarantees, as well as credit risk monitoring, control and reporting.

The credit risk is managed in the business operations and support functions within the framework of the principles and limits defined in the Group's overall risk and credit risk strategy. This allows for ensuring that adequate capital is reserved for the risks taken and that the risk appetite and risk management objectives are met.

5.5.9.2.2 Process of granting and managing credit

In lending, the bank aims to provide customers with the most suitable credit products, or a combination thereof, which meet their specific needs. The granting and management of credit are based on a process that includes identifying the customer, a customer-specific risk analysis, a payment default check and a risk classification, as well as an assessment of the project to be funded and the collateral (if any) required. Customers applying for credit undergo an analysis in which the applicant's ability to meet their obligations is investigated. The information to be collected and analysed depends on the credit being applied for, its intended use and the customer group. In general, credit applications are evaluated on the basis of variables and criteria that describe the customer's creditworthiness, such as the customer's socioeconomic profile, repayment ability and factors related to the customer's payment behaviour.

The highest decision-making power with regard to credit rests with the Group's Board of Directors, which has delegated decision-making power further within the Group. Decision authorisations are influenced by the amount of the credit applied for, the total responsibilities of the customer, and potential real collateral and guarantees. Credit proposals and decisions, as well as changes to credit are prepared, implemented and documented as agreed. The credit decision process itself is centralised, and some credit decisions for private customers are made automatically on the basis of risk-rating models. This ensures that the credit decisions are profitable, effective and uniform. The material details and risks related to credit being granted are reviewed with the customer in accordance with the operating guidelines.

The loan ceiling set by the authorities, which determines the maximum amount of credit to be granted to private customers in housing finance in proportion to the fair value of collateral provided as security for the loan upon granting the credit, is 90%. In 2017, the average loan-to-value ratio in housing finance was 61.8% with S-Bank.

Credit management and customer monitoring allow for the regular monitoring of the credit granted, the development of customers' situations and the value of collateral. In this way, any problematic credit can be detected and necessary measures can be taken.

5.5.9.2.3 S-Bank's credit risk position

Where applicable, the tables on credit risks in these financial statements have been prepared in compliance with the publication requirements of Pillar 3 (EBA/GL/2016/11), which entered into force on 31 December 2017. In addition to the manner in which the information is to be presented, the guideline includes instructions on the content of specific rows and columns to be reported. Therefore, the tables and numerical information on credit risks are not fully comparable with the 2016 financial statements.

The credit risk is the most significant category of risk that ties S-Bank's minimum requirement for own funds. Table 16 illustrates the net amount of credit risk exposures included in S-Bank's balance sheet as well as the off-sheet credit risk exposures in total and as a mean value. The table presents the gross carrying amount of the exposure as net values, from which reserves or impairment have been deducted. The reported average net value of exposures is the mean value of the exposure values at the end of each quarter of the period under review.

The business transactions that generate the largest credit risk are lending secured by mortgages on immovable property (private customers, corporate customers and housing company customers), 35% of the credit risk exposures at the end of the period, retail exposure, 28% (including lending without collateral to private customers, among others), and corporations, 14%. The credit risk exposures increased by approximately 14% in relation to the year-end situation in 2016 (EUR 6,325 million) due to the increase in lending in line with the strategy.

Table 16: Total and average net amount exposures (EU CRB-B)

Exposure classes, EUR million	Net value of exposures at the end of the period	Average net exposures over the period
Central governments or central banks	519.3	303.4
Regional governments or local authorities	264.0	218.0
Public sector entities	7.1	7.1
Institutions	400.4	496.6
Corporates	1,032.1	1,144.5
Retail exposure	2,046.7	1,813.0
Secured by mortgages on immovable properties	2,529.8	2,437.7
Exposures in default	11.9	12.1
Items associated with particularly high risk	0.0	9.3
Covered bonds	360.6	328.0
Collective investment undertakings	30.7	27.3
Equity exposures	0.3	0.3
Other exposures	9.6	18.9
Total standardised approach	**7,212.4**	**6,816.1**

Table 17 presents the geographical distribution of on- and off-balance sheet exposures divided into significant areas based on exposure classes. A majority of the exposures – approximately 94% – concern Finland, while most of the rest, approximately 5%, concern the other Nordic countries. There have been no significant changes in the geographical distribution of exposures in relation to 2016.

Table 17: Geographic distribution of exposures (EU CRB-C)

Exposure classes, EUR million	Finland	Nordic countries	Other EU member states	Other countries	Total
Central governments or central banks	497.1	22.2	0.0	0.0	519.3
Regional governments or local authorities	250.9	13.1	0.0	0.0	264.0
Public sector entities	7.1	0.0	0.0	0.0	7.1
Institutions	251.5	102.2	34.7	12.0	400.4
Corporate	993.2	38.2	0.0	0.8	1,032.1
Retail exposure	2,044.4	0.1	1.7	0.5	2,046.7
Exposures secured by mortgages on immovable property	2,528.9	0.2	0.4	0.2	2,529.8
Exposures in default	11.9	0.0	0.0	0.0	11.9
Covered bonds	125.9	178.8	0.0	55.9	360.6
Collective investment undertakings	26.2	0.0	0.0	4.5	30.7
Equity exposures	0.2	0.0	0.1	0.0	0.3
Other exposures	9.6	0.0	0.0	0.0	9.6
Total	**6,746.8**	**354.8**	**36.9**	**73.9**	**7,212.4**

Table 18 presents the distribution of on- and off-balance sheet exposures by industry and exposure class. The table includes all industries and exposure classes determined as material in compliance with the EBA/GL/2014/14 guidelines. Industries and exposure classes that have been deemed non-material are presented in one row ("Other exposures") or one column ("Other industries total").

From a percentage point of view, approximately 56% of S-Bank's credit risk exposures are those for which an industry category has not been determined. In this column, 28% of the total exposures are private customers' credits secured by mortgages and 27% are other private customer credits. Some 20% of the credit risk exposures are targeted towards financial and insurance activities and some 8% towards real estate industry activities. There have been no significant changes in the industry distribution of exposures from 2016.

Table 18: Distribution of exposures by industry (EU CRB-D)

Exposure classes, EUR million	Manufacturing	Electricity, gas, steam and air conditioning supply	Construction	Wholesale and retail trade	Transport and storage	Information and communication	Financial and insurance activities	Real estate activities	Administrative and support service activities	Public administration and defence; compulsory social security	Other industries total	No industry	Total
Central governments or central banks	0.0	0.0	0.0	0.0	0.0	0.0	491.9	0.0	0.0	27.4	0.0	0.0	**519.3**
Regional governments or local authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	264.0	0.0	0.0	**264.0**
Public sector entities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.1	0.0	0.0	**7.1**
Institutions	0.0	0.0	0.0	0.0	0.0	0.0	400.4	0.0	0.0	0.0	0.0	0.0	**400.4**
Corporates	100.6	121.7	123.4	369.5	21.3	25.9	102.1	99.4	24.9	0.0	26.5	17.0	**1,032.1**
Retail	1.2	0.0	2.5	0.5	0.4	1.2	8.5	47.0	0.5	0.0	5.9	1,979.0	**2,046.7**
Secured by mortgages on immovable property	0.0	0.0	5.2	0.0	0.0	0.0	81.7	434.3	1.9	0.0	0.3	2,006.3	**2,529.8**
Exposures in default	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11.8	**11.9**
Covered bonds	0.0	0.0	0.0	0.0	0.0	0.0	360.6	0.0	0.0	0.0	0.0	0.0	**360.6**
Collective investment undertakings	0.0	0.0	0.0	0.0	0.0	0.0	21.0	9.7	0.0	0.0	0.0	0.0	**30.7**
Equity exposures	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	**0.3**
Other exposures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.6	**9.6**
Total	**101.9**	**121.7**	**131.2**	**370.0**	**21.7**	**27.1**	**1,466.4**	**590.4**	**27.2**	**298.5**	**32.7**	**4,023.7**	**7,212.4**

Table 19 presents the distribution of on-balance sheet exposures according to the remaining maturity divided into exposure classes. In departure from the tables above, this table does not include off-balance sheet exposures in compliance with EBA/GL/2016/11. The maturity of exposures secured by mortgages on immovable property is weighted on more than ten years (approximately 77% of the exposures secured by mortgages), which is common for residential mortgages. The share of short-term (0–3 months) receivables from central governments or central banks has increased in relation to the end of 2016.

Table 19: Maturity of exposures (EU CRB-E)

Exposure classes, EUR million	0–3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Central governments or central banks	518.2	0.0	1.1	0.0	0.0	519.3
Regional governments or local authorities	131.5	37.5	95.1	0.0	0.0	264.0
Public sector entities	0.0	2.0	5.1	0.0	0.0	7.1
Institutions	56.9	52.1	272.2	7.5	10.7	399.4
Corporates	187.8	28.0	213.2	38.9	51.0	518.9
Retail exposure	278.8	7.0	153.0	201.8	365.9	1,006.5
Secured by mortgages on immovable property	104.9	8.1	267.9	206.4	1,918.4	2,505.7
Exposures in default	2.6	0.1	1.1	1.1	7.1	11.9
Covered bonds	5.1	64.9	168.7	121.9	0.0	360.6
Collective investment undertakings	0.0	0.0	0.0	0.0	30.7	30.7
Equity exposures	0.0	0.0	0.0	0.0	0.3	0.3
Other exposures	9.3	0.0	0.0	0.2	0.0	9.6
Total	**1,295.2**	**199.7**	**1,177.3**	**577.7**	**2,384.1**	**5,633.9**

Table 20 provides a summary of S-Bank's on- and off-balance sheet credit risk exposures before and after credit risk mitigation, and the minimum capital requirements on exposure classes (8%). For further information on credit risk mitigation, guarantees and financial collateral, see section 5.5.9.2.5.

Table 20: Summary of credit risk exposures according to counterparty before and after credit risk mitigation

Exposure classes, EUR million	Exposure value before credit risk mitigation	Guarantees	Financial collateral	Exposure after credit risk mitigation	Risk-weighted exposure amounts	Minimum requirement for own funds
Central governments or central banks	519.3	185.5	0.0	704.8	0.0	0.0
Regional governments or local authorities	264.0	0.2	0.0	264.2	0.0	0.0
Public sector entities	7.1	0.0	0.0	7.1	1.4	0.1
Institutions	400.4	-13.4	32.3	419.3	128.0	10.2
Corporates	1,032.1	79.1	-18.9	1,092.4	577.8	46.2
Retail exposure	2,046.7	-251.4	-13.4	1,781.9	577.3	46.2
Secured by mortgages on immovable property	2,529.8	0.0	0.0	2,529.8	876.1	70.1
Exposures in default	11.9	0.0	0.0	11.9	14.8	1.2
Covered bonds	360.6	0.0	0.0	360.6	36.1	2.9
Collective investment undertakings	30.7	0.0	0.0	30.7	30.7	2.5
Equity exposures	0.3	0.0	0.0	0.3	0.3	0.0
Other items	9.6	0.0	0.0	9.6	9.6	0.8
Total	**7,212.4**	**0.0**	**0.0**	**7,212.4**	**2,251.9**	**180.2**

5.5.9.2.4 Large exposures and concentration risks

The reason for managing large exposures is to limit the total exposure of individual clients and groups of connected clients, and thereby manage the resulting credit risk. According to the regulatory definitions, the exposure of a single group of connected clients is considered a large exposure when its value is at least 10% of the eligible capital. S-Bank's exposure relating to a particular client or a group of connected clients may not exceed 25% of S-Bank's eligible capital after credit risk mitigation.

According to the Capital Requirements Regulation (Article 395), where that client is an institution or where a group of connected clients includes one or more institutions, the exposure may not exceed 25% of S-Bank's capital or EUR 150 million, whichever the higher. The Regulation also requires that the total sum of exposure values of the other clients included in the group of connected clients does not exceed 25%, taking mitigation into account. S-Bank's Board of Directors has defined a maximum limit of EUR 150 million for each institution, which does not exceed the other limit laid down in the Regulation, i.e. 100% of own funds.

S-Bank manages large exposures at the Group level by setting overall limits for each group of connected clients. In practice, an individual exposure amount for a group of connected clients may be lower than the limit recommended by the Committee of European Banking Supervisors (CEBS), which is 2% of own funds. A group of connected clients refers to clients with control over each other or a significant financial dependence on each other. In this context, a significant financial dependence refers to a situation in which the financial difficulties of one client would clearly compromise the solvency of one client included in the group or all of the clients included in the group. The limit for a group of connected clients is allocated further to different business units by the Banking Executive Committee.

With regard to granting credit, S-Bank's private customer base is extensive. The potential concentration risk is reduced by the customer base's geographical distribution across Finland and the distribution of the credit portfolio and collateral across various credit products. The concentration risk to S-Bank arises primarily from credit institutions and corporates. The concentration risk is monitored regularly as part of the management's risk report. The applied model shows that there is no concentration risk from credit institutions, and thus no capital is reserved for the risk. The capital plan includes a separate stress test targeting the concentration risk of the largest exposures. The risk-based capital requirement for the concentration risk is based on the test.

Indirect exposure arising from collateral is also part of the monitoring of risk concentrations. Immovable property collateral is S-Bank's largest individual category of collateral. Immovable property collateral is spread between a large number of individual loans and they are also geographically distributed across Finland. The effects of any potential changes in the value of immovable property collateral on the Group's capital adequacy and capital are assessed as part of the capital plan's scenario analyses.

5.5.9.2.5 Credit risk mitigation

Collateral and guarantees are used by S-Bank as a method for reducing credit risks. They impact the granting and pricing of secured credit. S-Bank's Board of Directors decides on the acceptable categories of collateral and their valuation principles. The guarantees used include conventional forms of guarantee, such as government guarantees and the guarantee obligations of natural persons or legal entities. The use of guarantees transfers the exposure from the counterparty to the guarantor. Collateral and guarantees are used in the credit risk management of various credit products in accordance with methods described in the credit granting guidelines, which are used to ensure that collateral is acceptable, binding, extensive enough and realisable.

The principle is that credit is only granted to customers who have an adequate ability to repay, regardless of the value of the potential collateral. The values of guarantees are monitored and updated during the lifecycle of the credit and information on their features is maintained for the purposes of identifying and managing any risk concentrations. In addition, the amount of collateral and guarantees is regularly reported within the organisation.

The level of risk-taking is also controlled with risk-based pricing, in which case the customer's creditworthiness and collateral (if any) influence the price of the credit product.

The risk mitigating factors applied in the calculation of a credit risk's capital adequacy requirement comprise immovable property collaterals, unfunded credit protection (such as government guarantees) and funded credit protection, such as debt instruments issued by institutions.

The table below describes the distribution of collateral and guarantees in accordance with capital adequacy reporting.

The greatest euro-denominated change has taken place in exposures secured by mortgages, in step with the increase in the mortgage portfolio. Exposures to central governments and central banks have also increased by approximately 60% in relation to 2016 due to an increase in loans guaranteed by the government. The Finnish Government is the most significant individual guarantor. The item "Exposures to corporates" consists primarily of a guarantee insurance issued by Garantia Insurance Company, which covers the S-Asuntolaina mortgages.

Table 21: Collateral used for capital adequacy

	Exposure value (EUR million)	
Collateral and guarantees used for capital adequacy	**2017**	**2016**
Exposures to central governments or central banks	185.5	115.7
Exposures to regional governments or local authorities	0.2	2.2
Exposures to credit institutions and investment firms	32.3	19.0
Exposures to corporates	79.1	64.4
Secured by mortgages on immovable property	2,529.8	2,268.6

Table 22 presents the impact of credit risk mitigation on on- and off-balance sheet exposures at the end of the financial period. The on-balance sheet exposure amounts to approximately 78% of all credit risk exposure (EUR 7,213.6 million) before credit risk mitigation. The density of risk-weighted exposure amounts (RWAs) illustrates the average risk weight of the exposure class after the impact of the conversion factor (CCF) and credit risk mitigation (CRM) have been deducted. The density of risk-weighted exposure amounts has decreased by approximately 6 percentage points in relation to 2016. This is due to the divestment of the SME, agricultural and forestry business, among other things.

Table 22: Credit risk exposure and CRM effects (EU CR4)

	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
Exposure classes, EUR million	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
Central governments or central banks	519.3	0.0	687.1	3.5	0.0	0.0%
Regional governments or local authorities	264.0	0.0	264.2	0.0	0.0	0.0%
Public sector entities	7.1	0.0	7.1	0.0	1.4	20.0%
Institutions	399.4	1.0	418.3	0.5	128.0	30.6%
Corporates	518.9	513.3	578.4	35.4	577.8	94.1%
Retail exposure	1,006.5	1,040.2	760.1	12.5	577.3	74.7%
Secured by mortgages on immovable property	2,505.7	24.1	2,505.7	5.1	876.1	34.9%
Exposures in default	11.9	0.0	11.9	0.0	14.8	124.4%
Covered bonds	360.6	0.0	360.6	0.0	36.1	10.0%
Collective investment undertakings	30.7	0.0	30.7	0.0	30.7	100.0%
Equity exposures	0.3	0.0	0.3	0.0	0.3	100.0%
Other items	9.6	0.0	9.6	0.0	9.6	100.0%
Total	**5,633.9**	**1,578.5**	**5,633.9**	**57.0**	**2,251.9**	**39.6%**

Table 23 presents the breakdown of on- and off-balance credit risk exposure by the asset's exposure class and risk weight after the deduction of the conversion factor and credit risk mitigation. The risk weight used in the breakdown corresponds to the different credit quality steps applied according to Articles 113–134 of the Capital Requirements Regulation.

The risk weights of bonds issued by credit institutions are determined on the basis of the credit assessment of the issuer itself or the credit assessment of the instrument. In terms of credit institutions and investment firms, exposures fell predominantly into the 50% risk-weight category. When calculating the capital adequacy for credit risks, S-Bank uses the credit assessments of Standard & Poor's, Moody's Investors Service, and Fitch Ratings in the determination of risk weights for governments and central banks, regional governments, public sector entities, credit institutions, corporates and investment firms. If the exposure amount belongs to a special issuance programme or an arrangement for which a specific credit assessment is available, this credit assessment is used to determine the risk weight. The final column of the table, "Of which unrated", includes exposures for which a credit assessment by an external credit assessment institution (ECAI) is not available.

When analysed by risk weight, S-Bank's exposure fell predominantly into the 35% risk-weight category (EUR 2,511 million), which includes exposures secured by mortgages on immovable property. In the category with a risk weight of 100%, S-Bank mainly recognised the exposure to corporates (EUR 576 million), while the lowermost category of 0% consisted mostly of exposure to central governments and central banks and exposures to regional governments and local authorities (EUR 1,005 million). Covered bonds fall primarily into the 10% category and retail exposures to the 75% category. In relation to 2016, the share of exposures to central banks (risk weight 0%) has increased by approximately EUR 460 million. The loan portfolio secured by mortgages on immovable property (risk weight 35%) also increased by approximately EUR 278 million. The exposure to institutions (risk weight 20%) decreased by approximately 270 million and ´the exposures to corporates (risk weight 100%) decreased by approximately EUR 155 million.

Table 23: Breakdown of exposure values by risk weight (EU CR5)

Exposure classes, EUR million	**Risk weight, %**								**Total**	**Of which unrated**
	0%	10%	20%	35%	50%	75%	100%	150%		
Central governments or central banks	690.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	690.7	0.0
Regional governments or local authorities	264.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	264.2	0.0
Public sector entities	0.0	0.0	7.1	0.0	0.0	0.0	0.0	0.0	7.1	0.0
Multilateral development banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Institutions	50.6	0.0	185.8	0.0	182.5	0.0	0.0	0.0	418.8	27.9
Corporates	0.0	0.0	0.0	0.0	78.6	0.0	528.9	6.4	613.9	446.9
Retail exposure	0.0	0.0	0.0	0.0	0.0	772.6	0.0	0.0	772.6	772.6
Secured by mortgages on immovable property	0.0	0.0	0.0	2,510.8	0.0	0.0	0.0	0.0	2,510.8	2,510.8
Exposures in default	0.0	0.0	0.0	0.0	0.0	0.0	6.1	5.8	11.9	11.8
Exposures associated with particularly high risk	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Covered bonds	0.0	360.6	0.0	0.0	0.0	0.0	0.0	0.0	360.6	0.0
Collective investment undertakings	0.0	0.0	0.0	0.0	0.0	0.0	30.7	0.0	30.7	30.7
Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.3	0.3
Other items	0.0	0.0	0.0	0.0	0.0	0.0	9.6	0.0	9.6	9.6
Total	**1,005.4**	**360.6**	**192.9**	**2,510.8**	**261.0**	**772.6**	**575.5**	**12.2**	**5,691.0**	**3,810.5**

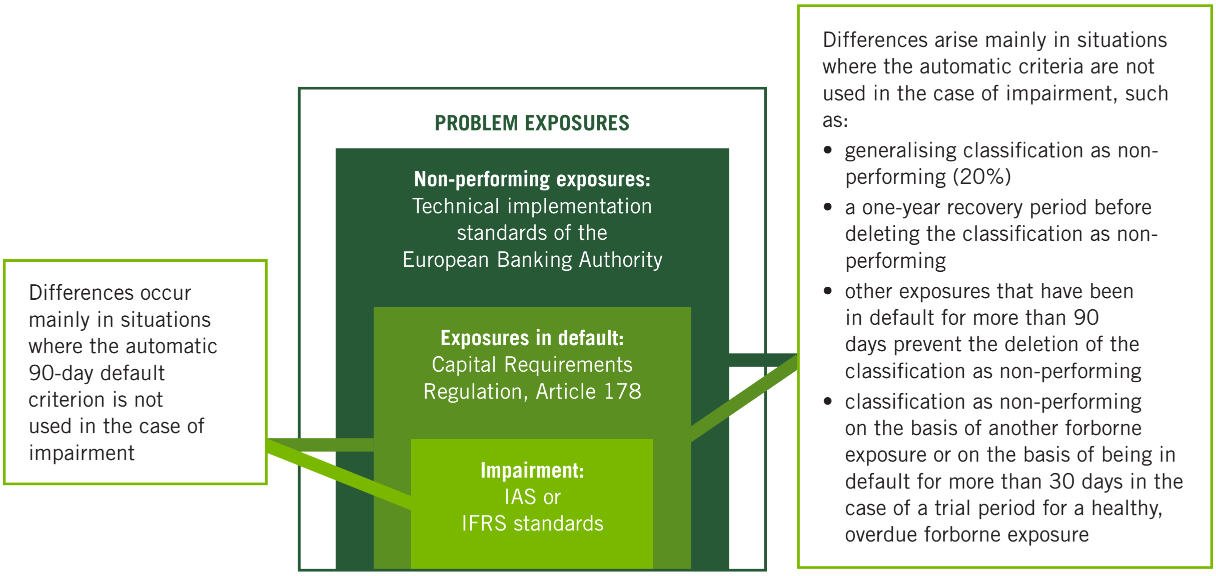
5.5.9.2.6 Quality of credit risk exposures and impairment

The following presents the essential concepts related to the quality of credit risk exposures, problem receivables and impairment, followed by numerical information on the quality of credit risk exposures in 2017. Finally, a description of the key changes caused in the assessment of impairment resulting from the adoption of IFRS 9 is given.

Description, definitions and management

Problem exposures include exposures where the debtor is experiencing repayment difficulties and the credit agreement is restructured (forborne exposures), loans whose repayment has been delayed by more than 90 days (exposures in default) and impaired as well as non-performing exposures. The figure below illustrates the relations of the accounting and capital adequacy regulation concepts linked to problem exposures. The figure also presents the key differences between the processing of these items in accounting and in capital adequacy regulation.

Figure 11: Mutual relation of the definitions of non-performing exposures, exposures in default and impairment, and differences in accounting and capital adequacy regulation



Source: European Central Bank (Guidance to banks on non-performing loans, March 2017)

Delays in the payment of credit products, customers' ability to repay and any possible irregularities are monitored on a daily basis and acted on as soon as possible through credit control measures. S-Bank's credit control and collection functions are guided by risk-based monitoring methods, efficient processes and good collection practices. The development of problem exposures is steadily monitored in regular banking operations and through risk control reports.

Impairment

According to financial statement regulations, impairment refers to a situation in which it has been estimated on the basis of objective criteria that the bank will not receive its receivables in full. Objective evidence consists of aspects such as a customer's delay in payment, insolvency or bankruptcy, reorganisation or the restructuring 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 impairment loss recognised is the best estimate of the amount of expected credit losses, taking all the relevant information into account about the situation on the reporting date which is available before the financial statements are published.

The impairment loss is recognised on the balance sheet and in the result through an impairment assessment. Impairment losses consist of both individually significant (agreement-specific) and group-specific impairments. In the first stage, the assessment covers significant individual exposures that are considered specific credit risk adjustments according to Article 442b of the Capital Requirements Regulation. The assessment considers the extent of collateral in relation to credit, the value percentage of collateral, the category of the collateral and potential realisation costs, as well as the payment behaviour and cash flow estimates. At a later date, should objective evidence emerge on the increase in the value of a financial asset, the impairment will be reversed. After this, exposures that are not individually significant or subject to an earlier impairment recognition undergo a group-specific impairment assessment (general credit risk adjustments). Credit claims with similar credit risk properties are divided into groups. Their assessment aims to analyse and assess the transfer of the credit base into the following delay states and, eventually, to credit losses.

S-Bank conducts an impairment assessment at least once every quarter. At the end of the financial year, an item or group of items in loans and other exposures are assessed for potential impairment. Individual and group-specific impairments are assessed by the business units and Risk Control and are submitted to the Banking Executive Committee for approval.

Debt securities and other domestic and foreign securities not recognised in financial assets measured at fair value through profit and loss, in addition to investments held to maturity and loans and other receivables are recognised in available-for-sale financial assets. When there is objective evidence of the impairment of debt securities or shares included in the available-for-sale financial assets, the cumulative loss directly recognised in equity is removed from equity and recognised in the income statement.

The impairment loss of a share that is not publicly quoted is determined as being the difference between the carrying amount and the present value of estimated future cash flows discounted at the market yield of a similar item on the reporting date. If the fair value of notes or bonds classified as available-for-sale later increases and the increase can be objectively related to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised through profit and loss. If the fair value of a share subsequently increases, the increase in value is recognised in equity.

Impairment losses related to financial assets available for sale are also assessed by the business operations and Risk Control before the Banking Executive Committee approves the entries. No impairment losses were recognised in available-for-sale financial assets in 2017.

Exposures in default

According to the Capital Requirements Regulation, any exposures that were due more than 90 days ago will probably remain unpaid or are subject to an agreement-specific impairment. If part of an exposure has been classified as an exposure in default in the balance sheet, the remaining undrawn part, i.e. the off-balance-sheet share, may also be classified as an exposure in default.

Forborne exposure

Forborne exposures refer to agreements made with customers concerning a release from the original repayment programme, aiming to help the customer get through temporary repayment difficulties. Forborne exposures are granted to prevent customers who suffer from minor financial difficulties from turning into problem customers, or to offer problem customers an opportunity to rectify their situation. The goal in forborne exposure is always to achieve sustainable repayment.

Non-performing exposures

The concept of non-performing exposures is broader than the concepts of impairment and insolvency. All items for which an agreement-specific impairment according to the applied financial statement regulations is made or where the exposure is in default according to the Capital Adequacy Regulation, are also classified as non-performing exposures. Non-performing exposures also cover exposures of other kinds, such as forborne exposures categorised as non-performing. Therefore, the main criteria for a non-performing classification are the time for which the exposure has been overdue and the probability of default.

Quality of exposures

The following discusses the quality of S-Bank's on- and off-balance sheet exposures. Table 24 includes exposures in default and solvent exposures, as well as the amount of impairment from exposures (including credit risk adjustments and credit losses). The on- and off-balance sheet exposures in the 2017 financial statements include some 0.2% of exposures in default (EUR 12.4 million). Specific and general credit risk adjustments (i.e. agreement- and group-specific impairments) amount to EUR 4.2 million (EUR 3.6 million in 2016). Euro-denominated credit losses incurred in 2017 (EUR 10.9 million) were larger than in the previous financial period, but the share of the credit loss amount in relation to the loan portfolio has remained at the same level (around 0.2% of the exposures). The final column in the table presents the net carrying amount of the exposures, which is not the same as the net value used in capital adequacy calculations.

Table 24: Quality of exposures

	Gross carrying amounts					
Breakdown of exposures, EUR million	Exposures in default	Non-defaulted exposures	**Specific credit risk adjustment**	**General credit risk adjustment**	**Accumulated credit losses**	**Net values**
Loans and advances	12.4	4,241.1	0.5	3.8	10.9	4,249.2
Debt securities	0.0	1,331.4	0.0	0.0	0.0	1,331.4
Other	0.0	89.9	0.0	0.0	0.0	89.9
Balance sheet exposure total	**12.4**	**5,662.5**	**0.5**	**3.8**	**10.9**	**5,670.6**
Off-balance sheet exposure total	**0.0**	**1,578.5**	**0.0**	**0.0**	**0.0**	**1,578.5**

The impairments mainly involve the credit portfolio of private customers, whereas impairment recognitions involving corporate customers are very small. The largest impairment item, both in terms of percentages and in euros, arises from unsecured card and consumer credit. Given that corporate customers' share of the total impairment is marginal, S-Bank does not disclose the impairment of corporate customers by industry by virtue of the principle of proportionality.

94% of S-Bank's exposures concern Finland (see Table 17), and the geographical distribution of the impairment of private customers covers the entire country. Therefore, the geographical distribution of impairment is not disclosed by virtue of the principle of proportionality.

Table 25 includes the maturity distribution of overdue on-balance sheet exposures, regardless of the impairment status. In the maturity distribution, exposures are reported as gross carrying values, i.e. as the original agreed exposure values before impairment. The gross carrying value includes the agreement's capital and the interest. The gross carrying values of overdue exposures are broken down according to the amount of the oldest overdue exposure. Most of the overdue exposures fall into the less than 90 days category, which amounts to approximately 60% of all overdue exposures. Approximately 41% of all overdue exposures fall into the less than 60 days category, and approximately 13% of all exposures fall into the category of more than 12 months. The share of overdue exposures in the on-balance sheet gross carrying value of exposures is very low (0.6%).

Table 25: Ageing of past-due exposures (EU CR1-D)

	Gross carrying amount (EUR million)					
Balance sheet item, EUR million	**31–60 days**	**61–90 days**	**91–180 days**	**181 days to 12 months**	**More than 12 months**	**Total**
Exposures to the public and public-sector entities	13.0	5.9	4.9	3.6	4.0	31.4

S-Bank has supplemented its impaired and overdue exposures in accordance with Article 442(1)g and i of the Capital Requirements Regulation with information on non-performing and forborne exposures. The exposures are reported as gross carrying values before impairment. A summary of these exposures is given in the table below. The share of on- and off-balance-sheet forborne exposures (EUR 18.4 million in total) accounts for approximately 0.3% and the share of non-performing exposures (EUR 14.5 million) accounts for approximately 0.2% of the gross carrying value of the on- and off-balance sheet exposures.

Table 26: Non-performing and forborne exposures

	Gross carrying values of performing and non-performing exposures							**Accumulated impairment and provisions and negative fair value adjustments due to credit risk**			
				Of which non-performing				**Of performing exposures**		**Of non-performing exposures**	
EUR million M€		Of which performing but past due by 31–90 days	Of which performing forborne		Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne
Debt securities	1,331.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans and advances	4,253.5	17.8	17.4	14.3	12.4	1.5	3.5	3.7	0.1	0.5	0.1
Other	89.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance sheet exposure total	**5,674.9**	**17.8**	**17.4**	**14.3**	**12.4**	**1.5**	**3.5**	**3.7**	**0.1**	**0.5**	**0.1**
Off-balance sheet exposure total	**1,578.5**	**0.0**	**1.0**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

IFRS 9 impairment model

IFRS 9, effective as of 1 January 2018, introduces 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 recognition for all items included in the scope of the standard, regardless of their credit risk level. A deductible item for a loss corresponds to the expected credit losses during the entire period of validity, provided 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 credit risk adjustment cannot be reliably assessed. If the credit risk has not significantly increased from the original entry date, the expected credit loss for 12 months must be calculated.

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 limits or guarantees. 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.

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 lifecycle 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 expert assessments.

The inclusion of forward-looking information will be realised by taking into account the impact of the forecast development of macroeconomic variables (such as the unemployment rate, inflation and GDP growth) on the expected credit losses. The consideration of the macroeconomic variables in the impairment model is likely to influence the range of expected credit losses.

Table 27 includes bridge calculations based on the status on 31 December 2017 on impairment according to IAS 39 and expected credit losses calculated in accordance with IFRS 9. The most important euro-denominated change involves impairment of private customers: this is expected to increase by around EUR 8.8 million when the transition to the expected credit loss calculation in accordance with IFRS 9 takes place. Another major change is the recognition of expected credit losses from housing companies and large enterprises, as well as from investment activities, which is expected to increase by approximately EUR 2.9 million. The total sum of expected credit losses according to the preliminary impact analyses was approximately EUR 15.9 million, compared to an impairment of EUR 4.2 million pursuant to the previous model based on IAS 39. The impact that the transition to IFRS 9 will have on capital adequacy is expected to be approximately -0.5 percentage points from the situation on of 31 December 2017. The bridge calculation presented in the table does not yet take into account the impact of the expected development of the macroeconomic factors on the expected credit losses according to IFRS 9.

Table 27: IAS 39 – IFRS 9 bridge calculation

Impairment/expected credit losses, EUR thousand 31 Dec 2017	IAS 39	IFRS 9 stage 1	stage 2	stage 3	Total IFRS 9 ECL
Secured lending to private customers	919	320	3,074	1,182	4,576
Unsecured lending to private customers	3,301	1,190	6,582	623	8,394
Companies and entrepreneurs	26	26	3	76	105
Large enterprises	-	1,505	-	-	1,505
Housing associations	-	27	137	-	165
Investment activities	-	1,195	-	-	1,195
Total	**4,247**	**-**	**-**	**-**	**15,939**

For more information on the treatment of financial assets and liabilities and the changes arising from the classification according to IFRS 9, see section 5.4.4.

5.5.9.2.7 Counterparty credit risks

According to the EU Capital Requirements Regulation, a counterparty credit risk (CCR) can arise from a derivative contract in a case where the counterparty is not likely to meet their contractual obligations and the contract's market value is positive. Derivative contracts are used when hedging a specific balance sheet item, position or cash flow against future value changes.

S-Bank uses the mark-to-market method set out in Article 274 of the Capital Requirements Regulation when determining the counterparty credit risk and the current replacement cost of all derivative contracts with a positive market value. S-Bank measures the market risk of commodity derivatives on a daily basis (for further information, please see section 5.5.9.3.8). The notes to the financial statements (note 5 to S-Bank Group's financial statements and note 5 to the financial statements of S-Ban Ltd) present S-Bank's derivative contracts and their division into contracts for hedging purposes and contracts for other than hedging purposes.

Table 28 illustrates S-Bank's commodity derivatives and their nominal values according to remaining maturity.

Table 28: Nominal values of derivatives in accordance with the remaining maturity

Nominal values on 31 Dec 2017, EUR million	Less than 1 year	1–5 years	More than 5 years
Interest rate derivatives			
Forward contracts			
Interest rate swaps	235.0	314.0	152.2
Options, bought	50.0	150.0	
Options, written		150.0	
Equity derivatives			
Forward contracts			
Options, bought	0.0		
Options, written	0.0		
Currency derivatives			
Forward contracts			
Interest-rate swaps and currency swaps			

S-Bank enters into ISDA (International Swaps and Derivatives Association) and CSA (Credit Support Annex) agreements with its counterparties that have derivative contracts. These agreements reduce the counterparty credit risk. The agreements specify the general terms and conditions related to derivatives, as well as the collateral application methods between the counterparties. When calculating the maximum amount of the counterparty credit risk related to financial instruments, the open position includes cash and cash equivalents, investments, deposits and other financing transactions, such as derivative contracts. The limits set for counterparties are discussed in sections 5.5.4.2 and 5.5.9.2.4.

Table 29 includes a review of the liabilities to which the counterparty credit risk framework is applied (excluding requirements on credit valuation adjustment or liabilities determined through central counterparties). In the table, the current market value of the derivative contract corresponds to the fair value of the instruments so that both negative and positive fair values have been taken into account in the calculation. Potential future credit risk is calculated on the basis of the values of the underlying assets, using the special percentages laid down in Article 274 of the Capital Requirements Regulation. The sum of the current replacement cost and the potential future credit risk constitutes the exposure value of the derivative contract. The minimum requirement for counterparty credit risk capital in Pillar 1 (EUR 0.1 million), which is taken into account as part of the minimum credit risk capital requirement (Table 12), is formed on the basis of the risk-weighted exposure of the derivatives (EUR 1.4 million).

Table 29: Analysis of CCR exposure (EU CCR1)

EUR million	Notional	Current market value	Potential future credit exposure	Multiplier	Exposures at default (EAD) post CRM	RWAs
Mark to market		5.3	4.6		0.0	1.4

S-Bank does not have any exposures related to central counterparties (CCP) as laid down in Article 301 of the Capital Requirements Regulation. Table 30 includes exposure amounts related to ISDAs and CSAs with derivative counterparties.

Table 30: Exposures to CCPs (EU CCR8)

EUR million	EAD post CRM	RWAs
Exposures to non-qualifying CCPs (QCCPs) (total)		**1.4**
Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	0.0	1.4
(i) OTC derivatives	0.0	1.4

S-Bank does not have any collateral in its possession related to derivatives.

S-Bank does not have an international credit rating, which means that S-Bank's collateral requirements are not influenced by a credit rating.

Table 31 includes the carrying values of the cash collaterals posted by S-Bank in relation to ISDAs and CSAs. The cash collaterals have been posted to cover any counterparty credit risks related to derivatives. S-Bank's cash collaterals are unsegregated, i.e. they are not held in a bankruptcy-remote manner.

Table 31: Composition of collateral for exposures to CCR (EU CCR5-B)

EUR 1,000	Market value	Fair value of posted collateral
Derivative contracts	-5.3	10.7
Total	**-5.3**	**10.7**

Derivative contracts also involve the risk of a credit valuation adjustment (CVA), which refers to an adjustment of the mid-market valuation of the portfolio consisting of transactions with counterparties. The CVA includes the current market value of the counterparty credit risk to S-Bank, but not the current market value of the credit risk caused by S-Bank to the counterparty. At the end of the financial period, the risk-weighted exposure amounts related to the CVA totalled EUR 2.9 million and the minimum capital requirement according to Pillar 1 that is related to the risk totalled EUR 0.2 million (see Table 12).

S-Bank is preparing to transfer to the clearing of over-the-counter (OTC) derivative contracts through central counterparties pursuant to the European Market Structure Regulation (EMIR) in 2018. This arrangement aims at reducing the risks related to individual counterparties.

The wrong-way risk as specified in Article 291 of the Capital Requirements Regulation does not apply to S-Bank.

5.5.9.2.8 Credit risk monitoring and reporting

The Banking operations are responsible credit risk management. As part of these operations the development of the balance sheet as well as information pertaining to customer groups and products in the credit portfolio are regularly monitored. Reports are used to monitor development of the credit portfolio, achievement of set goals and risk levels, the credit portfolio's division into risk categories, the regional distribution of credits, risk concentrations, the value of collaterals, the achievement of margins, the performance of risk rating models, the performance of credit management processes and problem receivables.

In addition, the Risk Control function monitors and ensures that the business operations function in accordance with the principles defined in the overall risk and credit risk strategy, the limits set and the decision authorisations. Risk Control regularly reports on S-Bank Group's credit risk profile and the success of the risk management to S-Bank's management, the Risk Committee, the Risk and Audit Committee and the Board of Directors.

5.5.9.2.9 Risk-based capital requirement for credit risks

The risk-based capital requirement (Pillar 2) involves the assessment of private customers based on areas such as the probability of default (PD), the loss given default (LGD) and the conversion factor (CF). For credit secured by mortgages, the adequacy of the collateral coverage and the amount of realised credit losses are reviewed. The risk-based capital requirements of residential housing companies and large corporate customers are modelled using the PD and the LGD models determined in the Capital Requirements Regulation. The calculated risk-based capital requirement of Pillar 2 is compared with the requirement of Pillar 1. If Pillar 2 is lower than Pillar 1, it can be stated that the capital requirement of Pillar 1 is sufficient to cover the risk-based capital requirement. If the risk-based capital requirement is higher than the requirement of Pillar 1, the calculations in Pillar 2 must be used when assessing the adequacy of capital.

Based on the assessments, it can be expected that the risk weights pursuant to the Standardised Approach (Pillar 1), are sufficient to cover the risk-based capital requirement. To sum up, the risk-based capital requirement comprises the capital requirements under Pillar 1 and the concentration risk calculated for largest exposures. In departure from the Pillar 1 capital requirement, the credit risk of the Treasury unit's investment operations is handled in Pillar 2, as part of the market risk.

5.5.9.3 Market risks

5.5.9.3.1 Definition, measurement and management of market risks

In general, the term "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. S-Bank's market risks consist mainly of the interest rate risk in the banking book attributable to the investment activities of the Treasury unit and the Banking business, but the Group also has share, currency and property risks to some extent.

The Corporate Customers, Treasury unit and Capital Markets function does not generate any overnight risk positions, which is why S-Bank's trading portfolio does not include any market risk. Therefore, S-Bank does not generate any market risk according to Pillar 1 or any Pillar 1 market risk capital requirement. As S-Bank's market risks arise from the banking book, they are – in accordance with the Pillar 1 regulation and methods – partially included in the credit risk of the Pillar 1 Standardised Approach.

In the Pillar 2 review, in addition to the aforementioned market risk types identified in the banking book, S-Bank takes into account the risk arising from the credit risk component of debt securities, which S-Bank calls the spread risk. Therefore, the market risk in S-Bank's Pillar 2 consists of the interest rate risks in the banking book, the spread risk, the equity risk, in addition to the currency risk and property risks. Diversification benefits between the categories of risk in question, which are based on mutual correlations and which reduce the overall market risk, are also taken into account as part of the Pillar 2 review.

The market risk arises indirectly in the investment operations of investment and alternative funds, but these operations are regulated by the Finnish Act on Common Funds (48/1999), the Act on Alternative Fund Managers (126/2014) 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 related to investment and alternative funds is not directly reflected in S-Bank's result. However, the realisation of market risks affects the result indirectly in such 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 and ICAAP reporting with scenario techniques as part of the business risks.

Market risks are viewed from the perspective of current value, income and market risks, which measure the risks from different points of view. The market price risk always relates to the market price sensitivity of balance sheet items and the resulting effects of market price fluctuation on fair value. Market risks are measured by means of allocation, sensitivity figures, stress tests and scenario analyses.

The purpose of S-Bank's market risk management is to manage such unexpected changes in the bank's result and capital adequacy which are caused by market price fluctuations. Another purpose is to maximise returns on equity within the scope of the risk appetite. Market risk levels and limits are optimised in relation to returns on risk capital; i.e. the ratio between the return expectation and restricted risk capital. The restricted risk capital is compared with the Pillar 1 capital requirement and the Pillar 2 capital goal, which is in accordance with S-Bank's internal market risk model.

Market risk management is based on a conservative risk appetite and the risk limits derived from it, which are monitored and reported actively to the management of S-Bank. Proactive monitoring and observation of the external business environment are emphasised in market risk management. Market risk concentrations are managed with limits set at the level of the Group and the business units. This is determined as the monetary market risk-sensitivity at the Group and business unit level. Counterparty limits, which are used as a method for managing credit risk concentrations (for more information, please see section 5.5.9.2.4), can also be used to manage market risk concentrations at the counterparty and geographical level. The limitation allows for market risks which arise in a diversified manner and the management of market risk concentrations as a whole by setting a permitted maximum limit for market risk-sensitivity.

The Treasury and Investment Operations unit ("Treasury"), which is part of S-Bank's Banking business, is tasked with managing the overall market risk and the credit risk of its own counterparties within the scope of its authorisation. Strategic goals for the Treasury unit are set as part of the overall risk strategy and risk appetite approved by the Board of Directors, and the investment plan based on these. The Treasury unit handles the investment of any excess assets from other business units. It also oversees the achievement of the goals of the investment operations. These aim to optimise desired investment results at the selected risk level, so that in the long run and under all conditions, the investment operations will guarantee good and stable profits in consideration of the capital requirements. Moderate risk-taking in terms of market risks aims to support the Group's profitability and thereby an increase in the Group's own funds.

5.5.9.3.2 Interest rate risk in the banking book

Most of S-Bank's market risk arises from the interest rate risk in the banking book (IRRBB). The IRRBB is reviewed as a structural interest rate risk in the Banking operations and as the interest rate risk of debt securities in the Treasury unit's portfolio.

The structural interest rate risk in the Banking business arises from differences between the index-linking and maturity of receivables and liabilities, which is why the future net interest income of Banking operations and the net present value of the balance sheet are not entirely foreseeable. In addition to the structural interest rate risk arising from deposit and lending operations, the Treasury unit's investment activities result in an 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 an interest rate risk.

The IRRBB is reviewed from the perspective of the net interest income (NII) at risk, the economic value of equity (EVE) at risk and the market price risk. The income, current value and price risks measure risks from different aspects. The price risk is related to the market price sensitivity of balance sheet items and the resulting effects of the market price fluctuation on fair value. Thus, the price risk is an interest rate risk based on the present value measured for items continuously valued in the balance sheet. The EVE at risk, in turn, is the net present value of the liabilities and receivables on the balance sheet or the financial value of the theoretical equity. For the income risk, the perspective relates more to accounting. The income risk simulates the impact of risk realisation on S-Bank's result within a certain period.

The interest rate risk is managed by planning the balance sheet structure, such as the maturity and index-linking of assets and liabilities, and with interest rate derivatives. The interest rate risk position is also shown in the table below on the division of financial assets and financial liabilities based on index-linking. In the index-linking of S-Bank's liabilities and receivables, the largest imbalance causing a risk pertaining to the EVE at risk is in the 0–1 month maturity portfolio, because S-Bank's main source of financing is based on non-maturity deposits, and the conservative maturity of one month is applied to the computational interest rate reset date of these deposits.

Table 32: Breakdown of financial assets and liabilities by index-linking

Financial assets and liabilities, 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	493.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**493.0**
Receivables from credit institutions	25.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**25.7**
Receivables from the public and public-sector entities	1,223.2	594.4	705.2	513.7	561.9	61.9	48.3	16.3	**3,724.9**
Debt securities	190.9	246.8	97.9	17.4	35.4	144.2	436.9	155.2	**1,324.8**
Financial assets total	**1,932.9**	**841.1**	**803.1**	**531.1**	**597.3**	**206.1**	**485.2**	**171.5**	**5,568.4**
Liabilities to credit institutions	10.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**10.1**
Liabilities to the public and public-sector entities	5,042.4	0.8	1.2	0.7	0.2	0.3	1.9	0.0	**5,047.5**
Bonds 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	26.0	0.0	24.0	0.0	0.0	0.0	**50.0**
Financial liabilities total	**5,052.5**	**0.8**	**27.2**	**0.7**	**24.2**	**0.3**	**1.9**	**0.0**	**5,107.6**
Financial assets and liabilities, total	**-3,119.6**	**840.3**	**775.9**	**530.4**	**573.1**	**205.8**	**483.3**	**171.5**	**460.7**

S-Bank'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 Board of Directors has set a maximum amount for S-Bank's overall interest rate risk. The risk is monitored on a daily basis. Internal transfer pricing is used to support the management of the interest rate risk in the banking book.

The interest rate risk in the banking operations is monitored monthly by means of an interest rate gap analysis, in which liabilities and receivables are grouped into time periods on the basis of their index-linking. The impacts of changes in interest rate curves on the interest rate risk exposure of S-Bank are monitored daily with the net present value method for balance sheet items susceptible to market price fluctuations. The impacts are monitored monthly with the income risk method and quarterly with the net present value method for the entire balance sheet.

The interest rate risk stress in the banking book is presented below. It describes the parallel change of the market interest rate curve applied to a financing or credit agreement at all interest rate curve maturities. The interest risk of +100 basis points for continuously valued items or the price risk has increased by some EUR 0.9 million year-on-year.

Table 33: Interest rate risk stress in the banking book

Price risk, EUR million	31 Dec 2017	31 Dec 2016
+100 bps	-16.4	-15.5
-100 bps	17.0	16.0
Net interest income (NII) at risk, EUR million	**31 Dec 2017**	**31 Dec 2016**
+160 bps	37.4	29.9
-230 bps	-7.7	-9.6
Economic value of equity (EVE) at risk, EUR million	**31 Dec 2017**	**31 Dec 2016**
+100 bps	-25.6	-26.8
-100 bps	75.6	83.1

5.5.9.3.3 Credit premium risk (spread risk)

The credit premium risk (spread risk) is also related to the operations of the Treasury unit. This risk comprises fixed-interest and floating-rate bonds in the portfolio. The premium credit risk is related to a situation in which the market's general opinion of the credit quality of the investment instrument's issuer changes, or the general attitude changes in the markets towards investments including a credit risk, due to which the investments depreciate. The amount of the credit premium risk is monitored regularly as part of day-today interest rate risk reporting.

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

5.5.9.3.4 Equity risks

Balance sheet equity risks materialise directly as a result of changes in market prices. Some equity risks arise from the operations of the Treasury unit, and their management and limitation is based on simple allocation limits. S-Bank uses shares primarily to diversify market risks, and the risk level of equity risks is kept moderate. Despite the low risk level, equity risks are monitored regularly and the limits that regulate the risk-taking are adjusted as necessary.

5.5.9.3.5 Property risks

Property risks arise as part of S-Bank's investment activities, which mainly aim to diversify the market risks in the portfolio. Property risks are primarily managed with allocation limits, and the risk level is kept low.

5.5.9.3.6 Foreign-exchange risks

S-Bank incurs foreign-exchange risks only when the Group 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 foreign-exchange risk limits and the risks are primarily hedged.

5.5.9.3.7 Other market risks

S-Bank incurs indirect market risks through fund investments of forest properties as part of investment activities. This risk is kept extremely moderate by means of investment limits.

5.5.9.3.8 Market risk monitoring and reporting

S-Bank's Treasury unit monitors the market risk daily and the Banking business is responsible for the operational measuring, monitoring and reporting of market risks in compliance with the organisation's agreed internal procedures.

Risk Control also monitors the market risk exposure on a daily basis. In addition, the Risk Control function monitors the management of S-Bank's market risks and the functionality and use of the market risk models applied. The key aspects of market risks, the effectiveness of risk management and the impact of risks on capital adequacy are reported to S-Bank's management, the Risk Committee, the Risk and Audit Committee and the Board of Directors.

5.5.9.3.9 Risk-based capital requirement for market risks (Pillar 2)

The capital reserved for market risks under Pillar 2 is specified on the basis of the bank's overall risk strategy and market risk model. Capital is provisioned for the market risks on the basis of the stressed volatility level of each category of market risk type. The stressed volatility levels are determined category-specifically on the basis of the historically observed maximum values of volatility, and the obtained values are used as the standard deviations in the model. The volatility assumptions applied in practice are equal to the risk levels observed in the markets in 2008 and 2011. The model applies a 99.5% solidity level.

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 pursuant to the market risk model, as well as the resulting change in the value of positions, which is based on the present value. In this process, the results of the volatility model are compared against absolute historical changes. In practice this means that in an environment of zero interest rates, a minimum level based on actual changes is determined for the interest rate fluctuation given by the model. In 2017, this level was 160 bps. With regard to equity risks, the risk-based capital requirement is based on a stress test pursuant to the market risk model, which is 51% of the net open position. The capital goal of property and forest investments is specified as part of the market risk model, according to which the amount of the own funds reserved is equal to 23% of the properties' market value.

The table below includes a summary of S-Bank's risk-based market risk capital requirement (Pillar 2). The most important change compared to the previous year involves the credit premium risk, which has decreased by approximately EUR 16 million due to a change in the investment portfolio allocation.

Table 34: Risk-based capital requirements for market risk

Risk-based capital requirements for market risk, EUR million	31 Dec 2017	31 Dec 2016
Interest rate risk in the banking book (160 bps)	26.8	24.9
Credit premium risk	56.2	72.1
Equity risk	3.6	4.1
Property risk	5.4	5.0
Diversification benefits	-16.6	-16.5
Total	**75.4**	**89.5**

5.5.9.4 Liquidity risks

The information published on liquidity risks has been prepared in compliance with the guideline on LCR Disclosure (EBA/GL/2017/01).

5.5.9.4.1 Definition, measurement and management of liquidity risk

Liquidity risk refers to a cash position risk; i.e. an uncertainty arising from the difference between the short-term inflow and outflow of cash, 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 maturity conversion, in which short-term deposits are used for long-term lending, exposes banks to liquidity risks. The reasons behind the materialisation of a liquidity risk may be bank- or market-specific. The key risk factors in S-Bank's liquidity risk are:

- a run on a bank in different customer segments
- a sudden increase in the utilisation rate of funding limits
- an increase in collateral requirements

The liquidity risk concentrations are linked to the concentration of depositors, funding limit customer segments and the liquidity buffer. Liquidity concentration risks pertaining to a customer segment are managed using segment-specific outflow factors pursuant to liquidity coverage ratio (LCR) regulations, which means that the increase of risk concentrations in a segment that is risky in terms of liquidity is always taken into account by reserving more liquid assets for the increased concentration. In turn, any concentration in the liquidity buffer is limited by country- and counterparty-specific limits and requirements on the structure of the buffer in compliance with the LCR regulations.

S-Bank measures the LCR in accordance with parameters defined by the authorities, as well as in compliance with internal parameters and an internal model. The limits and calculation parameters applied to internal modelling have been approved by S-Bank's Board of Directors and they comply with a risk tolerance and risk appetite in accordance with the overall risk strategy. In on-going operations, the Treasury unit ensures that the liquidity position remains above the defined limit values.

Liquidity risk management is based on ensuring that the amount of S-Bank's liquid assets exceeds the liquidity need that will, in both a normal and stressed operating environment, secure liquidity in the short (0–2 days), medium (0–30 days) and long (more than 30 days) term. The adequacy of cash reserves is supported by investing a sufficient amount of assets in certificates of deposit and liquidity accounts that can be immediately liquidated into cash reserves. To prepare for the longer term (more than 30 days) and a run on liquidity, liquidity is primarily ensured by using liquid instruments eligible for refinancing with central banks in the investment business. The instruments must be convertible to cash or allow for liquidation without substantial capital losses and transaction costs within two days. In addition, the bank can use the Bank of Finland's limit on its ongoing operations to ensure both intraday liquidity and overnight liquidity, if necessary.

Liquidity management also includes collateral management, i.e. ensuring that S-Bank has an adequate number of eligible investments at its disposal to cover the collateral required by various business operations.

Other minimum requirements for liquidity management include meeting the central bank's minimum reserve obligation and the authorities' LCR and net stable funding ration (NSFR) requirements.

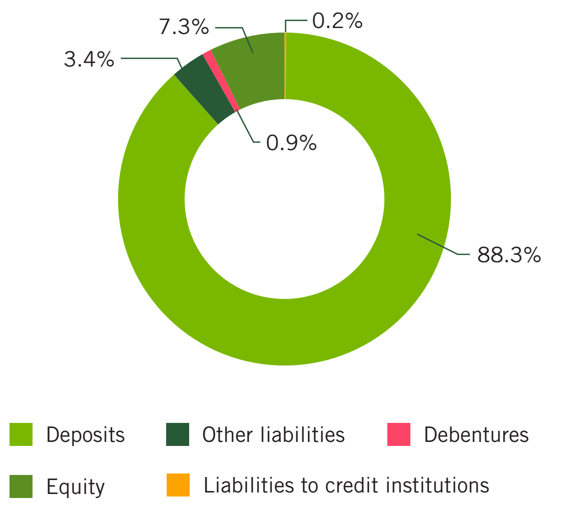
Liquidity management emphasises the proactive monitoring and anticipation of the external business environment. Applying a stricter liquidity risk tolerance is appropriate if liquidity is considered stressed. The LCR allows for monitoring S-Bank's liquid assets and managing the liquidity risk. The NSFR is used to measure the structural liquidity risk in banking.

The management of S-Bank's liquidity risk has been delegated to the Treasury unit. The liquidity risk is transferred from the business operations to the Treasury unit in accordance with the principles of internal transfer pricing. The Treasury unit manages the liquidity buffers in accordance with the authority it has been given. The Treasury unit is responsible for the operational execution of the risk appetite pursuant to the overall risk strategy in terms of the liquidity risk, taking into consideration S-Bank's business model, risk budget, its own internal plan to restore liquidity, and other limits defining the liquidity risk level.

5.5.9.4.2 S-Bank's funding

S-Bank's funding is primarily based on the deposit base, and its main sources of funding are the demand-deposit current accounts and savings accounts of its private customers. Other sources of funding include the Treasury unit's wholesale market deposits from companies and other credit institutions as well as certificates of deposit. The figure below illustrates the structure of S-Bank's funding. Even though the structure of S-Bank's funding is focused on private customer deposits, the funding is highly decentralised, because the average deposited amount among the private customers is very low.

Figure 12: Structure of S-Bank's funding



5.5.9.4.3 Liquidity risk monitoring and reporting

The Banking business team in charge of reporting to the authorities is responsible for the operational reporting of risks, and it reports on the liquidity exposure to Risk Control and the Treasury unit on a daily basis. The Treasury unit and Risk Control monitor and assess S-Bank's liquidity exposure on the basis of the reports submitted to them and consistently report on the situation to S-Bank's management. Risk Control monitors the management of S-Bank's liquidity risks and the effectiveness and use of the liquidity risk models. The key aspects of liquidity risks are reported to S-Bank's management, the Risk Committee, the Risk and Audit Committee and the Board of Directors.

Liquidity and refinancing risks are monitored on a daily basis with cash flow forecasts and LCR reports and monthly with a gap analysis, in which assets and liabilities are grouped into time periods according to their maturity. This distribution is presented in the notes to S-Bank Group's financial statements (note 15). The distribution of financial liabilities based on contractual maturities is focused on the 0–1-month maturity band due to the funding of S-Bank is based on private customers. In terms of the liquidity risk these deposits are a very stable source of funding, however: according to statistics, their maturity based on behaviour is clearly longer than one month. The maturity of derivative liabilities is focused on the 1–5 year band, which corresponds to the average maturity of the hedged investment portfolio.

Another key indicator of adequate long-term funding in the Group's business model is the ratio between lending and borrowing, which was 74% on 31 December 2017 (76% in 2016). The ratio between lending and borrowing and the development of the private customer deposit base component included in it, which is integral for the funding of S-Bank, are monitored continuously. The Treasury unit's liquidity plan and the included liquidity restoration plan specify the measures that must be taken if the ratio between lending and borrowing exceeds specific action limits. In the assessment of the overall liquidity risk, internal liquidity indicators are assessed against the status of the external market, which is monitored through the changes in the market's credit premium risks in different credit rating classes.

5.5.9.4.4 Continuous securing of liquidity

As part of the Group's liquidity strategy, the liquidity restoration plan included in the Treasury unit's liquidity plan specifies the policies and operating models aiming to ensure liquidity in exceptional situations and the conditions under which S-Bank will take the planned actions. The plan also specifies up-to-date information on the liquidity status provided to the management and authorisations that necessitate adopting exceptional measures. The plan specifies actions that must be carried out when the liquidity position has deteriorated as per the defined criteria. These actions include the liquidation of the investment portfolio, changing the portfolio structure so that it is more liquid, using the instruments offered by the central bank and repurchasing collateral with the central bank.

5.5.9.4.5 Key liquidity risk indicators

The quantitative CRD IV/CRR liquidity regulations took effect on 1 October 2015. S-Bank's regulated LCR on 31 December 2017 was 163% (112%), when the minimum requirement was 80%. In this review, S-Bank's liquidity position clearly improved. The minimum liquidity requirement will increase to 100% as of 1 January 2018. Table 35 illustrates the development of S-Bank's LCR, outflows and the development of the liquidity buffer as current 12-month averages at the ends of the quarters in 2017.

Table 35: Level and components of LCR (EU LIQ1)

Scope of consolidation scope (consolidated) Currency and units, EUR million		Total weighted value (average)			
Quarter ending on		31 March 2017	30 June 2017	30 Sept 2017	31 Dec 2017
Number of data points used in the calculation of averages		12	12	12	12
		Adjusted average total			
21	Liquidity buffer	596.6	638.8	664.1	726.2
22	Total net cash outflows	597.4	591.3	579.6	582.1
23	**Liquidity coverage ratio (%)**	**100%**	**108%**	**114%**	**124%**

Table 36 and Figure 13 illustrate the key indicators describing S-Bank's 30-day liquidity position. The figures include the impairment losses that have been applied to balance sheet items (i.e. "haircuts"). Compared to the previous year, the allocation of S-Bank's liquidity buffer was more focused on the highly liquid assets of the 1st level pursuant to LCR regulation.

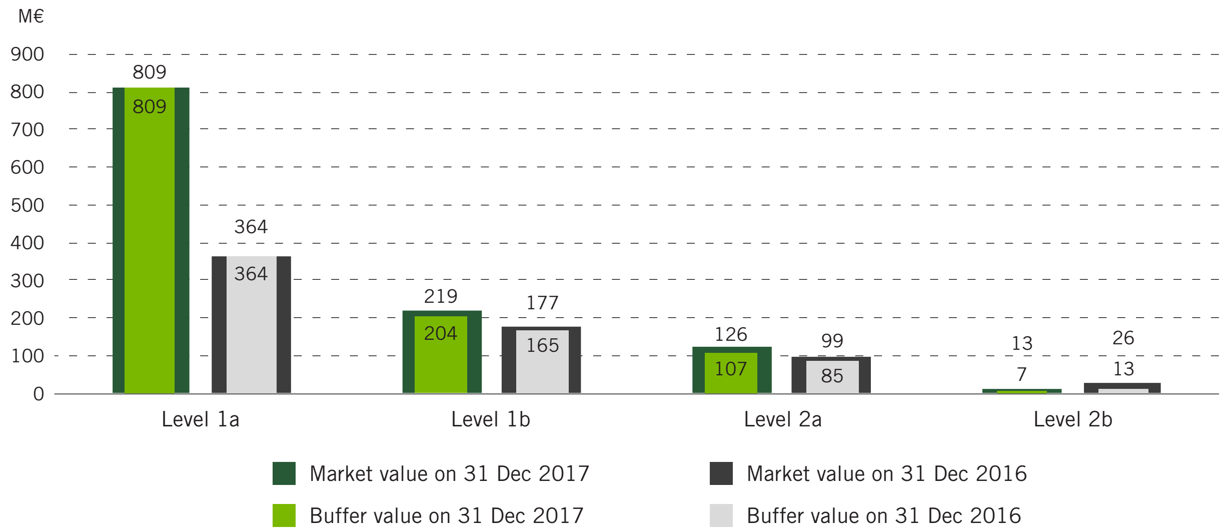
S-Bank's liquid assets were at a high level at the end of 2017. This was because a fast increase in the corporate deposit base at the end of 2017 was briefly invested in the central bank account.

Table 36 illustrates the change in the liquidity buffer based on the information available at the turn of the year. Table 35 illustrates the monthly liquidity buffer averages during the accounting period. It should be noted that S-Bank's outflow remained stable while the liquidity buffer was increased mainly with purchases of bonds issued by regional and local authorities and partly with purchases of extremely high-quality covered bonds. The outflow was correspondingly managed via the pricing of deposits in different customer segments.

Table 36: Liquidity (LCR) balance sheet item, taking into account haircuts in accordance with the CRR, EUR million

	31 Dec 2017		31 Dec 2016	
36. Liquidity coverage ratio (LCR)	**Market value**	**Buffer value**	**Market value**	**Buffer value**
Level 1a	**809**	**809**	**364**	**364**
Assets from regional governments or local authorities	294	294	227	227
Assets from multilateral development banks and international organisations	0	0	5	5
Funds from central administration	22	22	35	35
Central bank reserves available for withdrawal	493	493	97	97
Level 1b	**219**	**204**	**177**	**165**
Extremely high-quality covered bonds	219	204	177	165
Level 2a	**126**	**107**	**99**	**85**
High-quality covered bonds (a third country, credit rating 1)	56	48	40	34
High-quality covered bonds (credit rating 2)	62	53	42	36
Corporate bonds (credit rating 1)	7	6	17	15
Level 2b	**13**	**7**	**26**	**13**
Corporate bonds (credit ratings 2 and 3)	13	7	26	13
Total	**1,167**	**1,127**	**666**	**626**
Liquidity outflow, total	**753**		**613**	
Liquidity inflow, total	**61**		**54**	
Liquidity coverage ratio (%)	**163%**		**112%**	

Figure 13: Composition of the LCR buffer (market value), EUR million



5.5.9.4.6 Risk-based capital requirement for liquidity risk

No capital is separately reserved for the liquidity risk because liquidity can be ensured by selling liquidity reserves. Selling may have to be carried out under stressed prices, but the Group has separately reserved capital for price risks using fair value stress tests.

5.5.9.5 Operational risks, including reputational risk

5.5.9.5.1 Definition of operational risk

Operational risk refers to the possibility of a loss arising from unclear or inadequate instructions, actions in violation of instructions, deficient processes or systems, employee actions or external factors. Legal and reputational risks are included in the operational risk.

S-Bank's operational risk profile is materially impacted by products and services, the agency operating model applied by S-Bank, the procurement of information systems from different system providers and the increase in the importance of digital channels. The consequences of realised operational risks may manifest as financial loss or, indirectly, as a weakening of S-Bank's reputation and the respect and confidence it enjoys.

5.5.9.5.2 Measurement and management of operational risks

The primary objective of S-Bank's operational risk management is to manage the reputational risk and to secure undisturbed, continuous operations in both the short and long term. In addition, operational risk management aims to identify and assess operational risks that may play a significant role in the achievement of the goals set for operations, to define management methods for the risks identified, i.e. the measures that aim to prevent, detect and reduce various disturbances, defects, errors and unauthorised use, as well as to ensure that the controls at the different levels of the company's organisation are functional, appropriate, cost-effective and adequate. Operational risks related to outsourcing are also considered in risk identification.

Compliance risks – or risks related to money laundering, the financing of terrorism and compliance with external regulation and internal policies – are likewise identified and assessed as part of the operational risks. S-Bank's Legal Affairs and Compliance functions support the Group's business operations and support functions in the management of legal risks by monitoring legislation and the regulatory framework. The functions keep the units of the organisation informed about material changes in external regulation and their possible effects on S-Bank's operations.

Risks are identified as part of S-Bank's annual operating plan, which is based on the Group's strategy and changes in the external and internal operating environments. All of S-Bank's business operations and support units identify the operational risks related to, or possibly caused by, their own operations. The identified risks are assessed, and the probabilities and effects of their occurrence in the event 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. controls for the limitation of potential losses by reducing the probability of their realisation, or the amount of the loss caused by damage. The risk surveys are updated whenever the processes or the operating environment change, and at least once a year.

The development of operations is based on S-Bank's strategy. Operations are developed systematically in accordance with predetermined procedures. Key parts of these procedures include the identification and assessment of risks, defining control mechanisms, and the approval of the final result of the development process before implementation.

New products and services are approved in accordance with a specific approval procedure before their adoption or provision to customers. The approval procedure aims to ensure that products and services have been planned with due diligence, and that all changes to internal control and risk management required by the new product or service have been implemented, and that the documentation related to the product or service documentation is appropriate and adequate. In addition, the approval procedure ensures that an appropriate target market and sales procedures have been determined for the product or service. The same approval procedure is used also for the approval of changes to existing products and any services to be outsourced.

New counterparties and partners must be approved before S-Bank starts cooperation with them. The approval and control methods aim to ensure that the counterparty or partner is known to an adequate extent, and that all changes to internal control and risk management required by the counterparty or partner have been implemented, and that the documentation pertaining to the counterparty/partner is appropriate and adequate.

S-Bank has an operating model for the management of operational risks, i.e. deviations that have materialised. A deviation report is prepared on all situations and events that restrict normal everyday operations, or which have not been carried out in accordance with the regulatory requirements or S-Bank's guidelines or which otherwise differ from normal everyday situations. Deviations also include any situations and damage attributable to contracting parties or subcontractors which have an impact on S-Bank's operations. The deviation report details the reasons that led to the event, as well as assessments of their impact and potential costs. When necessary, the deviation report includes information about measures that have been taken or planned to prevent similar events in the future. In addition, S-Bank employs a procedure which allows the confidential reporting of potential violations (a whistle blowing channel).

S-Bank prepares for potential operational risks by taking out insurance for damage caused by misuse, as well as damage to property or criminal activities, for example. Substantial operational disturbances in S-Bank's operations are prepared for through continuity planning.

The operational risk is accounted for as an individual risk area in the Group's capital plan as well. This ensures the adequacy of equity to cover a loss caused by operational risks.

5.5.9.5.3 Monitoring and reporting of operational risks

S-Bank 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 their sphere of responsibility and reporting on any deviations and shortcomings in risk management in accordance with agreed practices.

The Operational Risk Monitoring function is independent of S-Bank's business operations and supervises and assesses the scope, adequacy and effectiveness of S-Bank's operational risk management in a comprehensive manner. The Operational Risk Monitoring function supports the implementation of the risk management within the organisation and ensures that risks are identified and assessed. It also organises appropriate and sufficient management actions for the risks. Moreover, the function develops risk management guidelines and tools, together with the business operations and support functions.

S-Bank monitors and supervises operations on a continuous basis at various organisational levels. Consequently, unit supervisors and other relevant bodies discuss significant risk events to the extent necessary. The Operational Risk Monitoring function ensures that S-Bank's Board of Directors, the Risk and Audit Committee, the Risk 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 operations and support functions. The Compliance function supervises conformance with regulations and the adequacy of policies. It also provides recommendations on development measures and supervises the implementation of the aforementioned actions.

5.5.9.5.4 Risk-based capital requirement for operational risks

The assessment of the risk-based capital goal is mainly based on risk assessments related to the Group's operations and actual damage which has resulted in losses. The risk assessment is based on a survey of the Group's risks and events in the external business environment, where applicable. The capital requirement to be calculated with the Pillar 1 basic method is substantial in proportion 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 S-Bank's operational losses.

5.5.9.6 Strategic and business risks

5.5.9.6.1 Definition and measurement of strategic and business risks

The strategic risk can be divided into two parts. Primarily, this refers to the company choosing the wrong strategy when pursuing results in its operations. Secondly, a risk may materialise if the selected strategy cannot be adjusted to changes in the business environment due to the company's inflexibility. S-Bank's business operations are affected by the development of the financial markets in both Finland and the rest of the world and the overall economic situation. These can involve competitive situations, economic fluctuations, changes in customer behaviour and the development of technology, for example.

The materialisation of strategic and business risks can be manifested as, for instance, the volatility of the result and poor result development, inflexible cost structures, uncompetitive products, services and prices, or structural ineffectiveness.

Strategic risks are identified as part of S-Bank's strategic process, which is used to assess the most significant risks. Strategic risks and the associated business risks, reputational risks and risks of changes in the external business environment are measured through risk assessments 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 a basis for risk scenario analyses to assess the impact of changes in the internal and external business environment on the Group's balance sheet, profitability and capital adequacy.

5.5.9.6.2 Management, monitoring and reporting of strategic and business risks

Business operations and support functions manage strategic and business risks as part of the planning of operations and daily supervision. Indicators derived from the strategy are monitored and regularly reported to the management. The business risks are managed by drawing up annual business plans, and through budgeting, by compiling income and cost calculations for upcoming years. The actual results are monitored regularly and reported to the Group's management. When necessary, strategic decisions can be made within a short time frame in response to developments in the business.

5.5.9.6.3 Risk-based capital requirement for strategic and business risks

The capital reserved for strategic and business risks in Pillar 2 is defined by means of scenario analyses based on S-Bank's business plans and profit and loss statements. The scenario analyses examine the development of budgeted business volumes and operating expenses in situations in which internal and external changes in the business environment and the strategic choices develop unfavourably. Section 5.5.6.2 describes the scenarios used in capital planning and their background assumptions. The capital requirement for strategic risks is determined on the basis of the difference between the budget scenario and the business development scenario from the viewpoint of the Group's profitability. The capital requirement for the business risk is based on the difference between the budget scenario and the scenario titles "Run on the banks and business development at a level weaker than the budgeted level". The capital plan and the risk-based strategic and business risk capital requirements, which are assessed in connection with the capital plan, are determined at least once a year as part of the operational planning process. On the basis of the capital planning scenario analyses, the risk-based strategic risk capital requirement has increased by EUR 4 million and the business risk capital requirement by EUR 4.5 million from 2016.

5.5.10 DISCLOSURE OF THE INFORMATION REQUIRED BY THE CAPITAL REQUIREMENTS REGULATION

The information disclosed on the basis of Pillar 3 and Articles 425–451 of the Capital Requirements Regulation is listed below.

CRR article			Public disclosure requirement	Reference
435			**Risk management objectives and policies**	
1	a)		The strategies and processes to manage those risks	Annual report; sections 5.5.4, 5.5.5, 5.5.6 and 5.5.9
	b)		The structure and organisation of the relevant risk management function including information on its authority and statute, or other appropriate arrangements	Annual report; section 5.5.5
	c)		The scope and nature of risk reporting and measurement systems	Annual report, section 5.5.5.2
	d)		The policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants	Annual report, section 5.5.5 and risk category-specific information, section 5.5.9
	e)		A declaration approved by the management body on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy	Annual report; section 5.5.1
	f)		A concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy	Annual report; section 5.5.1
2	a)		The number of directorships held by members of the management body	S-Bank's website: www.s-pankki.fi > S-Pankki yrityksena > Johto ja hallinto
	b)		The recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise	S-Bank's website: www.s-pankki.fi > S-Pankki yrityksena > Johto ja hallinto > Selvitys S-Pankin hallinto- ja ohjausjärjestelmistä
	c)		The policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved	S-Bank's website: www.s-pankki.fi > S-Pankki yrityksena > Johto ja hallinto > Selvitys S-Pankin hallinto- ja ohjausjärjestelmistä
	d)		Whether or not the institution has set up a separate risk committee, and the number of times the risk committee has met	S-Bank's website: www.s-pankki.fi > S-Pankki yrityksena > Johto ja hallinto > Selvitys S-Pankin hallinto- ja ohjausjärjestelmistä
	e)		The description of the information flow on risk to the management body	Annual report, section 5.5.5.2
436			**Scope of application**	
	a)		The name of the institution to which the requirements of the Regulation apply	
	b)		An outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are:	subsidiaries included in S-Group are specified in section 3.4. companies included in the consolidated financial statements and their consolidation are specified in the accounting policies section (section 5.4). Differences in the consolidation principles are specified in Section 5.5.2.
		i)	fully consolidated;	Annual report; section 5.5.2
		ii)	proportionally consolidated;	Annual report; section 5.5.2
		iii)	deducted from own funds;	Not applicable
		iv)	neither consolidated nor deducted.	Not applicable

	c)		Any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries	Not applicable
	d)		The aggregate amount by which the actual own funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries	Not applicable
	e)		If applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9	Not applicable
437			**Own funds**	
1	a)		Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to the own funds of the institution and the balance sheet in the audited financial statements of the institution	Annual report, section 5.5.8.2 Table 9: S-Bank's own funds, summary and Table 10: S-Bank's own funds (EU 1423/2013)
	b)		A description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution	Annual report, section 5.5.8.2 Note 14 to S-Bank Group's financial statements and note 14 to the financial statements of S-Bank Ltd
	c)		The full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments	Annual report, section 5.5.8.2 Note 14 to S-Bank Group's financial statements and note 14 to the financial statements of S-Bank Ltd
	d)		Separate disclosure of the nature and amounts of the following:	Annual report; section 5.5.7 Table 10: S-Bank's own funds (EU 1423/2013)
		i)	each prudential filter applied pursuant to Articles 32 to 35	Annual report; Section 5.5.7 Table 10: S-Bank's own funds (EU 1423/2013)
		ii)	each deduction made pursuant to Articles 36, 56 and 66;	Annual report; section 5.5.7 Table 10: S-Bank's own funds (EU 1423/2013)
		iii)	items not deducted in accordance with Articles 47, 48, 56, 66 and 79;	Annual report; section 5.5.7 Table 10: S-Bank's own funds (EU 1423/2013)
	e)		A description of all restrictions applied to the calculation of own funds in accordance with the Regulation and the instruments, prudential filters and deductions to which those restrictions apply	Not applicable
	f)		Where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in the Regulation, a comprehensive explanation of the basis of how the capital ratios are calculated	Not applicable, because S-Bank does not deviate from the requirements of the Capital Requirements Regulation
438			**Capital requirements**	
	a)		A summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities	Annual report; section 5.5.6
	b)		Upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process including the composition of the additional requirements for own funds	Annual report, section 5.5.8.1
	c)		For institutions calculating the risk-weighted exposure amounts in accordance with the Standardised Approach: 8% of the risk-weighted exposure amounts for each of the exposure classes specified in Article 112	Annual report, section 5.5.8.3 Table 12: Overview of RWAs (EU OV1)

d)	For institutions calculating risk-weighted exposure amounts in accordance with the internal rating-based (IRB) approach: 8% of the risk-weighted exposure amounts for each of the exposure classes specified in Article 147. For the retail exposure class, this requirement applies to each of the categories of exposures to which the different correlations in Article 154(1) to (4) correspond. For the equity exposure class, this requirement applies to:	Not applicable, because S-Bank does not use the IRB method
e)	Own funds requirements calculated in accordance with points (b) and (c) of Article 92(3)	Annual report; Section 5.5.7 Table 10: S-Bank's own funds (EU 1423/2013)
f)	Own funds requirements calculated in accordance with Part Three, Title III, Chapters 2, 3 and 4 and disclosed separately	Annual report; Section 5.5.7 Table 10: S-Bank's own funds (EU 1423/2013)
439	**Exposure to counterparty credit risk**	
a)	A discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures	Annual report, section 5.5.9.2.5
b)	A discussion of policies for securing collateral and establishing credit reserves	Annual report, section 5.5.9.2.5 S-Bank does not have any credit reserves
c)	A discussion of policies with respect to wrong-way risk exposures	Not applicable
d)	A discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating	Not applicable
e)	Gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure. The net derivatives credit exposure is the credit exposure on derivative transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements.	Annual report, section 5.5.9.2.5
f)	Measures for exposure value under the methods set out in Part Three, Title II, Chapter 6, Sections 3 to 6 whichever method is applicable	Annual report, section 5.5.9.2.5
g)	The notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure	Not applicable; S-Bank does not use credit derivatives
h)	The notional amounts of credit derivative transactions, segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivative products used, broken down further by protection bought and sold within each product group	Not applicable, because S-Bank does not use credit derivatives
440	**Capital buffers**	
a)	The geographical distribution of S-Bank's credit exposures relevant for the calculation of the company's countercyclical capital buffer	Annual report, section 5.5.8.1
b)	The amount of the institution-specific countercyclical capital buffer	
441	**Indicators of global systemic importance**	Not applicable; S-Bank is not an institution of global systemic importance
442	**Credit risk adjustments**	
a)	The definitions for accounting purposes of "past due" and "impaired"	Annual report, section 5.5.9.2.6
b)	A description of the approaches and methods adopted for determining specific and general credit risk adjustments	Annual report, section 5.5.9.2.6

c)		The total amount of exposure after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes	Annual report, section 5.5.9.2.3 Table 16: Total and average net amount exposures (EU CRB-B)
d)		The geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate	Annual report, section 5.5.9.2.3 Table 17: Geographical breakdown of exposures (EU CRB-C)
e)		The distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate	Annual report, section 5.5.9.2.3 Table 18: Concentration of exposures by industry (EU CRB-D)
f)		The residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate	Annual report, section 5.5.9.2.3 Table 19: Maturity of exposures (EU CRB-E) and Table 25: Ageing of past-due exposures (EU CR1-D)
g)		By significant industry or counterparty type	Annual report, section 5.5.9.2.3 Table 18: Concentration of exposures by industry (EU CRB-D)
	i)	impaired exposures and past due exposures, provided separately;	Annual report, section 5.5.9.2.6 Table 24: Quality of exposures The impairments involve mainly the credit portfolio of private customers, whereas impairment recognitions involving corporate customers are very small. According to the principle of proportionality, the impairment for corporate customers is not disclosed by industry. Section 5.5.9.2.6
	ii)	specific and general credit risk adjustments	Annual report, section 5.5.9.2.6 Table 24: Quality of exposures The impairments involve mainly the credit portfolio of private customers, whereas impairment recognitions involving corporate customers are very small. According to the principle of proportionality, the impairment for corporate customers is not disclosed by industry. Section 5.5.9.2.6
	iii)	charges for specific and general credit risk adjustments during the reporting period	Annual report, section 5.5.9.2.6 Table 24: Quality of exposures The impairments mainly involve the credit portfolio of private customers, whereas impairment recognitions involving corporate customers are very small. According to the principle of proportionality, the impairment for corporate customers is not disclosed by industry. Section 5.5.9.2.6
h)		The amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas including, if practical, the amounts of specific and general credit risk adjustments related to each geographical area	The impaired exposures are distributed evenly throughout Finland. According to the principle of proportionality, the geographical distribution of impairment is not disclosed. Section 5.5.9.2.6
i)		the reconciliation of changes in the specific and general credit risk adjustments for impaired exposures, shown separately. The information must comprise:	Annual report, section 5.5.9.2.6 Table 26: Non-performing and forborne exposures
	i)	A description of the type of specific and general credit risk adjustments	Annual report, section 5.5.9.2.6
	ii)	The opening balances	Annual report, section 5.5.9.2.6 Table 26: Non-performing receivables and forborne exposures, note 30 to S-Bank Group's financial statements and note 32 to the financial statements of S-Bank Ltd

iii)	The amounts taken against the credit risk adjustments during the reporting period	Annual report, section 5.5.9.2.6 Table 26: Non-performing receivables and forborne exposures, note 30 to S-Bank Group's financial statements and note 32 to the financial statements of S-Bank Ltd
iv)	The amounts set aside or reversed for estimated probable losses on exposures during the reporting period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between credit risk adjustments	Annual report, section 5.5.9.2.6 Table 26: Non-performing receivables and forborne exposures, note 30 to S-Bank Group's financial statements and note 32 to the financial statements of S-Bank Ltd
v)	The closing balances	Annual report, section 5.5.9.2.6 Table 26: Non-performing receivables and forborne exposures, note 30 to S-Bank Group's financial statements and note 32 to the financial statements of S-Bank Ltd
443	**Unencumbered assets**	Annual report, section 5.5.8.6.
444	**Use of ECAIs**	
a)	The names of the nominated ECAIs and export credit agencies (ECAs) and the reasons for any changes	Annual report, section 5.5.9.2.5
b)	The exposure classes for which each ECAI or ECA is used	Annual report, section 5.5.9.2.5
c)	A description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book	Annual report, section 5.5.9.2.5
d)	The association of the external rating of each nominated ECAI or ECA with the credit quality steps, taking into account that this information needs not be disclosed if the institution complies with the standard association published by EBA	Annual report, section 5.5.9.2.5
e)	The exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in the standard method as well as those deducted from own funds	Annual report, section 5.5.9.2.5 Table 23: Breakdown of exposure values by risk weight (EU CR5)
445	**Exposure to market risk**	
	The institutions calculating their own funds requirements in accordance with points (b) and (c) of Article 92(3) must disclose those requirements separately for each risk referred to in those provisions. In addition, the own funds requirement for specific interest rate risk of securitisation positions must be disclosed separately.	Annual report, sections 5.5.9.3.1 and 5.5.9.3.9
446	**Operational risk**	
	Institutions must disclose the approaches to the assessment of their own funds requirements concerning the operational risk that the institution qualifies for; a description of the methodology set out in Article 312(2), if used by the institution, including a discussion of relevant internal and external factors considered in the institution's measurement approach, and in the case of partial use, the scope and coverage of the different methodologies used.	Annual report, section 5.5.9.5.4

447		**Exposures in equities not included in the trading book**	
	a)	The differentiation between exposures based on their objectives, including for capital gains relationship and strategic reasons, and an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices	Annual report, sections 5.4.4.3 and 5.4.4.4
	b)	The balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value. (Exposure amount = market value)	Note 18 to S-Bank Group's financial statements and note 18 to the financial statements of S-Bank Ltd
	c)	The types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures	Not applicable
	d)	The cumulative realised gains or losses arising from sales and liquidations in the period	Note 24 to S-Bank Group's financial statements and note 25 to the financial statements of S-Bank Ltd
	e)	The total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in the original or additional own funds.	Not applicable
448		**Exposure to interest rate risk on positions not included in the trading book**	
	a)	The nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk	Annual report, sections 5.5.9.3.1, 5.5.9.3.2 and 5.5.9.3.8
	b)	The variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to the management's method for measuring the interest rate risk, broken down by currency	Annual report, section 5.5.9.3.2 Table 33: Interest rate risk stress in the banking book
449		**Exposure to securitisation positions**	Not applicable S-Bank does not have any securitisation operations
450		**Remuneration policy**	
1	a)	Information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders	S-Bank's website: www.s-pankki.fi > S-Pankki yrityksena > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät
	b)	Information on link between pay and performance	S-Bank's website: www.s-pankki.fi > S-Pankki yrityksena > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät
	c)	The most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria	S-Bank's website: www.s-pankki.fi > S-Pankki yrityksena > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät
	d)	The ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU	S-Bank's website: www.s-pankki.fi > S-Pankki yrityksena > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät
	e)	Information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based	S-Bank's website: www.s-pankki.fi > S-Pankki yrityksena > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät

f)	The main parameters and rationale for any variable component scheme and any other non-cash benefits	S-Bank's website: www.s-pankki.fi > S-Pankki yrityksena > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät
g)	Aggregate quantitative information on remuneration, broken down by business area	S-Bank's website: www.s-pankki.fi > S-Pankki yrityksena > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät
h)	Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution, indicating the following:	S-Bank's website: www.s-pankki.fi > S-Pankki yrityksena > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät
i)	the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries;	S-Bank's website: www.s-pankki.fi > S-Pankki yrityksena > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät
ii)	the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types;	S-Bank's website: www.s-pankki.fi > S-Pankki yrityksena > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät
iii)	the amounts of outstanding deferred remuneration, split into vested and unvested portions;	S-Bank's website: www.s-pankki.fi > S-Pankki yrityksena > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät
iv)	the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments;	S-Bank's website: www.s-pankki.fi > S-Pankki yrityksena > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät
v)	new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments;	S-Bank's website: www.s-pankki.fi > S-Pankki yrityksena > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät
vi)	the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person;	S-Bank's website: www.s-pankki.fi > S-Pankki yrityksena > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät
i)	the number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500 000 and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million;	Not applicable
j)	upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management.	Not applicable
2	For institutions that are significant in terms of their size, internal organisation and the nature, scope and the complexity of their activities, the quantitative information referred to in the Article must also be made available to the public at the level of members of the management body of the institution	Not applicable
451	**Leverage**	
a)	The leverage ratio and how the institution applies Article 499(2) and (3) (Tier 1 or exceptions/using the value at the end of quarter or the mean value)	Annual report, section 5.5.8.5 Table 14: Leverage ratio (EU 200/2016)
b)	A breakdown of the total exposure measure as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements	Annual report, section 5.5.8.5 Table 14: Leverage ratio (EU 200/2016)
c)	Where applicable, the amount of derecognised fiduciary items	Annual report, section 5.5.8.5 Table 14: Leverage ratio (EU 200/2016)
d)	Description of processes used to manage risk of excessive leverage	Annual report, section 5.5.8.5 Table 14: Leverage ratio (EU 200/2016)
e)	A description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	Annual report, section 5.5.8.5 Table 14: Leverage ratio (EU 200/2016)

452	**Use of the IRB Approach to credit risk**	Not applicable; S-Bank does apply use the IRB method.
453	**Use of credit risk mitigation techniques**	
a)	The policies and processes for, and an indication of the extent to which the entity makes use of, on- and off-balance sheet netting	Annual report, section 5.5.9.2.5 Table 21: Collateral used for capital adequacy
b)	The policies and processes for collateral valuation and management	Annual report, sections 5.5.9.2.2 and 5.5.9.2.5
c)	A description of the main types of collateral taken by the institution	Annual report, section 5.5.9.2.5 Table 21: Collateral used for capital adequacy
d)	The main types of guarantor and credit derivative counterparty and their creditworthiness	Annual report, section 5.5.9.2.5 Table 21: Collateral used for capital adequacy S-Bank does not have any credit derivatives
e)	Information about market or credit risk concentrations within the credit mitigation taken	Annual report, sections 5.5.6.2, 5.5.9.2.4 and 5.5.9.2.5.
f)	For institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, but not providing own estimates of LGDs or conversion factors in respect of the exposure class, separately for each exposure class, the total exposure value	Not applicable; S-Bank does apply use the IRB method.
g)	For institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, separately for each exposure class, the total exposure	Not applicable, because S-Bank does not use the IRB method.
454	**Use of the Advanced Measurement Approaches to operational risk**	Not applicable; S-Bank calculates the operational risk capital requirement with the Standardised Approach.
455	**Use of Internal Market Risk Models**	Not applicable; S-Bank calculates the market risk capital requirement with the Standardised Approach.

5.6 NOTES CONCERNING BALANCE SHEET ITEMS

Notes concerning balance sheet items are given in thousand euros

Group note 1: Receivables from credit institutions	**31 Dec 2017**		
	Repayable on demand	**Other than re-payable on demand**	**Total**
From Finnish credit institutions	2,602	10,479	13,081
From foreign credit institutions	12,221	436	12,656
Receivables from credit institutions total	**14,823**	**10,914**	**25,737**

	31 Dec 2016		
	Repayable on demand	**Other than re-payable on demand**	**Total**
From Finnish credit institutions	9,370	11,751	21,120
From foreign credit institutions	10,093	0	10,093
Receivables from credit institutions total	**19,462**	**11,751**	**31,214**

Group note 2: Receivables from the public and public sector entities	**31 Dec 2017**	**31 Dec 2016**
Companies and housing associations	648,465	657,959
Financial and insurance institutions	110,381	57,594
Households	2,957,447	2,766,236
Non-profit organisations serving households	5,279	7,876
Foreign entities	3,282	2,567
Total receivables from the public and public sector entities	**3,724,854**	**3,492,232**

Impairment losses at beginning of year	**3,620**	**2,912**
Receivable-specific impairment losses recorded for the period	485	368
Group-specific impairment losses recorded for the period	3,762	3,253
Group-specific impairment losses reversed during the period	-3,620	-2,912
Impairment losses at year-end	**4,247**	**3,620**

Credit losses at the end of the financial period	6,563	3,009
Non-performing receivables at the end of the financial period	14,267	12,419

Group note 3: Debt securities	31 Dec 2017	
	Other than publicly quoted	Total
Issued by public sector entities		
Available-for-sale financial assets		
Treasury bills	155,940	155,940
Local government securities	36,451	36,451
Treasury bonds and notes	0	0
Other bonds issued by public sector entities	30,065	30,065
Other debt securities	108,010	108,010
Issued by public sector entities, total	**330,466**	**330,466**
Debt securities issued by other than public sector entities		
Financial assets held for trading		
Bonds issued by banks	0	0
Available-for-sale financial assets		
Certificates of deposit issued by banks	4,503	4,503
Commercial papers	44,442	44,442
Bonds issued by banks	686,306	686,306
Other debt securities	259,042	259,042
Debt securities issued by other than public sector entities total	**994,293**	**994,293**
Debt securities total	**1,324,758**	**1,324,758**
- of which eligible for refinancing with central banks	**860,478**	**860,478**
- of which those that accumulate no interest, total	**11,670**	**11,670**

	31 Dec 2016	
	Other than publicly quoted	Total
Issued by public sector entities		
Available-for-sale financial assets		
Treasury bills	0	0
Local government securities	115,554	115,554
Treasury bonds and notes	23,411	23,411
Other bonds issued by public sector entities	47,217	47,217
Other debt securities	81,182	81,182
Issued by public sector entities, total	**267,365**	**267,365**
Debt securities issued by other than public sector entities		
Financial assets held for trading		
Bonds issued by banks	240	240
Available-for-sale financial assets		
Certificates of deposit issued by banks	0	0
Commercial papers	27,022	27,022
Bonds issued by banks	850,697	850,697
Other debt securities	336,214	336,214
Debt securities issued by other than public sector entities total	**1,214,173**	**1,214,173**
Debt securities total	**1,481,538**	**1,481,538**
- of which eligible for refinancing with central banks	**930,242**	**930,242**
- of which those that accumulate no interest, total	**6,830**	**6,830**

Group note 4: Shares and holdings	31 Dec 2017		
	Publicly quoted	**Other than publicly quoted**	**Total**
SHARES AND HOLDINGS			
Financial assets held for trading	0	0	0
Available-for-sale financial assets	30,706	259	30,965
Shares and holdings in associated companies	0	5	5
Total	**30,706**	**264**	**30,970**
- of which in credit institutions	0	0	0

	31.12.2016		
	Publicly quoted	**Other than publicly quoted**	**Total**
SHARES AND HOLDINGS			
Financial assets held for trading	555	0	555
Available-for-sale financial assets	29,793	257	30,050
Shares and holdings in associated companies	0	3	3
Total	**30,348**	**260**	**30,608**
- of which in credit institutions	0	0	0

GROUP NOTE 5: DERIVATIVE CONTRACTS	31 Dec 2017		
	Nominal value	Positive fair value	Negative fair value
For hedging purposes			
Interest rate derivatives			
Interest rate swaps	541,200	157	-4,591
Of the nominal value of derivative exposures in hedge accounting,			
EUR thousand in less than one year.	135,000		
EUR thousand in 1–5 years and	284,000		
EUR thousand in more than five years.	122,200		
For non-hedging purposes			
Interest rate derivatives			
Options, bought	200,000	406	0
Options, written	150,000	0	-828
Interest rate swaps	160,000	18	-422
Equity derivatives			
Options, bought	0	0	0
Options, written	0	0	0
Of the nominal value of derivative exposures, other than those in hedge accounting			
EUR thousand in less than one year.	150,000		
EUR thousand in 1–5 years and	330,000		
EUR thousand in more than five years.	30,000		

	31 Dec 2016		
	Nominal value	Positive fair value	Negative fair value
For hedging purposes			
Interest rate derivatives			
Interest rate swaps	456,200	0	-8,284
Of the nominal value of derivative exposures in hedge accounting,			
EUR thousand in less than one year.	95,000		
EUR thousand in 1–5 years and	305,000		
EUR thousand in more than five years.	56,200		
For non-hedging purposes			
Interest rate derivatives			
Options, bought	200,000	382	0
Options, written	200,000	0	-1,528
Interest rate swaps	45,000	6	-89
Equity derivatives			
Options, bought	3,723	236	0
Options, written	3,723	0	-236
Of the nominal value of derivative exposures, other than those in hedge accounting			
EUR thousand in less than one year	3,723		
EUR thousand in 1–5 years and	220,000		
EUR thousand in more than five years.	225,000		

Group note 6: Changes in intangible and tangible assets during the financial period

Changes in intangible assets 2016	**Intangible rights**	**Computer programmes and licences**	**Advances paid**	**Goodwill**	**Consolidated goodwill**	**Total**
Acquisition cost 1 Jan 2016	2,146	65,159	512	4,119	10,373	82,309
Increase	0	270	6,854	0	11,306	18,430
Divestments	0	0	-26	0	0	-26
Deductions	0	-94	0	0	0	-94
Transfers between items	-2,146	-6,235	-106	0	0	-8,487
Acquisition cost 31 Dec 2016	0	59,101	7,233	4,119	21,679	92,132
Accumulated amortisation, depreciation and impairment 1 Jan 2016	-2,117	-37,996		-1,579	-5,018	-46,711
Accumulated amortisation for decreases and transfers	2,140	6,425		0	0	8,564
Depreciation	-23	-7,280		-824	-3,394	-11,520
Accumulated amortisation, depreciation and impairment, 31 Dec 2016	0	-38,852		-2,403	-8,412	-49,667
Carrying amount 1 Jan 2016	29	27,163	512	2,540	5,354	35,598
Carrying amount 31 Dec 2016	**0**	**20,249**	**7,233**	**1,716**	**13,267**	**42,466**

Changes in intangible assets 2017	**Intangible rights**	**Computer programmes and licences**	**Advances paid**	**Goodwill**	**Consolidated goodwill**	**Total**
Acquisition cost 1 Jan 2017	0	59,101	7,233	4,119	21,679	92,132
Increase	0	3,114	5,365	0	0	8,478
Transfers between items	0	5,525	-5,525	0	0	0
Acquisition cost 31 Dec 2017	0	67,740	7,073	4,119	21,679	100,611
Accumulated amortisation, depreciation and impairment 1 Jan 2017	0	-38,852		-2,403	-8,412	-49,667
Accumulated amortisation for decreases and transfers	0	0		0	0	0
Depreciation		-7,088		-824	-4,336	-12,248
Accumulated amortisation, depreciation and impairment 31 Dec 2017	0	-45,940		-3,227	-12,748	-61,914
Carrying amount 1 Jan 2017	0	20,249	7,233	1,716	13,267	42,466
Carrying amount 31 Dec 2017	**0**	**21,800**	**7,073**	**892**	**8,931**	**38,696**

Changes in tangible assets 2016	Land and water areas	Buildings and structures	Machinery and equipment total	Other tangible assets	Total
Acquisition cost 1 Jan 2016	792	14,390	3,928	194	19,304
Increase	0	0	205	0	205
Divestments	-792	-13,808	0	0	-14,600
Deductions	0	0	-158	-70	-228
Transfers between items	0	0	17	0	17
Acquisition cost 31 Dec 2016	0	582	3,992	124	4,698
Accumulated amortisation, depreciation and impairment 1 Jan 2016	0	-3,540	-3,542	0	-7,082
Accumulated amortisation on divestments	0	3,081	0	0	3,081
Accumulated amortisation for decreases and transfers	0	-10	172	70	231
Depreciation	0	-112	-242	0	-354
Impairment	0	0	0	-70	-70
Accumulated amortisation, depreciation and impairment 31 Dec 2016	0	-582	-3,613	0	-4,195
Carrying amount 1 Jan 2016	792	10,850	386	194	12,222
Carrying amount 31 Dec 2016	**0**	**0**	**379**	**124**	**503**

Changes in tangible assets 2017	Land and water areas	Buildings and structures	Machinery and equipment total	Other tangible assets	Total
Acquisition cost 1 Jan 2017	0	0	3,992	124	4,116
Acquisition cost 31 Dec 2017	0	0	3,992	124	4,116
Accumulated amortisation, depreciation and impairment 1 Jan 2017	0	0	-3,613	0	-3,613
Depreciation	0	0	-271	0	-271
Accumulated amortisation, depreciation and impairment 31 Dec 2017	0	0	-3,884	0	-3,884
Carrying amount 1 Jan 2017	0	0	379	124	503
Carrying amount 31 Dec 2017	**0**	**0**	**108**	**124**	**232**

Group note 7: Other assets	31 Dec 2017	31 Dec 2016
Receivables from payment transactions	1	23
Trade receivables from securities	27	573
From investment firms	8	32
From others	19	541
Other	4,577	3,276
Total	**4,605**	**3,872**

Group note 8: Accrued income and advances paid	31 Dec 2017	31 Dec 2016
Interest receivables	12,452	13,230
Other accrued income	12,619	8,538
Total	**25,071**	**21,769**

Group note 9: Deferred tax assets and liabilities	31 Dec 2017	31 Dec 2016
Deferred tax assets attributable to losses	1,674	1,129
Deferred tax assets/liabilities arising from the fair value reserve	2,898	2,840
Deferred tax liability from appropriations	7,866	5,369

Group note 10: Debt securities issued to the public by credit institution	31 Dec 2017		31 Dec 2016	
	Carrying amount	Nominal value	Carrying amount	Nominal value
Certificates of deposit	0	0	11,000	10,992
Total	**0**	**0**	**11,000**	**10,992**

Group note 11: Other liabilities held for trading	31 Dec 2017	31 Dec 2016
From short selling of shares	0	732
Total	**0**	**732**

Group note 12: Other liabilities	31 Dec 2017	31 Dec 2016
Payables arising from payment transactions	100,492	88,655
Payables from securities	0	87
Other	11,618	9,056
Total	**112,110**	**97,798**

Group note 13: Accruals and advances received	31 Dec 2017	31 Dec 2016
Interest expenses	445	459
Accrued expenses	19,336	22,301
Total	**19,781**	**22,760**

Group note 14: Subordinated liabilities	31 Dec 2017			
	Carrying amount*	Nominal value	Interest rate	Due date
Debenture I/2015	16,020	16,000	Euribor 12 months + 1.5%	1 Dec 2025
Debenture I/2016	26,239	26,000	Euribor 12 months + 1.8%	30 June 2026
Debenture I/2017	8,005	8,000	Euribor 12 months + 1.8%	18 Dec 2027

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 of time. The noteholder does not have the right to require that the loan be repaid prematurely.

Debenture loans are subordinated to the bank's other debt obligations. In capital adequacy calculation, loans on debenture terms are grouped to the Tier 2 capital in accordance with the CRR regulation.

*) Includes transferred interests

Model of the key features of equity instruments	Debenture I/2015	Debenture I/2016	Debenture I/2017
Issuer	S-Bank Ltd	S-Bank Ltd	S-Bank Ltd
Unique identifier (ISIN)	FI4000185418	FI4000210877	FI4000292735
Governing law(s) applied to the instrument	Finnish	Finnish	Finnish
Regulation			
Transitional CRR rules	Tier 2 capital (T2)	Tier 2 capital (T2)	Tier 2 capital (T2)
Post-transitional CRR rules	Tier 2 capital (T2)	Tier 2 capital (T2)	Tier 2 capital (T2)
Eligible at solo or consolidated/sub-consolidated/solo and consolidated/sub-consolidation group	Solo and consolidated	Solo and consolidated	Solo and consolidated
Instrument type			
Amount recognised in regulatory capital EUR million (on the last reporting date)	16	26	8
Nominal amount of instrument EUR million	16	26	8
Issue price	100%	100%	100%
Redemption price	100%	100%	100%
Accounting classification	Liability at amortised cost	Liability at amortised cost	Liability at amortised cost
Original date of issuance	1.12.2015	30.6.2016	18.12.2017
Perpetual or dated	Dated	Dated	Dated
Original maturity date	1 Dec 2025	30 June 2026	18 Dec 2027
Issuer call subject to prior supervisory approval	Yes	Yes	Yes
Optional call date, contingent call dates, and redemption amount	The debenture will be repaid based on its nomi-nal value in equal instal-ments annually on 1 De-cember, with the first instalment being paid on 01/12/2021 and the last on 01/12/2025. The is-suer reserves the right to repay the debenture be-fore the maturity date. The repayment can take place no earlier than five (5) years after the issu-ance of the loan, unless the Financial Supervision Authority grants a permis-sion to a repayment earli-er than in five (5) years.	The debenture capital will be repaid, based on its nominal value, in equal instalments annually on 30 June, with 30 June 2022 as the first instal-ment and 30 June 2026 as the last instalment. The issuer reserves the right to repay the debenture before the maturity date. The repayment can take place no earlier than five (5) years after the issu-ance of the loan, unless the Financial Supervision Authority grants a permis-sion to a repayment earli-er than in five (5) years.	The debenture will be repaid based on its nomi-nal value in equal instal-ments annually on 18 December, with the first instalment being paid on 18 December 2022 and the last on 18 December 2027. The issuer reserves the right to repay the debenture before the maturity date. The repay-ment can take place no earlier than five (5) years after the issuance of the loan, unless the Financial Supervision Authority grants a permission to a repayment earlier than in five (5) years.
Subsequent call dates, if applicable	See above	See above	See above

Model of the key features of equity instruments	Debenture I/2015	Debenture I/2016	Debenture I/2017
Coupons/dividends			
Fixed or floating dividend/coupon	Floating coupon	Floating coupon	Floating coupon
Coupon rate and any related indices	Euribor 12 months + 1.5% per annum	Euribor 12 months + 1.8% per annum	Euribor 12 months + 1.8% per annum
Dividend stopper	No	No	No
Fully discretionary, partly discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory
Fully discretionary, partly discretionary or mandatory (in terms of quantity)	Mandatory	Mandatory	Mandatory
Existence of step up or other incentive to redeem	No	No	No
Non-cumulative and cumulative	Non-cumulative	Non-cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
If convertible, what are the conversion trigger(s)?	Not applicable	Not applicable	Not applicable
If convertible, is it fully or partially convertible?	Not applicable	Not applicable	Not applicable
If convertible, what is the conversion rate?	Not applicable	Not applicable	Not applicable
If convertible, is the conversion mandatory or optional?	Not applicable	Not applicable	Not applicable
If convertible, specify the instrument type it is convertible into.	Not applicable	Not applicable	Not applicable
If convertible, specify the issuer of instrument it converts.	Not applicable	Not applicable	Not applicable
Write-down features	Not applicable	Not applicable	Not applicable
If write-down is possible, what are the write-down trigger(s)?	Not applicable	Not applicable	Not applicable
If write-down is possible, is it full or partial?	Not applicable	Not applicable	Not applicable
If write-down is possible, is it permanent or temporary?	Not applicable	Not applicable	Not applicable
If a temporary write-down, description of the write-up mechanism.	Not applicable	Not applicable	Not applicable

Model of the key features of equity instruments	Debenture I/2015	Debenture I/2016	Debenture I/2017
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debentures are subordinated debt instruments that belong to the T2 in-struments referred to in Article 63 of the European Parliament and the Coun-cil regulation (EU) No. 575/2013, provided that the requirements set by the Article and other re-quirements are met. De-bentures are subordinat-ed to the issuer's other commitments. Debentures cannot be used for setting off counterclaims.	Debentures are subordinated debt instruments that belong to the T2 in-struments referred to in Article 63 of the European Parliament and the Coun-cil regulation (EU) No. 575/2013, provided that the requirements set by the Article and other re-quirements are met. De-bentures are subordinat-ed to the issuer's other commitments. Debentures cannot be used for setting off counterclaims.	Debentures are subordinated debt instruments that belong to the T2 in-struments referred to in Article 63 of the European Parliament and the Coun-cil regulation (EU) No. 575/2013, provided that the requirements set by the Article and other re-quirements are met. De-bentures are subordinat-ed to the issuer's other commitments. Debentures cannot be used for setting off counterclaims.
Non-compliant transitioned features	No	No	No
If yes, specify non-compliant features	Not applicable	Not applicable	Not applicable

Group note 15: Breakdown by maturity of financial assets and liabilities	31 Dec 2017					
	0–3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Cash	493,015	0	0	0	0	493,015
Debt securities eligible for refinancing with central banks	78,145	106,183	545,533	130,617	0	860,478
Receivables from credit institutions	25,737	0	0	0	0	25,737
Receivables from the public and public sector entities	176,093	385,907	1,270,092	1,892,761	1	3,724,854
Debt securities	168,476	77,916	193,268	24,621	0	464,280
Derivative contracts (assets)	0	85	843	71	0	999
Financial assets total	**941,466**	**570,091**	**2,009,736**	**2,048,070**	**1**	**5,569,364**
Liabilities to credit institutions	10,109	0	0	0	0	10,109
Liabilities to the public and public sector entities	5,043,233	2,059	2,231	0	0	5,047,522
Debt securities issued	0	0	0	0	0	0
Subordinated liabilities	0	0	16,800	33,200	0	50,000
Derivative contracts (liabilities)	92	390	4,962	816	0	6,260
Financial liabilities total	**5,053,434**	**2,449**	**23,993**	**34,016**	**0**	**5,113,892**

	31 Dec 2016					
	0–3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Cash	96,964	0	0	0	0	96,964
Debt securities eligible for refinancing with central banks	15,073	23,650	814,641	76,878	0	930,242
Receivables from credit institutions	31,214	0	0	0	0	31,214
Receivables from the public and public sector entities	215,337	322,487	1,249,436	621,477	1,083,495	3,492,232
Debt securities	137,274	88,472	298,292	27,257	0	551,296
Derivative contracts (assets)	0	236	1,035	6	0	1,278
Financial assets total	**495,862**	**434,845**	**2,363,405**	**725,618**	**1,083,495**	**5,103,225**
Liabilities to credit institutions	5,006	20,000	0	0	0	25,006
Liabilities to the public and public sector entities	4,573,261	7,726	2,859	0	0	4,583,846
Debt securities issued	10,000	1,000	0	0	0	11,000
Subordinated liabilities	0	0	8,400	33,600	0	42,000
Derivative contracts (liabilities)	732	998	7,194	2,019	580	11,523
Financial liabilities total	**4,589,000**	**29,724**	**18,452**	**35,619**	**580**	**4,673,376**

Group note 16: Breakdown of balance sheet items into domestic and foreign amounts and from Group entities	31 Dec 2017			
	Finnish currency	Foreign currency	Total	From associated companies
Balance sheet item				
Receivables from credit institutions	18,622	7,115	25,737	
Receivables from the public and public sector entities	3,724,854	0	3,724,854	
Debt securities	1,324,758	0	1,324,758	
Derivative contracts	999	0	999	
Shares and holdings	30,970	0	30,970	5
Intangible assets	38,696	0	38,696	
Tangible assets	232	0	232	
Other assets (including cash)	524,357	7	524,365	
Total	**5,663,489**	**7,123**	**5,670,612**	**5**
Liabilities to credit institutions	10,042	68	10,109	
Liabilities to the public and public sector entities	5,044,465	3,058	5,047,522	
Debt securities issued	0	0	0	
Derivative contracts and liabilities held for trading	6,260	0	6,260	
Other liabilities	142,623	31	142,654	
Subordinated liabilities	50,000	0	50,000	
Total	**5,253,390**	**3,156**	**5,256,546**	**0**

	31 Dec 2016			
	Finnish currency	Foreign currency	Total	From associated companies
Balance sheet item				
Receivables from credit institutions	16,718	14,495	31,214	
Receivables from the public and public sector entities	3,492,232	0	3,492,232	
Debt securities	1,481,538	0	1,481,538	
Derivative contracts	1,278	0	1,278	
Shares and holdings	30,607	0	30,608	5
Intangible assets	42,466	0	42,466	
Tangible assets	503	0	503	
Other assets (including cash)	123,726	7	123,734	
Total	**5,189,068**	**14,503**	**5,203,571**	**5**
Liabilities to credit institutions	25,006	0	25,006	
Liabilities to the public and public sector entities	4,570,804	13,042	4,583,846	
Debt securities issued	11,000	0	11,000	
Derivative contracts and liabilities held for trading	11,523	0	11,523	
Other liabilities	128,669	98	128,767	
Subordinated liabilities	42,000	0	42,000	
Total	**4,789,002**	**13,140**	**4,802,143**	**0**

Group note 17: Securities lending	31 Dec 2017		31 Dec 2016	
	Carrying amount	Nominal value	Carrying amount	Nominal value
Available for sale				
Treasury bonds and notes	13,514	13,500	12,165	12,000
Total	**13,514**	**13,500**	**12,165**	**12,000**

Group note 18: Fair values and carrying amounts of financial assets and liabilities	31 Dec 2017		31 Dec 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash	493,015	493,015	96,964	96,964
Receivables from credit institutions	25,737	25,744	31,214	31,230
Receivables from the public and public sector entities	3,724,854	3,920,481	3,492,232	3,724,304
Debt securities	1,324,758	1,331,449	1,481,538	1,490,490
Shares and holdings	30,965	30,885	30,605	30,525
Shares and holdings in associated companies	5	18	3	14
Derivative contracts	999	999	1,278	1,278
Financial liabilities				
Liabilities to credit institutions	10,109	10,111	25,006	25,033
Liabilities to the public and public sector entities	5,047,522	5,141,470	4,583,846	4,630,482
Debt securities issued	0	0	11,000	11,002
Derivative contracts and other liabilities held for trading	6,260	6,260	11,523	11,523
Subordinated liabilities	50,000	50,273	42,000	42,259

S-Bank Group applies a settlement-date practice in recognising financial assets and liabilities on the balance sheet, excluding financial assets and liabilities measured at fair value through profit and loss. For financial assets and liabilities measured 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 measured 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 derivative contracts (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 instruments measured at fair value	31 Dec 2017 Taso 1	Taso 2	Taso 3	Yhteensä
Financial assets and liabilities held for trading purposes	0	0	0	0
Available-for-sale financial assets	1,038,824	323,510	0	1,362,334
Derivative receivables	0	999	0	999
Derivatives liabilities	0	6,260	0	6,260

Financial instruments measured at fair value	31 Dec 2016 Taso 1	Taso 2	Taso 3	Yhteensä
Financial assets and liabilities held for trading purposes	1,287	0	0	1,287
Available-for-sale financial assets	1,164,634	355,933	0	1,520,566
Derivative receivables	0	1,278	0	1,278
Derivatives liabilities	0	10,791	0	10,791

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.

Group note 19: Equity items	**31 Dec 2017**	**31 Dec 2016**
Share capital 1 Jan	82,880	82,880
Share capital 31 Dec	**82,880**	**82,880**
Fair value reserve 1 Jan	11,359	7,042
Increase (+)/decrease (-)	232	4,317
Fair value reserve 31 Dec	**11,590**	**11,359**
Reserve for invested non-restricted equity 1 Jan	243,813	243,813
Reserve for invested non-restricted equity 31 Dec	**243,813**	**243,813**
Retained earnings (losses)	63,262	44,858
Profit/loss for the period	12,352	18,404
Minority interest	169	114
Equity total	**414,066**	**401,428**

5.7 NOTES TO CONSOLIDATED INCOME STATEMENT ITEMS

Notes concerning the income statement items are given in thousand euros

Group note 20: Breakdown by balance sheet item of interest income and expenses	1 Jan to 31 Dec 2017	1 Jan to 31 Dec 2016
Interest income		
Receivables from credit institutions	-98	-51
Receivables from the public and public sector entities	69,306	61,663
Debt securities	11,567	16,260
Derivative contracts	400	0
Total	**81,175**	**77,872**
Interest income from impaired receivables and other receivables	1,757	1,962
Interest expenses		
Liabilities to credit institutions	365	302
Liabilities to the public and public sector entities	3,603	3,274
Derivative contracts and other liabilities held for trading	3,177	4,294
Subordinated liabilities	731	608
Other interest expenses	33	1
Total	**7,910**	**8,479**

Group note 21: Return on equity investments	1 Jan to 31 Dec 2017	1 Jan to 31 Dec 2016
Dividend income from investments classified as financial assets held for trading	19	9
Dividend income from associated companies	40	0
	58	**9**

Group note 22: Fee and commission income and expenses	1 Jan to 31 Dec 2017	1 Jan to 31 Dec 2016
Fee and commission income		
From lending	25,455	20,811
From borrowing	3,686	3,857
From payment transactions	8,386	7,366
From funds	51,444	44,884
From asset management	1,402	1,171
From legal duties	210	1,423
From securities brokerage	7,674	6,553
From insurance brokerage	521	904
From issuance of guarantees	-107	182
From other activities	1,940	1,593
Total	**100,612**	**88,745**
Fee and commission expenses		
From paid commission fees	38	33
Other	41,375	35,338
Total	**41,413**	**35,372**

Group note 23: Net income from securities trading	1 Jan to 31 Dec 2017		
	Gains and losses on sales (net)	Changes in fair value (net)	Total
From debt securities	-139	-29	-168
From shares and holdings	153	15	168
From derivative contracts	-1,162	601	-561
Net income from securities trading total	**-1,148**	**587**	**-561**
Net income from currency trading	**0**	**166**	**166**
Income statement item total	**-1,148**	**753**	**-395**

	1 Jan to 31 Dec 2016		
	Gains and losses on sales (net)	Changes in fair value (net)	Total
From debt securities	129	-852	-723
From shares and holdings	-18	-7	-25
From derivative contracts	-790	1,568	778
Net income from securities trading total	**-679**	**709**	**30**
Net income from currency trading	**0**	**-30**	**-30**
Income statement item total	**-679**	**678**	**0**

Group note 24: Net income from available-for-sale financial assets	1 Jan to 31 Dec 2017	1 Jan to 31 Dec 2016
Net income from disposal of financial assets	6,318	22,524
Other income/expenses from available-for-sale financial assets	492	53
	6,809	**22,577**

Group note 25: Net income from hedge accounting	1 Jan to 31 Dec 2017	1 Jan to 31 Dec 2016
Net result from hedging instruments	3,657	-993
Net result from hedged items	-4,024	448
	-367	**-545**

Group note 26: Net income from investment properties	1 Jan to 31 Dec 2017	1 Jan to 31 Dec 2016
Rental income	0	321
Rental expenses	0	-112
	0	**209**

The property companies Kiinteistöosakeyhtiö Lempäälän Terminaali and Kiinteistöosakeyhtiö Limingan terminaali were divested from the Group in 2016.

Group note 27: Other operating income	1 Jan to 31 Dec 2017	1 Jan to 31 Dec 2016
Other income	15,728	15,458

Group note 28: Other operating expenses	1 Jan to 31 Dec 2017	1 Jan to 31 Dec 2016
Rental expenses	4,560	5,325
Other expenses	1,422	1,404
Total	**5,982**	**6,729**
Financial Stability Authority contributions	314	271
Stability contribution	449	314
Deposit guarantee fund contribution	4,052	3,535
Administrative fee	31	0
Total	**4,533**	**3,849**

The Deposit Guarantee Fund reimbursed the deposit guarantee contribution collected for the Financial Stability Fund and the Financial Stability Fund reimbursed the stability payment, which had replaced the bank tax. These did not have any result impact on the bank. The funds accumulated in the old deposit guarantee fund and the bank tax paid in previous years is estimated to cover the Financial Stability Fund contributions until 2020.

Group note 29: Depreciation, amortisation and impairment on tangible and intangible assets	1 Jan to 31 Dec 2017	1 Jan to 31 Dec 2016
Depreciation according to plan		
Intangible assets	7,912	8,127
Tangible assets	271	242
Total	**8,183**	**8,369**
Income statement item total	**8,183**	**8,439**

Group note 30: Impairment losses on loans and other commitments, as well as other financial assets	1 Jan to 31 Dec 2017				
	Realised contract-specific credit losses, gross	Contract-specific impairment losses, gross	Group-specific impairment losses, gross	Deductions	Recognised in the income statement
Receivables to the public and public sector entities	11,214	485	3,762	8,898	6,563

	1.1.–31.12.2016				
	Realised contract-specific credit losses, gross	Contract-specific impairment losses, gross	Group-specific impairment losses, gross	Deductions	Recognised in the income statement
Receivables to the public and public sector entities	10,595	368	3,253	11,207	3,009

5.8 NOTES ON COLLATERAL AND CONTINGENT LIABILITIES

Notes concerning collateral and contingent liabilities are given in thousand euros

Group note 31: Collateral provided	**Other collateral**	
Balance sheet item	**31 Dec 2017**	**31 Dec 2016**
Collateral provided on own debt		
Liabilities to credit institutions	165,660	174,000
Derivative contracts	10,687	11,737
Collateral provided on own behalf total	**176,347**	**185,737**
Other collateral provided on own behalf	**261**	**136**
Collateral provided for others	**36**	**31**

Group note 32: Pension liabilities

The statutory pension security for the personnel has been arranged through Elo Employment Pension Insurance Company and Ilmarinen Mutual Pension Insurance Company.

Group note 33: Financial leasing and other rental liabilities	**31 Dec 2017**	**31 Dec 2016**
Within one year	2,163	1,573
Due in 1–5 years	1,208	642
Total	**3,371**	**2,216**

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

Group note 34: Off-balance sheet commitments	**31 Dec 2017**	**31 Dec 2016**
Guarantees	24,881	20,915
Undrawn credit facilities	1,553,624	1,140,576
Total	**1,578,505**	**1,161,491**

Group note 35: Brokerage receivables and payables	31 Dec 2017	31 Dec 2016
Savings in accordance with the Finnish Act Governing Long-term Savings Agreements	163	174
Other brokerage receivables and liabilities		
Purchases from brokers	15,774	6,267
Liabilities to customers	4,348	13,372
Total	**20,285**	**19,814**

5.9 NOTES ON PERSONNEL AND MANAGEMENT

Group note 36: Personnel and management	2017		2016	
	Average number	Number at the end of period	Average number	Number at the end of period
Permanent full-time personnel	540	553	535	529
Permanent part-time personnel	63	53	75	74
Temporary personnel	59	50	66	63
Total	**662**	**656**	**676**	**666**

	2017	2016
Salaries and fees paid to Group management (EUR thousand)		
Group companies/managing director and their deputy	914	939
Group companies/Executive Board	50	67
Pension commitments to Group management (EUR thousand)		
Group companies/managing director and their deputy	63	60

The amount of loans granted to the managing director, their deputy and the Executive Board is provided in the note on related-party lending.

5.10 RELATED PARTY TRANSACTIONS

Group note 37: 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 (EUR thousand)	Receivables from the public and public sector entities	
	31 Dec 2017	31 Dec 2016
Basis for classification as a related party		
Management	1,146	1,677
Management of holding company	1,504	2,930
Kinship	19	186
Impairment losses at the end of the financial period	-1	-2
Total	**2,669**	**4,793**

The terms of card credit granted to the company's related parties comply with the standard terms and conditions of lending to the public.

5.11 SUBSIDIARIES AND ASSOCIATED COMPANIES

Group note 38: Subsidiaries and associated companies	Registered office	Share of ownership
S-Asiakaspalvelu Oy	Helsinki	100%
FIM Asset Management Ltd	Helsinki	100%
FIM Private Equity Funds Ltd	Helsinki	100%
FIM Real Estate Ltd.	Helsinki	80%
FIM Infrastructure Mezzanine Debt Fund GP Oy	Helsinki	100%

Subsidiaries have been consolidated using the acquisition cost method

Associated companies	Registered office	Share of ownership
S-Crosskey Ab	Maarianhamina	40%
Asian Pro Oy	Helsinki	40%

Associated companies have been consolidated using the equity method

5.12 OTHER NOTES

Group note 39: Notes regarding trustee services and total amount of customer funds (EUR thousand)	31 Dec 2017	31 Dec 2016
Assets under management	6,891,668	6,152,556
Assets under asset management	861,831	763,000
Mutual fund assets	6,029,836	5,389,556
Assets under consultative asset management	33,627	25,243

In the case of assets under management, the figure reported in the 31 Dec 2016 financial statements (EUR 6,264,184 thousand) has been adjusted in these financial statements. The adjustment concerns assets under asset management.

5.13 NOTES ON AUDITOR'S FEES

Group note 40: Notes on auditor's fees (EUR thousand)	31 Dec 2017	31 Dec 2016
Audit	345	304
Tax advice	8	6
Other services	94	5
Total	**447**	**315**

6 S-BANK LTD'S FINANCIAL STATEMENTS

6.1 BALANCE SHEET

EUR thousand

ASSETS	Note	31 Dec 2017	31 Dec 2016
Cash	18	**493,015**	**96,964**
Debt securities eligible for refinancing with central banks	3, 15, 16, 18	**860,478**	**930,242**
Other		860,478	930,242
Receivables from credit institutions	1, 15, 16, 18	**24,855**	**29,823**
Repayable on demand		13,941	18,072
Other		10,914	11,751
Receivables from the public and public sector entities	2, 15, 16, 18	**3,724,718**	**3,492,096**
Repayable on demand		2,977	2,998
Other		3,721,741	3,489,098
Debt securities	3, 15, 16, 18	**464,280**	**551,296**
From others		464,280	551,296
Shares and holdings	4, 16, 18	**30,909**	**30,551**
Shares and holdings in associated companies	4, 16, 18	**3**	**3**
Shares and holdings in Group companies	4, 16, 18	**29,942**	**29,942**
Derivative contracts	5, 15, 16, 18	**999**	**1,278**
Intangible assets	6, 16	**38,393**	**42,528**
Tangible assets	6, 16	**73**	**305**
Other tangible assets		73	305
Other assets	7	**4,629**	**3,884**
Accrued income and advances paid	8	**19,744**	**16,674**
Deferred tax assets	9	**0**	**0**
ASSETS TOTAL		**5,692,039**	**5,225,586**

EQUITY AND LIABILITIES	Note	31 Dec 2017	31 Dec 2016
LIABILITIES			
Liabilities to credit institutions	15, 16, 18	**10,109**	**25,006**
To credit institutions		10,109	25,006
Repayable on demand		109	6
Other		10,000	25,000
Liabilities to the public and public sector entities	15, 16, 18	**5,072,073**	**4,606,526**
Deposits		5,030,316	4,569,639
Repayable on demand		5,024,541	4,551,947
Other		5,775	17,693
Other liabilities		41,757	36,887
Repayable on demand		39,747	30,513
Other		2,010	6,374
Debt securities issued	10, 15, 16, 18	**0**	**11,000**
Other		0	11,000
Derivative contracts and other liabilities held for trading	5, 15, 16, 18	**6,260**	**11,523**
Other liabilities	12, 16	**111,700**	**97,238**
Other liabilities		111,700	97,238
Accruals and advances received	13, 16	**12,846**	**16,166**
Subordinated liabilities	14, 15, 16, 18	**50,000**	**42,000**
Other		50,000	42,000
Deferred tax liabilities	9	**0**	**0**
LIABILITIES, TOTAL		**5,262,988**	**4,809,461**
APPROPRIATIONS			
Depreciation and amortisation difference		**5,916**	**5,686**
Taxation-based reserves		**33,341**	**21,057**
ACCUMULATED APPROPRIATIONS TOTAL		**39,257**	**26,743**
EQUITY			
Share capital	19, 20, 21	**82,880**	**82,880**
Other restricted reserves	19	**14,488**	**14,198**
Fair value reserve (available for sale)			
On measurement at fair value		14,488	14,198
Non-restricted reserves	19	**243,832**	**243,832**
Reserve for invested unrestricted equity		243,832	243,832
Retained earnings (losses)	19	**48,471**	**39,331**
Profit (loss) for the period	19	**122**	**9,140**
EQUITY, TOTAL	19	**389,794**	**389,382**
LIABILITIES TOTAL		**5,692,039**	**5,225,586**

OFF-BALANCE SHEET LIABILITIES	36		
Irrevocable commitments given in favour of a customer		175,662	201,294
Other		1,410,963	968,317

6.2 INCOME STATEMENT

EUR thousand	Note	1 Jan to 31 Dec 2017	1 Jan to 31 Dec 2016
Interest income	22	81,204	78,081
Interest expenses	22	-7,880	-8,493
NET INTEREST INCOME		**73,324**	**69,588**
Return on equity investments	23	**58**	**998**
From Group companies		0	998
From associated companies		40	0
From other companies		19	0
Fee and commission income	24	**54,605**	**42,772**
Fee and commission expenses	24	**-9,201**	**-7,495**
Net income from securities and currency trading	25	**-395**	**25**
Net income from securities trading		-561	49
Net income from currency trading		166	-25
Net income from available-for-sale financial assets	26	**6,809**	**22,570**
Net income from hedge accounting	27	**367**	**-545**
Net income from investment properties	28	**0**	**114**
Other operating income	29	**16,373**	**17,146**
Administrative expenses		**-103,187**	**-99,619**
Personnel expenses		-37,716	-31,524
Wages, salaries and fees		-30,443	-25,273
Indirect personnel expenses		-7,273	-6,250
Pension expenses		-6,003	-4,637
Other indirect personnel expenses		-1,269	-1,614
Other administrative expenses		-65,470	-68,096
Depreciation and impairment on tangible and intangible assets	31	**-12,426**	**-8,497**
Other operating expenses	30	**-5,217**	**-13,156**
Impairment losses on loans and other receivables	32	**-6,563**	**-2,559**
OPERATING PROFIT (LOSS)		**13,814**	**21,342**
Appropriations		**-12,513**	**-8,060**
Income tax		**-1,178**	**-4,143**
PROFIT (LOSS) FOR THE PERIOD		**122**	**9,140**

6.3 CASH FLOW STATEMENT

S-BANK LTD, EUR MILLION	2017	2016
CASH FLOW FROM OPERATIONS		
Result for the period	14	9
Adjustments of the result for the period	13	14
Increase (-) or decrease (+) in operating assets	-239	-623
Exposures to the public and public sector entities	-234	-629
Other assets	-5	6
Increase (+) or decrease (-) in operating liabilities	445	403
Liabilities to credit institutions	-15	13
Liabilities to the public and public sector entities	466	418
Other liabilities	-5	-28
Cash flow from operations total (A)	**234**	**-197**
CASH FLOW FROM INVESTMENT ACTIVITIES		
Investments in tangible and intangible assets	-8	-7
Cash flow from investment activities total (B)	**-8**	**-25**
CASH FLOW FROM FINANCING ACTIVITIES		
Subordinated liabilities, decrease	8	-1
Cash flow from financing activities total (C)	**8**	**-1**
NET CHANGE IN LIQUID ASSETS (A+B+C)	**234**	**-223**
Liquid assets at the start of period	1,631	1,854
Liquid assets at the end of period	1,865	1,631
Interest income	78	74
Interest expenses	-8	-9
PROFIT ADJUSTMENTS FOR THE PERIOD		
Net income from hedge accounting	0	1
Depreciation according to plan	12	8
Impairment losses on loans and other receivables	1	1
Items without payment transactions and other adjustments	0	5
Adjustments, total	**13**	**14**
LIQUID ASSETS		
Cash	493	97
Debt securities	1 322	1 482
Shares and holdings	25	23
Receivables from credit institutions	25	30
Liquid assets total	**1 865**	**1 631**

6.4 ACCOUNTING POLICIES

S-Bank Ltd. is the parent company of S-Bank Group. S-Bank is a deposit bank that engages in credit institution operations pursuant to the Finnish Act on Credit Institutions (610/2014). In addition, the bank offers investment services pursuant to chapter 1, section 11 of the Act on Investment Services (747/2012). As the parent company, S-Bank performs those tasks of the Group companies that must be carried out in a centralised manner, such as the administration, guidance and supervision of the Group.

The address of S-Bank's headquarters is Fleminginkatu 34, FI-00510 Helsinki, Finland. Based on representative agreements, customer service is also provided by S Group cooperatives and LocalTapiola Group's regional companies, acting as agents at their outlets.

On 1 August 2013, S-Bank Ltd. acquired 51% of the share capital and control of FIM Corporation, and the remainder was acquired on 1 June 2016. FIM Corporation was merged with S-Bank Ltd. on 30 November 2016. On 1 March 2016, S-Bank divested its holding in Kiinteistöosakeyhtiö Lempäälän terminaali and Kiinteistöosakeyhtiö Limingan terminaali property companies.

Deferred tax assets or liabilities are not presented in S-Bank Ltd's income statement or on the 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.

Otherwise, reference is made to the consolidated accounting principles.

6.5 NOTES CONCERNING BALANCE SHEET ITEMS

Notes concerning balance sheet items are given in thousand euros

Note 1 on S-Bank Ltd: Receivables from credit institutions	**31 Dec 2017**		
	Repayable on demand	**Other than repayable on demand**	**Total**
From Finnish credit institutions	1,742	10,479	12,221
From foreign credit institutions	12,199	436	12,635
Receivables from credit institutions total	**13,941**	**10,914**	**24,855**

	31 Dec 2016		
	Repayable on demand	**Other than repayable on demand**	**Total**
From Finnish credit institutions	8,146	11,751	19,897
From foreign credit institutions	9,926	0	9,926
Receivables from credit institutions total	**18,072**	**11,751**	**29,823**

Note 2 on S-Bank Ltd: Receivables from the public and public sector entities	**31 Dec 2017**	**31 Dec 2016**
Companies and housing associations	648,465	657,959
Financial and insurance institutions	110,245	57,458
Households	2,957,447	2,766,236
Non-profit organisations serving households	5,279	7,876
Foreign entities	3,282	2,567
Total receivables from the public and public sector entities	**3,724,718**	**3,492,096**

Credit loss provisions relating to the item “Receivables from the public and public sector entities” totalled EUR 33,341 thousand.

Impairment losses at beginning of year	**3,620**	**2,912**
Receivable-specific impairment losses recorded for the period	485	368
Group-specific impairment losses recorded for the period	3,762	3,253
Group-specific impairment losses reversed during the period	-3,620	-2,912
Impairment losses at year-end	**4,247**	**3,620**
Credit losses at the end of the financial period	6,563	2,559
Non-performing receivables at the end of the financial period	14,267	12,419

Note 3 on S-Bank Ltd: Debt securities	31 Dec 2017	
	Other than publicly quoted	Total
Issued by public sector entities		
Available-for-sale financial assets		
Local government securities	155,940	155,940
Treasury bonds and notes	36,451	36,451
Other bonds issued by public sector entities	30,065	30,065
Other debt securities	108,010	108,010
Issued by public sector entities, total	**330,466**	**330,466**
Debt securities issued by other than public sector entities		
Financial assets held for trading		
Bonds issued by banks	0	0
Available-for-sale financial assets		
Certificates of deposit issued by banks	4,503	4,503
Commercial papers	44,442	44,442
Bonds issued by banks	686,306	686,306
Other debt securities	259,042	259,042
Debt securities issued by other than public sector entities total	**994,293**	**994,293**
Debt securities total	**1,324,758**	**1,324,758**
- of which eligible for refinancing with central banks	860,478	860,478
- of which those that accumulate no interest, total	11,670	11,670

	31 Dec 2016	
	Other than publicly quoted	Total
Issued by public sector entities		
Available-for-sale financial assets		
Local government securities	115,554	115,554
Treasury bonds and notes	23,411	23,411
Other bonds issued by public sector entities	47,217	47,217
Other debt securities	81,182	81,182
Issued by public sector entities, total	**267,365**	**267,365**
Debt securities issued by other than public sector entities		
Financial assets held for trading		
Bonds issued by banks	240	240
Available-for-sale financial assets		
Commercial papers	27,022	27,022
Bonds issued by banks	850,697	850,697
Other debt securities	336,214	336,214
Debt securities issued by other than public sector entities total	**1,214,173**	**1,214,173**
Debt securities total	**1,481,538**	**1,481,538**
– of which eligible for refinancing with central banks	930,242	930,242
- of which those that accumulate no interest, total	6,830	6,830

Note 4 on S-Bank Ltd: Shares and holdings	31 Dec 2017		
	Publicly quoted	Other than publicly quoted	Total
Shares and holdings			
Financial assets held for trading	0	0	0
Available-for-sale financial assets	30,706	203	30,909
Shares and holdings in Group companies	0	29,942	29,942
Shares and holdings in associated companies	0	3	3
Total	**30,706**	**30,148**	**60,854**
- of which in credit institutions	0	0	0

	31 Dec 2016		
	Publicly quoted	Other than publicly quoted	Total
Shares and holdings			
Financial assets held for trading	555	0	555
Available-for-sale financial assets	29,793	203	29,996
Shares and holdings in Group companies	0	29,942	29,942
Shares and holdings in associated companies	0	3	3
Total	**30,348**	**30,148**	**60,496**
- of which in credit institutions	**0**	**0**	**0**

Note 5 on S-Bank Ltd: Derivative contracts	31 Dec 2017		
	Nominal value	Positive fair value	Negative fair value
For hedging purposes			
Interest rate derivatives			
Interest rate swaps	541,200	157	-4,591
Of the nominal value of derivative exposures in hedge accounting,			
EUR thousand in less than one year,	135,000		
EUR thousand in 1–5 years and	284,000		
EUR thousand in more than five years.	122,200		
For non-hedging purposes			
Interest rate derivatives			
Options, bought	200,000	406	0
Options, written	150,000	0	-828
Interest rate swaps	160,000	18	-422
Equity derivatives			
Options, bought	0	0	0
Options, written	0	0	0
Of the nominal value of derivative exposures, other than those in hedge accounting			
EUR thousand in less than one year,	150,000		
EUR thousand in 1–5 years and	330,000		
EUR thousand in more than five years.	30,000		

	31 Dec 2016		
	Nominal value	Positive fair value	Negative fair value
For hedging purposes			
Interest rate derivatives			
Interest rate swaps	456,200	0	-8,284
Of the nominal value of derivative exposures in hedge accounting,			
EUR thousand in less than one year,	95,000		
EUR thousand in 1–5 years and	305,000		
EUR thousand in more than five years.	56,200		
For non-hedging purposes			
Interest rate derivatives			
Options, bought	200,000	382	0
Options, written	200,000	0	-1,528
Interest rate swaps	45,000	6	-89
Equity derivatives			
Options, bought	3,723	236	0
Options, written	3,723	0	-236
Of the nominal value of derivative exposures, other than those in hedge accounting			
EUR thousand in less than one year,	3,723		
EUR thousand in 1–5 years and	220,000		
EUR thousand in more than five years.	225,000		

Note 6 on S-Bank Ltd: Changes in intangible and tangible assets during the financial period

Changes in intangible assets 2016	**Computer programmes and licences**	**Prepayments**	**Goodwill**	**Total**
Acquisition cost 1 Jan 2016	57,793	360	4,000	62,154
Increase	765	6,963	13,628	21,356
Transfers between items	90	-106	0	-17
Acquisition cost 31 Dec 2016	58,648	7,217	17,628	83,494
Accumulated amortisation, depreciation and impairment, 1 Jan. 2016	-31,143		-1,333	-32,476
Accumulated amortisation for decreases and transfers	-169		0	-169
Depreciation	-7,159		-1,161	-8,320
Accumulated amortisation, depreciation and impairment, 31 Dec 2016	-38,471		-2,495	-40,966
Carrying amount 1 Jan 2016	26,650	360	2,667	29,677
Carrying amount 31 Dec 2016	**20,177**	**7,217**	**15,134**	**42,528**

Changes in intangible assets 2017	**Computer programmes and licences**	**Prepayments**	**Goodwill**	**Total**
Acquisition cost on 1 Jan. 2017	58,648	7,217	17,628	83,494
Increase	3,114	4,944	0	8,058
Transfers between items	5,525	-5,525	0	0
Acquisition cost 31 Dec 2017	67,288	6,636	17,628	91,552
Accumulated amortisation, depreciation and impairment 1 Jan 2017	-38,471	,	-2,495	-40,966
Depreciation	-7,057	,	-5,136	-12,193
Accumulated amortisation, depreciation and impairment 31 Dec 2017	-45,528	,	-7,630	-53,159
Carrying amount 1 Jan 2017	20,177	7,217	15,134	42,528
Carrying amount 31 Dec 2017	**21,759**	**6,636**	**9,998**	**38,393**

Changes in tangible assets 2016	Machinery and equipment	Total
Acquisition cost 1 Jan 2016	533	533
Increase	176	176
Transfers between items	17	17
Acquisition cost 31 Dec 2016	726	726
Accumulated amortisation, depreciation and impairment, 1 Jan. 2016	-240	-240
Depreciation	-3	-3
Accumulated amortisation, depreciation and impairment, 31 Dec 2016	-177	-177
	-420	-420
Carrying amount 1 Jan 2016	293	293
Carrying amount 31 Dec 2016	**305**	**305**

Changes in tangible assets 2017	Machinery and equipment	Total
Acquisition cost on 1 Jan. 2017	726	726
Acquisition cost 31 Dec 2017	726	726
Accumulated amortisation, depreciation and impairment 1 Jan 2017	-420	-420
Depreciation	-232	-232
Accumulated amortisation, depreciation and impairment 31 Dec 2017	-653	-653
Carrying amount 1 Jan 2017	305	305
Carrying amount 31 Dec 2017	**73**	**73**

NOTE 7 ON S-BANK LTD: OTHER ASSETS	31.12.2017	31.12.2016
Receivables from payment transactions	1	23
Trade receivables from securities	27	573
From investment firms	8	32
From others	19	541
Other	4,601	3,289
Total	**4,629**	**3,884**
of which from the Group	211	72

Note 8 on S-Bank Ltd: Accrued income and advances paid	31 Dec 2017	31 Dec 2016
Interest receivables	12,452	13,230
Other accrued income	7,292	3,444
Total	**19,744**	**16,674**
of which from the Group	655	1,101

Note 9 on S-Bank Ltd: Deferred tax assets and liabilities	31 Dec 2017	31 Dec 2016
Deferred tax assets attributable to losses	12	12
Deferred tax liabilities arising from the fair value reserve	2,898	2,840
Deferred tax liability from appropriations	7,851	5,349

Note 10 on S-Bank Ltd: Debt securities issued to the public by credit institution	31 Dec 2017		31 Dec 2016	
	Carrying amount	Nominal value	Carrying amount	Nominal value
Certificates of deposit	0	0	11,000	10,992
Total	0	0	11,000	10,992

Note 11 on S-Bank Ltd: Other liabilities held for trading	31 Dec 2017	31 Dec 2016
From short selling of shares	0	732
Total	**0**	**732**

Note 12 on S-Bank Ltd: Other liabilities	31 Dec 2017	31 Dec 2016
Payables arising from payment transactions	100,492	88,655
Payables from securities	0	87
Other	11,209	8,496
Total	**111,700**	**97,238**
of which to the Group	0	80

Note 13 on S-Bank Ltd: Accruals and advances received	31 Dec 2017	31 Dec 2016
Interest expenses	445	459
Accrued expenses	12,401	15,707
Deferred income	0	0
Total	**12,846**	**16,166**
of which to the Group	7	37

Note 14 on S-Bank Ltd: Subordinated liabilities				31 Dec 2017
	Carrying amount*	Nominal value	Interest rate	Due date
Debentuuri I/2015	16,020	16,000	Euribor 12 months + 1.5%	1 Dec 2025
Debentuuri I/2016	26,239	26,000	Euribor 12 months + 1.8%	30 June 2026
Debentuuri I/2017	8,005	8,000	Euribor 12 months + 1.8%	18 Dec 2027

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 of time. 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 capital adequacy calculation, loans on debenture terms are grouped to the Tier 2 capital in accordance with the CRR regulation.

*) Includes transferred interests

Model of the key features of equity instruments	Debenture I/2015	Debenture I/2016	Debenture I/2017
Issuer	S-Bank Ltd	S-Bank Ltd	S-Bank Ltd
Unique identifier (ISIN)	FI4000185418	FI4000210877	FI4000292735
Governing law(s) applied to the instrument	Finnish	Finnish	Finnish
Regulation			
Transitional CRR rules	Tier 2 capital (T2)	Tier 2 capital (T2)	Tier 2 capital (T2)
Post-transitional CRR rules	Tier 2 capital (T2)	Tier 2 capital (T2)	Tier 2 capital (T2)
Eligible at solo or consolidated/ sub-consolidated/solo and consolidated/ sub-consolidation group	Solo and consolidated	Solo and consolidated	Solo and consolidated
Instrument type			
Amount recognised in regulatory capital EUR million (on the last reporting date)	16	26	8
Nominal amount of instrument EUR million	16	26	8
Issue price	100%	100%	100%
Redemption price	100%	100%	100%
Accounting classification	Liability at amortised cost	Liability at amortised cost	Liability at amortised cost
Original date of issuance	1 Dec 2015	30 June 2016	18 Dec 2017
Perpetual or dated	Dated	Dated	Dated
Original maturity date	1 Dec 2025	30 June 2026	18 Dec 2027
Issuer call subject to prior supervisory approval	Yes	Yes	Yes

Model of the key features of equity instruments	Debenture I/2015	Debenture I/2016	Debenture I/2017
Optional call date, contingent call dates, and redemption amount	The debenture will be repaid based on its nominal value in equal instalments annually on 1 December, with the first instalment being paid on 01/12/2021 and the last on 01/12/2025. The issuer reserves the right to repay the debenture before the maturity date. The repayment can take place no earlier than five (5) years after the issuance of the loan, unless the Financial Supervision Authority grants a permission to a repayment earlier than in five (5) years.	The debenture capital will be repaid, based on its nominal value, in equal instalments annually on 30 June, with 30 June 2022 as the first instalment and 30 June 2026 as the last instalment. The issuer reserves the right to repay the debenture before the maturity date. The repayment can take place no earlier than five (5) years after the issuance of the loan, unless the Financial Supervision Authority grants a permission to a repayment earlier than in five (5) years.	The debenture will be repaid based on its nominal value in equal instalments annually on 18 December, with the first instalment being paid on 18 December 2022 and the last on 18 December 2027. The issuer reserves the right to repay the debenture before the maturity date. The repayment can take place no earlier than five (5) years after the issuance of the loan, unless the Financial Supervision Authority grants a permission to a repayment earlier than in five (5) years.
Subsequent call dates, if applicable	See above	See above	See above
Coupons/Dividends			
Fixed or floating dividend/coupon	Floating coupon	Floating coupon	Floating coupon
Coupon rate and any related indices	Euribor 12 months + 1.5% per annum	Euribor 12 months + 1.8% per annum	Euribor 12 months + 1.8% per annum
Dividend stopper	No	No	No
Fully discretionary, partly discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory
Fully discretionary, partly discretionary or mandatory (in terms of quantity)	Mandatory	Mandatory	Mandatory
Existence of step up or other incentive to redeem	No	No	No
Non-cumulative and cumulative	non-cumulative	Non-cumulative	Non-cumulative
Convertible or non-convertible	non-convertible	Non-convertible	Non-convertible
If convertible, what are the conversion trigger(s)?	Not applicable	Not applicable	Not applicable
If convertible, is it fully or partially convertible?	Not applicable	Not applicable	Not applicable
If convertible, what is the conversion rate?	Not applicable	Not applicable	Not applicable
If convertible, is the conversion mandatory or optional?	Not applicable	Not applicable	Not applicable
If convertible, specify the instrument type it is convertible into.	Not applicable	Not applicable	Not applicable
If convertible, specify the issuer of instrument it converts.	Not applicable	Not applicable	Not applicable

Model of the key features of equity instruments	Debenture I/2015	Debenture I/2016	Debenture I/2017
Write-down features	Not applicable	Not applicable	Not applicable
If write-down is possible, what are the write-down trigger(s)?	Not applicable	Not applicable	Not applicable
If write-down is possible, is it full or partial?	Not applicable	Not applicable	Not applicable
If write-down is possible, is it permanent or temporary?	Not applicable	Not applicable	Not applicable
If a temporary write-down, description of the write-up mechanism.	Not applicable	Not applicable	Not applicable
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debentures are subordinated debt instruments that belong to the T2 instruments referred to in Article 63 of the European Parliament and the Council regulation (EU) No. 575/2013, provided that the requirements set by the Article and other requirements are met. Debentures are subordinated to the issuer's other commitments. Debentures cannot be used for setting off counterclaims.	Debentures are subordinated debt instruments that belong to the T2 instruments referred to in Article 63 of the European Parliament and the Council regulation (EU) No. 575/2013, provided that the requirements set by the Article and other requirements are met. Debentures are subordinated to the issuer's other commitments. Debentures cannot be used for setting off counterclaims.	Debentures are subordinated debt instruments that belong to the T2 instruments referred to in Article 63 of the European Parliament and the Council regulation (EU) No. 575/2013, provided that the requirements set by the Article and other requirements are met. Debentures are subordinated to the issuer's other commitments. Debentures cannot be used for setting off counterclaims.
Non-compliant transitioned features	No	No	No
If yes, specify non-compliant features	Not applicable	Not applicable	Not applicable

Note 15 on S-Bank Ltd: Distribution of the maturity of financial assets and liabilities	31 Dec 2017					
	0–3 months	3–12 months	1–5 years	5–10 y ears	More than 10 years	Total
Cash	493,015	0	0	0	0	493,015
Debt securities eligible for refinancing with central banks	78,145	106,183	545,533	130,617	0	860,478
Receivables from credit institutions	24,855	0	0	0	0	24,855
Receivables from the public and public sector entities	175,957	385,907	1,270,092	1,892,761	1	3,724,718
Debt securities	168,476	77,916	193,268	24,621	0	464,280
Derivative contracts (assets)	0	85	843	71	0	999
Financial assets total	**940,449**	**570,091**	**2,009,736**	**2,048,070**	**1**	**5,568,346**
Liabilities to credit institutions	10,109	0	0	0	0	10,109
Liabilities to the public and public sector entities	5,067,783	2,059	2,231	0	0	5,072,073
Debt securities issued	0	0	0	0	0	0
Subordinated liabilities	0	0	16,800	33,200	0	50,000
Derivative contracts (liabilities)	92	390	4,962	816	0	6,260
Financial liabilities total	**5,077,985**	**2,449**	**23,993**	**34,016**	**0**	**5,138,442**

	31 Dec 2016					
	0–3 months	3–12 months	1–5 years	5–10 y ears	More than 10 years	Total
Cash	96,964	0	0	0	0	96,964
Debt securities eligible for refinancing with central banks	15,073	23,650	814,641	76,878	0	930,242
Receivables from credit institutions	29,823	0	0	0	0	29,823
Receivables from the public and public sector entities	215,200	322,487	1,249,436	621,477	1,083,495	3,492,095
Debt securities	137,274	88,472	298,292	27,257	0	551,296
Derivative contracts (assets)	0	236	1,035	6	0	1,278
Financial assets total	**494,335**	**434,845**	**2,363,405**	**725,618**	**1,083,495**	**5,101,698**
Liabilities to credit institutions	5,006	20,000	0	0	0	25,006
Liabilities to the public and public sector entities	4,595,942	7,726	2,859	0	0	4,606,526
Debt securities issued	10,000	1,000	0	0	0	11,000
Subordinated liabilities	0	0	8,400	33,600	0	42,000
Derivative contracts (liabilities)	732	998	7,194	2,019	580	11,523
Financial liabilities total	**4,611,681**	**29,724**	**18,452**	**35,619**	**580**	**4,696,056**

Note 16 on S-Bank Ltd: Breakdown of balance sheet items into domestic and foreign amounts and from Group entities	31 Dec 2017				
	Finnish currency	Foreign currency	Total	From Group entities	From associated companies
Balance sheet item					
Receivables from credit institutions	17,759	7,096	24,855	0	
Receivables from the public and public sector entities	3,724,718	0	3,724,718	0	
Debt securities	1,324,758	0	1,324,758	0	
Derivative contracts	999	0	999	0	
Shares and holdings	60,854	0	60,854	29,942	3
Intangible assets	38,393	0	38,393	0	
Tangible assets	73	0	73	0	
Other assets (including cash)	517,388	0	517,388	866	
Total	**5,684,943**	**7,096**	**5,692,039**	**30,808**	**3**
Liabilities to credit institutions	10,042	68	10,109	0	
Liabilities to the public and public sector entities	5,069,015	3,058	5,072,073	24,548	
Debt securities issued	0	0	0	0	
Derivative contracts and liabilities held for trading	6,260	0	6,260	0	
Other liabilities and accrued expenses	124,516	31	124,546	7	
Subordinated liabilities	50,000	0	50,000	0	
Total	**5,259,832**	**3,156**	**5,262,988**	**24,555**	**0**

	31 Dec 2016				
	Finnish currency	Foreign currency	Total	From Group entities	From associated companies
Balance sheet item					
Receivables from credit institutions	15,347	14,476	29,823	0	
Receivables from the public and public sector entities	3,492,096	0	3,492,096	0	
Debt securities	1,481,538	0	1,481,538	0	
Derivative contracts	1,278	0	1,278	0	
Shares and holdings	60,495	0	60,496	29,942	3
Intangible assets	42,528	0	42,528	0	
Tangible assets	305	0	305	0	
Other assets (including cash)	117,522	0	117,522	1,173	
Total	**5,211,109**	**14,477**	**5,225,586**	**31,114**	**3**
Liabilities to credit institutions	25,006	0	25,006	0	
Liabilities to the public and public sector entities	4,593,484	13,042	4,606,526	22,680	
Debt securities issued	11,000	0	11,000	0	
Derivative contracts and liabilities held for trading	11,523	0	11,523	0	
Other liabilities and accrued expenses	113,306	98	113,405	118	
Subordinated liabilities	42,000	0	42,000	0	
Total	**4,796,320**	**13,140**	**4,809,461**	**22,798**	**0**

Note 17 on S-Bank Ltd: Securities lending	31 Dec 2017		31 Dec 2016	
	Carrying amount	Nominal value	Carrying amount	Nominal value
Available for sale				
Treasury bonds and notes	13,514	13,500	12,165	12,000
Total	**13,514**	**13,500**	**12,165**	**12,000**

Note 18 on S-Bank Ltd: Fair values and carrying amounts of financial assets and liabilities, and the hierarchy of fair values	**31 Dec 2017**		**31 Dec 2016**	
	Carrying amount	**Nominal value**	**Carrying amount**	**Nominal value**
Financial assets				
Cash	493,015	493,015	96,964	96,964
Receivables from credit institutions	24,855	24,862	29,823	29,840
Receivables from the public and public sector entities	3,724,718	3,920,345	3,492,096	3,724,169
Debt securities	1,324,758	1,331,449	1,481,538	1,490,490
Shares and holdings	30,909	30,829	30,551	30,471
Shares and holdings in associated companies	3	16	3	12
Shares and holdings in Group companies	29,942	46,438	29,942	46,438
Derivative contracts	999	999	1,278	1,278
Financial liabilities				
Liabilities to credit institutions	10,109	10,111	25,006	25,033
Liabilities to the public and public sector entities	5,072,073	5,166,021	4,606,526	4,653,162
Debt securities issued	0	0	11,000	11,002
Derivative contracts and other liabilities held for trading	6,260	6,260	11,523	11,523
Subordinated liabilities	50,000	50,273	42,000	42,259

S-Bank Group applies a settlement-date practice in recognising financial assets and liabilities on the balance sheet, excluding financial assets and liabilities measured at fair value through profit and loss. For financial assets and liabilities measured 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 measured 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 derivative contracts (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.

	31 Dec 2017			
Financial instruments measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets and liabilities held for trading purposes	0	0	0	0
Available-for-sale financial assets	1,038,824	323,454	0	1,362,278
Derivative receivables	0	999	0	999
Derivatives liabilities	0	6,260	0	6,260

	31 Dec 2016			
Financial instruments measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets and liabilities held for trading purposes	1,287	0	0	1,287
Available-for-sale financial assets	1,164,634	355,933	0	1,520,566
Derivative receivables	0	1,278	0	1,278
Derivatives liabilities	0	10,791	0	10,791

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.

Note 19 on S-Bank Ltd: Equity items	**31 Dec 2017**	**31 Dec 2016**
Share capital 1 Jan	82,880	82,880
Share capital 31 Dec	**82,880**	**82,880**
Fair value reserve 1 Jan	14,198	8,791
Increase (+)/decrease(-)	290	5,407
Fair value reserve 31 Dec	**14,488**	**14,198**
Invested unrestricted equity reserve 1 Jan	243,832	243,832
Invested unrestricted equity reserve 31 Dec	**243,832**	**243,832**
Loss from previous periods	48,471	39,331
Profit/loss for the period	122	9,140
Equity total	**389,794**	**389,382**

Note 20 on S-Bank Ltd: 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.

Note 21 on S-Bank Ltd: Shareholders and distribution of shareholdings

Owner	Share of ownership
SOK Corporation	37.5%
LocalTapiola Mutual Insurance Company	10.0%
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 Mutual Pension Insurance Company	1.5%
Cooperative Society Suur-Savo, Mikkeli	1.4%
Northern Karelia Cooperative Society, Joensuu	1.2%
Cooperative Society Varuboden-Osla Handelslag	1.1%
Satakunta Cooperative Society, Pori	1.1%
LähiTapiola Pohjoinen Mutual Insurance Company	1.0%
Southern Karelia Cooperative Society, Lappeenranta	1.0%
LähiTapiola Pääkaupunkiseutu Mutual Insurance Company	0.9%
LähiTapiola Vellamo Mutual Insurance Company	0.8%
Cooperative Society Maakunta, Kajaani	0.7%
LähiTapiola Etelä-Pohjanmaa Mutual Insurance Company	0.7%
LähiTapiola Varsinais-Suomi Mutual Insurance Company	0.6%
Cooperative Society Keula, Rauma	0.6%
LähiTapiola Itä Mutual Insurance Company	0.6%
LähiTapiola Uusimaa Mutual Insurance Company	0.5%
LähiTapiola Pirkanmaa Mutual Insurance Company	0.5%

Note 21 on S-Bank Ltd: Shareholders and distribution of shareholdings

Owner	Share of ownership
LähiTapiola Keski-Suomi Mutual Insurance Company	0.5%
LähiTapiola Lappi Mutual Insurance Company	0.4%
LähiTapiola Lännen Mutual Insurance Company	0.4%
LähiTapiola Kaakkois-Suomi Mutual Insurance Company	0.4%
LähiTapiola Etelä Mutual Insurance Company	0.4%
LähiTapiola Loimi-Häme Mutual Insurance Company	0.4%
LähiTapiola Pohjanmaa Mutual Insurance Company	0.4%
LähiTapiola Savo-Karjala Mutual Insurance Company	0.4%
LähiTapiola Savo Mutual Insurance Company	0.3%
LähiTapiola Satakunta Mutual Insurance Company	0.3%
Koillismaa Cooperative Society, Kuusamo	0.3%
LähiTapiola Kainuu-Koillismaa Mutual Insurance Company	0.3%
Cooperative Society Jukola, Nurmes	0.2%
LokalTapiola Sydkusten Ömsesidigt Försäkringsbolag	0.1%
Total	**100.0%**

6.6 NOTES CONCERNING INCOME STATEMENT ITEMS

Notes concerning the income statement items are given in thousand euros

Note 22 on S-Bank Ltd: Breakdown of interest income and expenses	1 Jan to 31 Dec 2017	1 Jan to 31 Dec 2016
Interest income		
Receivables from credit institutions	-98	-52
Receivables from the public and public sector entities	69,335	61,873
Debt securities	11,567	16,260
Derivative contracts	400	0
Other interest income	0	-1
Total	**81,204**	**78,081**
of which intra-Group items	29	210
Interest income from impaired receivables and other receivables	1,757	1,962
Interest expenses		
Liabilities to credit institutions	365	302
Liabilities to the public and public sector entities	3,603	3,281
Derivative contracts and liabilities held for trading	3,177	4,294
Subordinated liabilities	731	608
Other interest expenses	3	9
Total	**7,880**	**8,493**
of which intra-Group items	0	7

Note 23 on S-Bank Ltd: Return on equity investments	1 Jan to 31 Dec 2017	1 Jan to 31 Dec 2016
Dividend income from investments classified as financial assets held for trading	19	0
Dividend income from Group companies	0	998
Dividend income from associated companies	40	0
	58	**998**

Note 24 on S-Bank Ltd: Fee and commission income and expenses	1 Jan to 31 Dec 2017	1 Jan to 31 Dec 2016
Fee and commission income		
From lending	25,455	20,811
From borrowing	3,686	3,857
From payment transactions	8,387	7,635
From asset management	13	0
From legal duties	210	1,423
From securities brokerage	7,850	5,237
From insurance brokerage	521	40
From issuance of guarantees	-107	182
From other activities	8,590	3,586
Total	**54,605**	**42,772**
of which intra-Group items	6,827	2,312
Fee and commission expenses		
From paid commission fees	38	33
Other	9,163	7,462
Total	**9,201**	**7,495**
of which intra-Group items	197	555

Note 25 on S-Bank Ltd: Net income from securities and currency trading	1 Jan to 31 Dec 2017		
	Sales gains and losses (net)	Changes in fair value (net)	Total
From debt securities	-139	-29	-168
From shares and holdings	153	15	168
From derivative contracts	-1,162	601	-561
Net income from securities trading total	**-1,148**	**587**	**-561**
Net income from currency trading	**0**	**166**	**166**
Income statement item total	**-1,148**	**753**	**-395**

	1 Jan to 31 Dec 2016		
	Sales gains and losses (net)	Changes in fair value (net)	Total
From debt securities	129	-829	-700
From shares and holdings	-9	-20	-29
From derivative contracts	-790	1,568	778
Net income from securities trading total	**-670**	**719**	**49**
Net income from currency trading	**0**	**-25**	**-25**
Income statement item total	**-670**	**694**	**25**

Note 26 on S-Bank Ltd: Net income from available-for-sale financial assets	1 Jan to 31 Dec 2017	1 Jan to 31 Dec 2016
Net income from disposal of financial assets	6,317	22,517
Other income/expenses from available-for-sale financial assets	492	53
Total	**6,809**	**22,570**

Note 27 on S-Bank Ltd: Net income from hedge accounting	1 Jan to 31 Dec 2017	1 Jan to 31 Dec 2016
Net result from hedging instruments	3,657	-993
Net result from hedged items	-4,024	448
Total	**-367**	**-545**

Note 28 on S-Bank Ltd: Net income from investment properties	1 Jan to 31 Dec 2017	1 Jan to 31 Dec 2016
Rental income	0	321
Rental expenses	0	-207
	0	**114**

Kiinteistöosakeyhtiö Lempäälän Terminaali and Kiinteistöosakeyhtiö Limingan terminaali were divested in 2016

Note 29 on S-Bank Ltd: Other operating income	1 Jan to 31 Dec 2017	1 Jan to 31 Dec 2016
Other income	16,373	17,146
of which intra-Group items	2,348	2,586

Note 30 on S-Bank Ltd: Other operating expenses	1 Jan to 31 Dec 2017	1 Jan to 31 Dec 2016
Rental expenses	4,073	3,591
Loss from the merger	0	8,591
Other expenses	1,143	973
Total	**5,217**	**13,156**
Financial Stability Authority contributions	,	
Stability contribution	449	314
Deposit guarantee fund contribution	4,052	3,535
Administrative fee	31	0
Total	**4,533**	**3,849**

The Deposit Guarantee Fund reimbursed the deposit guarantee contribution collected for the Financial Stability Fund and the Financial Stability Fund reimbursed the stability payment, which had replaced the bank tax. These did not have any result impact on the bank. The funds accumulated in the old deposit guarantee fund and the bank tax paid in previous years is estimated to cover the Financial Stability Fund contributions until 2020.

Note 31 on S-Bank Ltd: Depreciation, amortisation and impairment on tangible and intangible assets	1 Jan to 31 Dec 2017	1 Jan to 31 Dec 2016
Depreciation according to plan		
Intangible assets	12,193	8,320
Tangible assets	232	177
Total	**12,426**	**8,497**

There are no impairment losses on tangible and intangible assets.

Note 32 on S-Bank Ltd: Impairment losses on loans and other commitments, as well as other financial assets	1 Jan to 31 Dec 2017				
	Realised contract-specific credit losses, gross	Contract-specific impairment losses, gross	Group-specific impairment losses, gross	Deductions	Total
Exposures to the public and public sector entities	11,214	485	3,762	8,898	6,563

	1 Jan to 31 Dec 2016				
	Realised contract-specific credit losses, gross	Contract-specific impairment losses, gross	Group-specific impairment losses, gross	Deductions	Total
Exposures to the public and public sector entities	10,145	368	3,253	11,207	2,559

6.7 NOTES ON COLLATERAL AND CONTINGENT LIABILITIES

Notes concerning collateral and contingent liabilities are given in thousand euros

Note 33 on S-Bank Ltd: Collateral provided	**Other collateral**	
Balance sheet item	**31 Dec 2017**	**31 Dec 2016**
Collateral provided on own debt		
Liabilities to credit institutions	165,660	174,000
Liabilities to the public and public sector entities	10,687	11,737
Derivative contracts	10,687	11,737
Collateral provided for others	**24**	**26**

Note 34 on S-Bank Ltd: Pension liabilities

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

Note 35 on S-Bank Ltd: Financial leasing and other rental liabilities	**31 Dec 2017**	**31 Dec 2016**
Within one year	1,984	1,455
Within one to five years	1,204	616
Total	**3,188**	**2,070**

Note 36 on S-Bank Ltd: Off-balance sheet commitments	**31 Dec 2017**	**31 Dec 2016**
Guarantees	24,881	20,915
Undrawn credit facilities	1,561,744	1,148,696
Total	**1,586,625**	**1,169,611**

Note 37 on S-Bank Ltd: Brokerage receivables and payables	31 Dec 2017	31 Dec 2016
Savings in accordance with the Finnish Act Governing Long-term Savings Agreements	163	174
Other brokerage receivables and liabilities		
Purchases from brokers	15,774	6,267
Liabilities to customers	4,348	13,372
Total	**20,285**	**19,814**

6.8 NOTES ON PERSONNEL AND MANAGEMENT

Note 38 on S-Bank Ltd: Personnel and management	2017		2016	
	Average number	Number at the end of period	Average number	Number at the end of period
Permanent full-time personnel	445	462	381	388
Permanent part-time personnel	33	32	35	32
Temporary personnel	43	32	45	46
Total	**521**	**526**	**460**	**466**

	2017	2016
Salaries and fees paid to management (EUR thousand)		
Managing director and his deputy	528	483
Executive Board	30	30
Pension commitments to management (EUR thousand)		
Managing director and his deputy	42	40

The amount of loans granted to the managing director, their deputy and the Executive Board is provided in the note on related-party lending.

6.9 RELATED PARTY TRANSACTIONS

Notes concerning related party transactions are given in thousand euros

Note 39 on S-Bank Ltd: 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 2017** **Receivables from the public and public sector entities**	**31 Dec 2016** **Exposures to the public and public sector entities**
Basis for classification as a related party		
Management	1,146	1,677
Management of holding company	1,504	2,930
Kinship	19	186
Impairment losses at the end of the financial period	-1	-2
Total	**2,668**	**4,791**

The terms of card credit granted to the company's related parties comply with the standard terms and conditions of lending to the public.

6.10 NOTES CONCERNING SHAREHOLDING

Note 40 on S-Bank Ltd: Holdings in other companies	
S-Asiakaspalvelu Oy, registered office Helsinki	
Shareholding 100%	
Equity (EUR thousand)	1,119
Result for the period (EUR thousand)	450
FIM Private Equity Funds Ltd	
Shareholding 100%	
Equity (EUR thousand)	8,740
Result for the period (EUR thousand)	-185
FIM Asset Management Ltd	
Shareholding 100%	
Equity (EUR thousand)	14,511
Result for the period (EUR thousand)	416
S-Crosskey Ab, registered office Maarianhamina	
Shareholding 40%	
Equity (EUR thousand)	32
Result for the period (EUR thousand)	1

6.11 OTHER NOTES

Note 41 on S-Bank Ltd: Notes regarding trustee services and total amount of customer funds (EUR thousand)	31 Dec 2017	31 DEC 2016
Assets under consultative asset management	33,627	25,243

6.12 NOTES ON AUDITOR'S FEES

Notes on auditor's fees (EUR thousand)	31 Dec 2017	31 Dec 2016
Audit	174	152
Tax advice	8	6
Other services	94	5
Total	**276**	**163**

S-Bank

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