ANNUAL REPORT 2018

S-Bank

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BANKING SERVICES WITH SUPERIOR EASE AND BENEFITS

S-Bank is a Finnish bank with a mission to make its customers' daily lives easier.

S-Bank's operations are based on easy products, fast and proactive service, transparent pricing, easy access and cooperation with stores. S-Bank focuses strongly on developing its digital services with the aim of providing the best digital banking experience in Finland. Spearheading the digital services is the internationally awarded S-mobiili application, into which store and banking services as well as insurance from LocalTapiola have been combined. S-Bank's customers have embraced the S-mobiili app, and by the end of 2018, more than 78% of all log-ins to the bank's electronic services were made using a mobile device.

Basic banking services, which include a current account, an international payment card and banking IDs for electronic services, are provided free of charge by S-Bank to S Group co-op members, which is a considerable benefit. S-Bank provides daily banking services in more than 700 S Group business locations throughout the country. Customers can withdraw and deposit cash at the checkouts of approximately 1,000 S Group stores.

S-Bank serves its customers through its online bank and S-mobiili app, or through customer service by phone, chat or social media.

S-Bank provides services under two brands. The S-Bank brand is used to offer services for daily banking, saving and investment, and financing for various needs. Under the FIM brand, the bank offers private banking services as well as services for institutional investors.

In the case of housing loans, customers can turn to our S-Bankers, who serve at business locations in the key growth centres in Finland. Teleconferencing enables S-Bankers to help customers regardless of their location.

The owners of S-Bank are SOK Group (37.5%), the regional cooperatives that are part of 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 2018

3.1 million customers | **2.2 million** international payment cards

1.9 million online banking IDs | **EUR 5.8 billion** in deposits

EUR 4.2 billion in granted loans | **EUR 7.6 billion** in assets under management (FIM)

16.8% capital adequacy ratio | **11.6 million** operating profit

CEO'S REVIEW

If we were to describe 2018 in two words, they could be 'effort' and 'change', as these two themes were very prominent in our operations. Even though the past year was full of major changes, we managed to grow our operations substantially. At the same time we also succeeded in deepening our customer relationships.

So how did we do this? We reshaped S-Bank in a way that allows us to continue in our quest to be a better partner for our more than three million customers. This is evident in our new organisational structure, for instance. Since the beginning of September, our operations have been divided into two business areas, the Banking business and the Wealth Management business.

Strong and controlled growth in lending was the highlight of the past year in the Banking business. The total amount of loans taken out by retail customers grew to EUR 3.4 billion (3.0). Our housing loan portfolio grew by 15.2% in a market that generally saw growth of about 2%.

More and more people are turning to us for financing for their new home. This shows that we have succeeded in deepening our customer relationships significantly. This is important for us, as we want to be more present in our customers' daily lives.

More evidence of this same phenomenon, the activation of our customer base of 3.1 million, is also provided by the eagerness of Finns to use our cards to pay for their purchases. Few people know that, roughly speaking, every tenth purchase made with a Finnish debit or credit card is paid for using an S-Bank card. The number of purchases made with our cards last year increased by 18%.

Meanwhile, we have proceeded apace in wealth management. The business gained new management in the spring and its strategy was revised in the autumn. In September, we launched Säästäjä, the first micro-saving service in Finland. Thousands of Finns have already adopted the Säästäjä service, and we are proud of the fact that more than 30% of the service's users are first-time savers. This is wonderful, as our aim is to make saving easy and cheap.

I'm also pleased to be able to say that, despite the challenging conditions in the markets in late 2018, our assets under management grew by 9.9%, reaching EUR 7.6 billion (6.9) by the end of the year. The number of unit holders in the funds we manage increased by 19,000 – this is significantly faster than the rest of the market.

Harnessing technology to serve our customers

Technological advances are an important force shaping the banking sector and society at large. Our customers also appreciate effective and reliable digital services and, according to a survey conducted by EPSI Rating, they are clearly more willing to do all their banking digitally than the customers of other banks.

For this reason, we aim to explore and utilise new technologies, such as the possibilities offered by mobile devices, machine learning, software robotics and block chains, whenever they help us serve our customers better. Currently, for example, we are working to make mobile payments easier, enabling our customers to pay and collect the Bonus using our partner MobilePay's app in all the stores and services of the S Group. We are also developing a new version of our highly popular S-mobiili app, which combines store and banking services in a unique way. We plan to release the new version of S-mobiili in the first half of this year.

Last year we worked hard to ensure that we will be able to automate our processes in the future and to reduce the volume of paper they consume. This year we will continue these efforts by reducing the use of paper in invoicing, for example. This will allow us to save money, and is also in line with the principles of sustainable development.

Responsibility plays an important role in everything we do, and this is what our customers expect from us. In the Sustainable Brand Index, the largest survey on sustainable development in the Nordic countries, Finns chose S-Bank as the most responsible bank for the sixth year in a row. Last year we recruited top-level professionals in responsible investment and launched the first green bond fund in Finland. In January 2019, we acquired Epiqus, a pioneering impact investment fund manager, which will become part of our Wealth Management business.

Outlook for the current year

It is difficult to predict the future, but I believe that the current year will bring plenty of action and, at times, various challenges.

Our aim for this year is to considerably improve our profitability, which will demand a lot from us. However, I believe that we have embarked on this year well-prepared and full of energy. That is why I'm convinced we will achieve our aims and, as in previous years, we will be the bank that meets our customers' expectations and exceeds them.

PEKKA YLIHURULA
CEO, S-Bank

REPORT BY THE BOARD OF DIRECTORS

BUSINESS ENVIRONMENT

The economic cycle peaked in 2018, as many countries saw good economic growth. However, economic activity began to slow down towards the end of the year.

A rise in protectionism and political uncertainty overshadowed the economic environment in 2018, and the trade dispute between the US and China added to the uncertainty surrounding the global economy. In the US, the Federal Reserve continued to raise its Federal Funds Target Rate. The rise in US interest rates had an impact on capital flows in the emerging markets. The equity market declined and economic indicators slumped at the end of the year.

The rise in consumer prices, or inflation, slowed towards the end of the year in many emerging countries. A drop in the price of crude oil was largely the reason behind this slowdown in inflation. The European Central Bank discontinued its asset purchasing programme in December. While the Euribor rates remained negative, there was some minor upward movement in long-term Euribor rates.

The Finnish economy posted healthy growth in 2018. A substantial increase in employment, strong consumer confidence and rising wages maintained household spending. Meanwhile, construction supported investment activity, and exports grew at a moderate pace.

Demand for housing loans increased in 2018, and housing loans worth around EUR 1.5 billion on average were drawn down every month. The total housing loan portfolio grew at a rate of 2%, as low interest rates, strong consumer confidence and higher employment boosted the housing market. The prices of old dwellings increased by about half a per cent on the previous year throughout Finland. The price gap between growth centres and the rest of Finland remained wide.

Consumer loans taken by households grew by about 4.5%. Household deposits increased at a rate of approximately 4%. Corporate loans grew by about 5.5%, driven by loans taken out by housing companies. The total loans drawn down by housing companies grew by more than 10% last year. The fund capital of funds registered in Finland contracted by 5.2% during the year to EUR 110.1 billion. The total amount of fund capital declined as a result of redemptions and negative valuation changes.

EVENTS DURING THE FINANCIAL YEAR

In February, S-Bank and the S Group announced an agreement that enabled the application of their partner MobilePay to be used to make payments in all S Group stores and services. This cooperation will give Finns the opportunity to pay for their purchases and collect the Bonus with their mobile phones. The FIM Family Office service, offering comprehensive wealth management to high net worth families, was also launched in February.

In June, FIM Asset Management Ltd and Investment Management Tresor Ltd agreed on an arrangement that transferred Tresor's customer relationships to FIM Asset Management.

S-Bank Group's organisational structure was revised in September. Under the new structure, the bank's operations are divided into two business areas, the Banking business and the Wealth Management business.

The Wealth Management business gained new management in the spring and its business strategy was revised in the autumn. In late September, S-Bank unveiled Säästäjä, the first micro-saving service in Finland. Säästäjä will be integrated into the new version of the S-mobiili app, which was developed throughout the year.

The Capital Markets unit held cooperation negotiations with the employees, which were concluded in October. The negotiations produced a solution that allows customers to continue to buy and sell shares through a service provided by a partner. Book-entry accounts and structured investment products will also continue to be offered to customers. As a result of the negotiations, nine employees could not be offered new positions and their employment relationships will be terminated in the first half of 2019.

In November, S-Bank reported it was abandoning the Siirto service and announced some changes to its fund selection. The fund selection was revised and the Wealth Management business began cooperation with Bank of Åland Plc in several funds, as a result of which the management of approximately one billion euros in fund investments was transferred to FIM's fund managers. The cooperation was based on an overall review of the fund selection at both companies.

S Group and Nokas CMS Oy continued their cooperation on Nosto ATMs, installing new machines. In November, the companies introduced a financing arrangement under which S-Bank provides the cash dispensed at the ATMs.

S-Bank announced a partnership in November aiming at digitalising the transfer of housing company shares when people sell their apartments. The digitalisation is taking place through a platform developed by DIAS Oy, which is owned by S-Bank, Aktia, Danske Bank, OP and Tomorrow Tech.

To ensure its growth and comply with stricter regulation, S-Bank organised a share issue to its current owners. The share issue was resolved on by an extraordinary general meeting of the shareholders in October. All the current owners subscribed for shares in proportion to their holdings, and the new shares were registered in December. As a result of the share issue, the bank's Common Equity Tier 1 (CET1) capital increased by EUR 40 million.

FINANCIAL REVIEW

FINANCIAL PERFORMANCE AND PROFITABILITY

S-Bank Group's operating profit decreased year-on-year to EUR 11.6 million (16.0). The comparable operating profit amounted to EUR 13.2 million (14.4) when taking into account non-recurring items included in expenses for 2018 and the profit from the divestment of the SME and agricultural business included in the profit for the previous year. The profit for the period after taxes was EUR 6.7 million (12.4).

The Group's cost- income ratio was 0.84 (0.83). The return on equity (ROE) decreased to 1.6% (3.1).The return on assets (ROA) was 0.1% (0.2).

NET INCOME

Net income totalled EUR 153.7 million (154.3), of which net interest income accounted for 48.1%. Net interest income grew by 1.0% on the previous year, totalling EUR 74.0 million (73.3). Net interest income mainly came from interest income received from lending, as well as from investments in the money and capital markets. Interest expenses consisted mainly of interest on deposits paid to customers.

Net fee and commission income increased by 3% year-on-year to EUR 61.0 million (59.2). Net fee and commission income accounted for 39.7% of net income.

Other income totalled EUR 18.7 million (21.8), of which EUR 3.9 million (6.0) consisted of net income from investing activities and EUR 14.8 million (15.7) consisted of other operating income.

Income from investing activities is affected by developments in interest rates and the investment environment, as well as the classification and measurement changes introduced by IFRS 9.

EXPENSES

Operating expenses increased by 1.1% on the previous year to EUR 133.1 million (131.7). Other operating expenses include non-recurring expenses of EUR 1.6 million related to the wind-down of the Siirto service and the restructuring of the Capital Markets unit. Personnel expenses rose compared to the previous year due to an increase in the number of personnel and were EUR 49.5 million (46.2) in total. Other administrative expenses decreased from the previous year to EUR 65.0 million (67.0). Depreciation during the financial period grew on the previous year to EUR 12.7 million (12.5). Other operating expenses decreased to EUR 5.9 million (6.0). Other operating expenses consisted of such items as membership and supervision fees, rental expenses from facilities, machinery and equipment, and vehicle expenses.

Table 1: Key figures

KEY FIGURES, EUR MILLION	12/2018	12/2017	12/2016
Operating profit	11.6	16.0	22.3
Net income	153.7	154.3	160.5
Deposits	5,832.7	5,005.8	4,547.0
Lending	4,187.0	3,724.9	3,492.2
Assets under management	7,576.2	6,891.7	6,152.6
Debt securities	1,668.0	1,324.8	1,481.5
Cost-to-income ratio	0.84	0.83	0.82
Return on equity	1.6%	3.1%	4.4%
Return on assets	0.1%	0.2%	0.3%
Equity ratio	6.9%	7.3%	7.7%
Capital adequacy ratio	16.8%	16.7%	14.8%

EXPECTED AND REALISED CREDIT LOSSES

S-Bank booked a total of EUR 13.8 million (11.8) in expected and realised credit losses and losses due to malpractice. Reversed credit losses amounted to EUR 4.9 million (5.3). Thus the net expected and realised credit losses and impairments totalled EUR 8.9 million (6.6). The increase in the credit losses is mainly due to the growth of the credit portfolio. Relative to the size of the credit portfolio, the percentage of credit losses and impairments is low.

DEPOSITS

Total deposits grew strongly during the financial year. At the balance sheet date, the total deposit portfolio amounted to EUR 5,832.7 million (5,005.8), an increase of 16.5% on the previous year.

At year-end, the amount of deposits on demand totalled EUR 5,827.5 million (5,000.0), and the amount of fixed-term deposits totalled EUR 5.2 million (5.8). Of these, deposits by retail customers totalled EUR 4,557.9 million (4,004.6), consisting of EUR 4,552.7 million (3,998.9) in deposits on demand and EUR 5.2 million (5.8) in fixed-term deposits. Deposits by corporate customers totalled EUR 1,274.8 million (1 001.1).

At the close of the financial year, the total amount of deposits in S-Bank covered by the deposit guarantee scheme was EUR 4,288.8 million (3,824.5).

LENDING AND INVESTING ACTIVITIES

Lending also grew considerably in 2018. In total, the lending portfolio increased by EUR 462.1 million (232.7) during the year to EUR 4,187.0 million (3,724.9) at the end of the year. This represented a growth of 12.4% compared to the previous year.

The housing loan portfolio grew by 15.2% as in the previous year, outperforming the rest of the market. Credit to retail customers amounted to EUR 3,393.0 million (2,959.0), while credit to corporate customers totalled EUR 794.0 million (765.9). S-Bank's capital investments in the money and capital markets totalled EUR 1,668.0 million (1,324.8).

EQUITY

At the end of the year, equity totalled EUR 442.1 million (414.1), of which the minority interest was EUR 0.2 million (0.2). Equity increased due to the positive result for the financial year and the share issue, and it was decreased by transitional disclosures on first time adoption of IFRS 9.

With the growth of the balance sheet, the equity ratio dropped to 6.9% (7.3), despite the increase in equity.

ASSETS UNDER MANAGEMENT

The amount of assets under management by FIM Asset Management Ltd was EUR 7,576.2 million (6,891.7) at the end of the year. This represented a growth of 9.9% compared to the previous year. Of the managed assets, the share of fund capital was EUR 5,661.8 million (6,029.8), and wealth management capital accounted for EUR 1,914.4 million (861.9). Net subscriptions in funds amounted to EUR -83.1 million (326.8) during the financial year. The number of unit holders in the funds exceeded 240,000 at the end of December. FIM Asset Management administers the S-Bank, FIM and LocalTapiola investment funds.

RISK MANAGEMENT

INTRODUCTION TO THE REPORTING OF RISK AND CAPITAL ADEQUACY INFORMATION

S-Bank complies with its disclosure obligation by publishing information on risks, risk management and capital adequacy in its financial statements. The published information on capital adequacy and risks is always available on S-Bank's website, at www.s-pankki.fi. In its interim reports, S-Bank publishes the information concerning capital adequacy and risk management that pursuant to applicable regulation must be published more than once a year.

Part Eight of the EU Capital Requirements Regulation (CRR, 575/2013) sets out the requirements on disclosure of information (Pillar 3) concerning institutions' risks, risk management and capital adequacy. The Pillar 3 report (Capital and Risk Management Report) in accordance with this regulation is published in a document separate from the financial statements. The report, as well as S-Bank's corporate governance statement and report on remuneration systems, are available on S-Bank's website.

GENERAL DESCRIPTION OF RISK MANAGEMENT

S-Bank provides banking and wealth management services to its customers. S-Bank's strategy aims at vigorous growth in the coming years, focusing particularly on services for retail customers and on the Wealth Management business. The risk strategy defining S-Bank's key principles and objectives related to risks has been designed to support S-Bank's business model and growth strategy.

Comprehensive risk management is a continuous process integrated into S-Bank's strategy, decision making, processes, reporting and internal control framework. Risk management refers to the procedures used to identify, assess, measure and monitor risks related to the company's operations. It also encompasses the maintenance and development of risk mitigation methods that will keep potential risks and their consequences at an acceptable level.

The primary objective of risk management is to support the level of profitability, maintain capital adequacy and liquidity above the minimum target levels defined by the Board of Directors, manage the reputation risk and secure disturbance-free operations in both the short and the long term.

Risk strategy

S-Bank Group has an risk strategy approved by the parent company's Board of Directors that applies to all the Group companies and their business and support functions. The risk strategy defines the Group's risk capacity and risk appetite, as well as the risk management objectives and framework within the Group. The risk strategy is fine-tuned with risk type specific principles and procedures. Additionally, the business and support functions maintain more detailed guidelines and descriptions to support risk management in their own organisations.

Risk capacity and risk appetite

The Board of Directors annually defines the quantitative and qualitative aspects of the risk capacity and risk appetite.

Risk capacity sets the maximum level for risk-taking in the Group in the short and long term. Securing sufficient capital adequacy and liquidity and ensuring compliance with regulation are key factors of the risk capacity.

Risk appetite reflects the approved amount and type of exposures that S-Bank is willing to take in its business operations over a certain period while pursuing its set objectives. It also defines such aspects as the internal minimum target levels for capital adequacy and liquidity. The basis of risk appetite is to achieve a stable and an adequate return on the Group's equity in the short and long run. The purpose is also to secure business continuity, conduct operations responsibly and ensure that S-Bank's risk-taking is controlled and planned. Another purpose is to ensure that the confidentiality, integrity and availability of customer, personal and business data are not compromised.

Risk limits

The risk capacity and appetite are implemented in S-Bank's operations and reflected in the risk limit structure. These limits are updated regularly and whenever needed if risks associated with business operations and the operating environment so require.

The Board of Directors sets numerical targets and acceptable levels for different risk types. These limits reflect possible restrictions stipulated by regulation, taking risk appetite into consideration. Decision making mandates are defined and delegated to an appropriate level to ensure fluent daily control of business operations. These targets and limits are monitored and controlled as part of regular reporting procedures.

In addition to the Pillar 1 capital requirements set by the authorities, S-Bank calculates and complies with an internal capital adequacy requirement for its Pillar 2 risks. These requirements apply to S-Bank Group, its parent company and its subsidiaries.

The governance, structure and organisation of risk management as well as risk monitoring, control and reporting are discussed in the note concerning the Group's risks and risk management. Capital adequacy and liquidity management are also described in the same note.

S-BANK GROUP'S RISK POSITION

Table 2: S-Bank's key risk ratios

EUR MILLION	31 DEC. 2018	31 DEC. 2017
Risk-weighted exposure amounts (in euros)		
Total risk-weighted exposure amounts	2,696.0	2,531.7
Credit and counterparty risk, standardised approach	2,419.7	2,251.9
Market risk	0.0	0.0
Operational risk, basic indicator approach	273.1	276.9
Credit valuation adjustment (CVA)	3.1	2.9
Own funds (in euros)		
Common Equity Tier 1 (CET1) capital	401.8	372.2
Tier 2 (T2) capital	50.0	50.0
Total capital	451.8	422.2
Pillar 1 minimum capital requirement (8%)	215.7	202.5
Pillar 1 total capital requirement (12.79% in 2018 and 10.53% in 2017)	344.8	266.7
Capital ratios (as a percentage of total risk-weighted exposure amounts)		
Common Equity Tier 1 (CET1) ratio	14.9%	14.7%
Total capital adequacy ratio	16.8%	16.7%
Leverage ratio (CRR)		
Leverage ratio (%)	6.0%	6.4%
Liquidity Coverage Ratio (LCR)		
Liquidity Coverage Ratio (%)	156.4%	162.9%
Net stable funding ratio (NSFR)		
Net stable funding ratio (%)	145.9%	144.6%

Below is a summary of S-Bank Group's risk position at the close of the financial period. The most significant risks that can potentially affect S-Bank's profitability, capital adequacy and liquidity are related to business volumes, lending and borrowing margins, general interest rates, economic performance, unfavourable development in credit losses and the cost-efficiency of business operations.

The most significant risk types from the perspective of the Pillar 1 capital requirements are credit risks and operational risks. In addition to calculating Pillar 1 capital requirements, S-Bank also calculates an internal Pillar 2 capital requirement in order to assess all the material risks related to its operations and to ensure a comprehensive overview of its risk profile.

Credit risk constitutes 90% (EUR 2.4 billion) of S-Bank's total risk weighted assets (RWAs). The standardised approach is used for calculating the Pillar 1 capital requirement for credit risk. The most substantial items requiring capital include housing loans, retail exposures and corporate exposures. There were no major shifts in the credit portfolio distribution between different loan types during 2018. S-Bank sustains a low credit risk profile in line with its conservative risk appetite, supported by active risk management and monitoring measures.

S-Bank does not have a trading book. For this reason, S-Bank is not subject to the Pillar 1 capital requirement for market risk. As S-Bank's market risks arise from the banking book, these are – in accordance with the Pillar 1 requirement and methods – included in the regulatory capital requirements for credit risk using the standardised approach. In addition, market risk is measured with an internal market risk model as part of the Pillar 2 and ICAAP processes (Internal Capital Adequacy Assessment Process).

Operational risk accounts for 10% of S-Bank's total RWAs. The basic indicator approach (Pillar 1) is used for calculating the capital requirement for the operational risk. Losses attributable to operational risks realised in 2018 were very low in comparison to the regulatory capital requirement for operational risk. S-Bank's operational risk profile is materially impacted by system failures and disruptions, fraud and possible deficiencies in the services procured from external service providers.

S-Bank's capital position remained stable, exceeding the regulatory requirements and the internal minimum target level of 15%. S-Bank's total capital adequacy ratio was 16.8% at the close of the financial year. To support the growth of its business and prepare for regulatory changes concerning capital requirements, S-Bank carried out a share issue to its current shareholders towards the end of the year. The share issue increased S-Bank's Common Equity Tier 1 capital by EUR 40 million in December 2018. S-Bank is adequately capitalised to ensure the continuity of its operations even under stressed conditions.

The capital buffer in relation to the total regulatory Pillar 1 capital requirement (12.79%) was EUR 107.0 million.

S-Bank's leverage ratio of 6.0% is also strong, while the minimum regulatory requirement is set at 3%. In addition, S-Bank's liquidity position was first-rate at the end of the year. The liquidity coverage ratio (LCR) was 156%, while the minimum regulatory requirement is set at 100%.

CAPITAL ADEQUACY AND OWN FUNDS

The management of capital adequacy is also discussed in the notes to the financial statements (consolidated note 2: The Group's risks and risk management). S-Bank Group's risks and risk management are also presented in the same note.

On 30 January 2018, The Finnish Financial Supervisory Authority (FSA) set a discretionary Pillar 2 additional capital requirement (SREP) for S-Bank, based on interest rate risk in the banking book and the concentration of credit risk. The requirement amounts to 2.25% and it became effective on 30 September 2018. The additional capital requirement was set on the basis that the risks in question had not been accounted for in the regulatory capital requirement (Pillar 1). The discretionary additional capital requirement is valid until further notice with expiry on 30 September 2021 at the latest. The requirement must be met with CET1 capital.

Table 3 sets forth the distribution of the Pillar 1 total capital requirement in S-Bank on 31 December 2018.

In addition to the above-mentioned capital requirements, the Finnish FSA set a systemic risk buffer (CET1) on 29 June 2018 for all credit institutions authorised in Finland. The requirement for S-Bank is one per cent. This requirement will enter into force on 1 July 2019 and will be subject to a revision annually.

Table 4 describes the link between S-Bank's risk position and minimum capital requirements. The table presents an overview of all risk-weighted exposure amounts (RWAs). Off-balance sheet items are reported within the appropriate exposure classes. The table also indicates the minimum capital requirement (8%) for each exposure amount. S-Bank's total RWAs increased by EUR 164.3 million, mainly due to strategic growth in lending to retail customers.

Table 3: S-Bank's capital requirement, 31 December 2018

Equity	Minimum capital requirement		Capital conservation buffer		Countercyclical buffer		Pillar 2 (SREP) additional capital requirement		Total capital requirement	
	%	EUR million	%	EUR million	%	EUR million	%	EUR million	%	EUR million
CET1	4.5%	121.3	2.5%	67.4	0.04%	1.1	2.25%	60.7	9.29%	250.5
AT1	1.5%	40.4							1.50%	40.4
T2	2.0%	53.9							2.00%	53.9
Total	**8.0%**	**215.7**	**2.5%**	**67.4**	**0.04%**	**1.1**	**2.25%**	**60.7**	**12.79%**	**344.8**

Table 4: Overview of RWAs

EUR MILLION		31 DEC. 2018 RWAs	31 DEC. 2018 Minimum capital requirements	31 DEC. 2017 RWAs	31 DEC. 2017 Minimum capital requirements
1	**Credit risk (excluding counterparty credit risk), standardised approach**	**2,411.7**	**192.9**	**2,250.5**	**180.0**
	Central governments or central banks	0.0	0.0	0.0	0.0
	Regional governments or local authorities	0.8	0.1	0.0	0.0
	Public sector entities	1.0	0.1	1.4	0.1
	Institutions	133.1	10.6	126.5	10.1
	Corporates	551.2	44.1	577.8	46.2
	Retail	646.2	51.7	577.3	46.2
	Secured by mortgages on immovable property	974.1	77.9	876.1	70.1
	Exposures in default	21.3	1.7	14.8	1.2
	Covered bonds	46.5	3.7	36.1	2.9
	Collective investment undertakings	24.7	2.0	30.7	2.5
	Equity exposures	0.5	0.0	0.3	0.0
	Other exposures	12.4	1.0	9.6	0.8
6	**Counterparty credit risk**	**4.8**	**0.4**	**4.3**	**0.3**
7	Of which mark to market	1.6	0.1	1.4	0.1
12	Of which credit valuation adjustment (CVA)	3.1	0.3	2.9	0.2
19	**Market risk**	**0.0**	**0.0**	**0.0**	**0.0**
24	**Operational risk, basic indicator approach**	**273.1**	**21.8**	**276.9**	**22.2**
27	**Amounts below the thresholds for deduction (subject to a 250% risk weight)**	**6.4**	**0.5**	**0.0**	**0.0**
29	**Total**	**2,696.0**	**215.7**	**2 531.7**	**202.5**

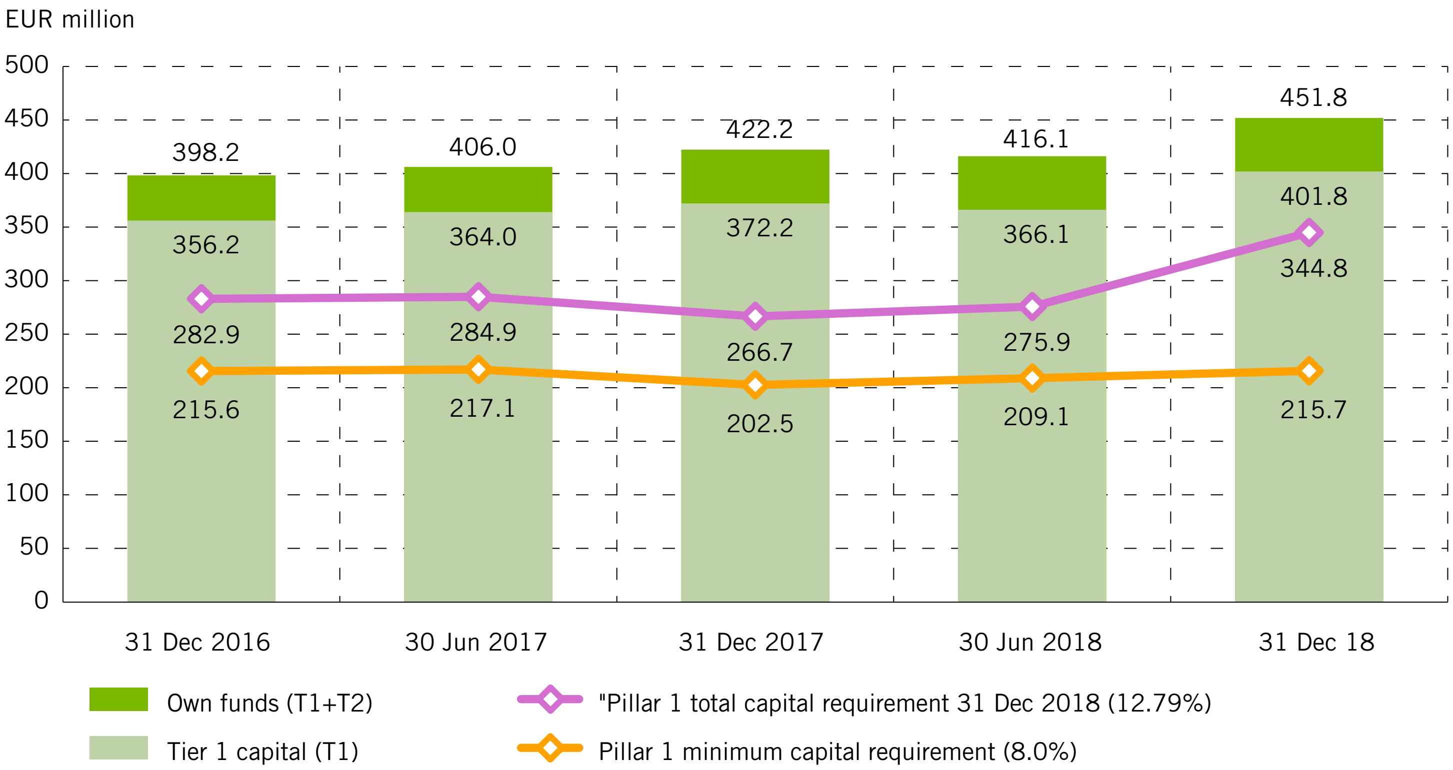
Table 5: Summary of S-Bank's capital adequacy information

OWN FUNDS (EUR MILLION)	31 DEC. 2018	31 DEC. 2017
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**441.9**	**413.9**
Share capital	82.9	82.9
Reserve for invested non-restricted equity	283.8	243.8
Retained earnings	78.2	75.6
Profit/loss from previous financial periods	71.5	63.3
Profit/loss for the financial period	6.7	12.4
Fair value reserves	-3.0	11.6
Other reserves	0.0	0.0
Regulatory adjustments to Common Equity Tier 1 (CET1) capital	**40.0**	**41.7**
Intangible assets	38.3	38.7
Deferred tax assets	0.0	1.7
Value adjustments due to the requirements for prudent valuation	1.7	1.3
Common Equity Tier 1 (CET1) capital	**401.8**	**372.2**
Additional Tier 1 (AT1) capital before adjustments	**0.0**	**0.0**
Adjustments to Additional Tier 1 (AT1) capital	**0.0**	**0.0**
Additional Tier 1 (AT1) capital	**0.0**	**0.0**
Tier 1 (T1) capital	**401.8**	**372.2**
Tier 2 (T2) capital before adjustments	**50.0**	**50.0**
Subordinated debt	50.0	50.0
Adjustments to Tier 2 (T2) capital	**0.0**	**0.0**
Tier 2 (T2) capital	**50.0**	**50.0**
Total capital	**451.8**	**422.2**

	31.12.2018	31.12.2017
Total capital	451.8	422.2
Minimum capital requirement	215.7	202.5
Capital adequacy ratio	**16.8%**	**16.7%**
Tier 1 capital	401.8	372.2
Minimum capital requirement	215.7	202.5
Tier 1 capital adequacy ratio	**14.9%**	**14.7%**
Total risk-weighted exposure amounts (RWAs)	**2,696.0**	**2,531.7**
of which credit risk	2,419.7	2,251.9
of which market risk	0.0	0.0
of which operational risk	273.1	276.9
of which credit valuation adjustment (CVA)	3.1	2.9
Ratio of CET1 capital to risk-weighted exposure amounts (%)	**14.9%**	**14.7%**
Ratio of Tier 1 capital to risk-weighted exposure amounts (%)	**14.9%**	**14.7%**
Ratio of own funds to risk-weighted exposure amounts (%)	**16.8%**	**16.7%**

Table 5 presents a summary of S-Bank's own funds. S-Bank's total capital adequacy ratio was 16.8% (16.7) at the close of the financial year. The entry into force of IFRS 9 and the calculation of expected credit losses resulted in a reduction of own funds by EUR 9.2 million on the opening balance sheet for 2018. Unfavourable market conditions and widening credit spreads across the global fixed-income markets were the most significant factor that decreased the fair value reserve.

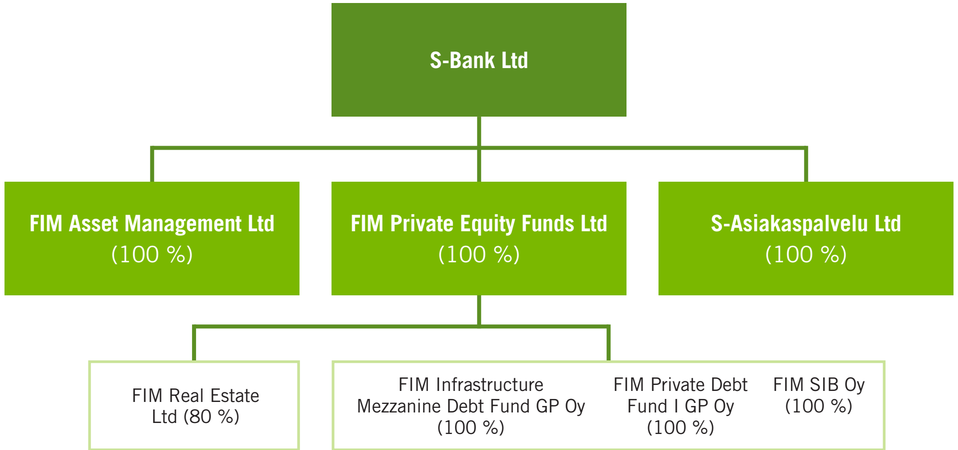
Figure 1: Changes in own funds and the capital adequacy position



The figure 1 presents a summary of the semi-annual development of the Pillar 1 minimum capital requirement, the total capital requirement and own funds. The additional Pillar 2 (SREP) capital requirement raised the total capital requirement in the second half of 2018. At the end of the reporting period, the capital buffer was EUR 236.1 million in relation to the Pillar 1 minimum capital requirement and EUR 107.0 million in relation to the Pillar 1 total capital requirement.

GROUP STRUCTURE AND S-BANK'S SUBSIDIARIES

Figure 2: Legal structure of S-Bank Group



FIM Asset Management Ltd
FIM Asset Management Ltd administers the S-Bank, FIM and LocalTapiola funds and provides portfolio management services to the entire S-Bank Group. S-Bank owns 100% of FIM Asset Management Ltd's share capital. In the period under review, the operating loss of FIM Asset Management Ltd amounted to EUR -0.4 million (0.5).

FIM Private Equity Funds Ltd
FIM Private Equity Funds Ltd is an alternative fund manager, providing S-Bank Group with portfolio management services for private equity funds. Additionally, FIM Private Equity Funds Ltd is the portfolio manager in the real estate and forest funds managed by FIM Asset Management Ltd. S-Bank owns 100% of FIM Private Equity Funds Ltd's share capital. In the period under review, the operating loss of FIM Private Equity Funds Ltd amounted to EUR -0.2 million (-0.2).

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, which holds 80% of its shares. In the period under review, the operating profit of FIM Real Estate Ltd amounted to EUR 1.2 million (0.8).

FIM Infrastructure Mezzanine Debt Fund GP Ltd, FIM Private Debt Fund I GP Ltd (previously FIM Infrastructure Equity Fund GP Ltd), FIM SIB Ltd
These companies serve as general partners in funds managed by FIM Private Equity Funds Ltd. These companies do not have any other business operations and are 100% owned by FIM Private Equity Funds Ltd.

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

During the period under review, S-Asiakaspalvelu Ltd's revenue totalled EUR 5.7 million (6.4), of which intra-group revenue accounted for EUR 4.2 million (4.7). The remaining revenue consisted of telephone services for co-op members offered to the cooperatives. Its expenses mostly consist of personnel expenses. S-Asiakaspalvelu's operating profit was EUR 0.2 million (0.6).

GOVERNANCE

ANNUAL GENERAL MEETING

The Annual General Meeting was held on 14 March 2018. The Annual General Meeting approved the financial statements for 2017 and discharged the members of the Board of Directors and the CEO from liability. The meeting elected seven members and three deputy members to the Board of Directors. The meeting elected KPMG Oy Ab as the company's auditor.

An extraordinary general meeting was held on 24 October 2018. The meeting resolved on the organising of a share issue to the shareholders.

BOARD OF DIRECTORS

The Annual General Meeting confirms the number of members of the Board of Directors and elects the members of the Board for a term of one year at a time. The Board of Directors elects a Chair and Vice Chair from amongst its members. The Board of Directors has confirmed rules of procedure, according to which it is responsible for the strategic development of the bank, steering and controlling its operations, as well as deciding on the company's main operating principles and general values in accordance with the applicable legislation and regulations.

At the Annual General Meeting of S-Bank, the following members were elected to S-Bank Ltd's Board of Directors: Jari Annala, CFO of SOK; Juha Ahola, Treasurer of SOK; Juha Mäkinen, Senior Managing Director at LocalTapiola East; Olli Vormisto, Managing Director of the Hämeenmaa Cooperative Society; and as new members, Veli-Matti Liimatainen, Managing Director of the Helsinki Cooperative Society Elanto, and Jari Eklund, Director of the LocalTapiola Group, as new members. In addition, Heli Arantola, EVP Categories and Concepts at HKScan Plc, was elected to the Board as an independent member.

Jari Annala was elected as the Chairman of the Board and Jari Eklund as its Vice Chairman.

The deputy members nominated by S Group and elected to S-Bank's Board of Directors were Hannu Krook, Managing Director of the Varuboden-Osla Handelslag Cooperative, and Harri Miettinen, Managing Director of the Kymi Region Cooperative Society. The deputy member nominated by LocalTapiola Group and elected to S-Bank Ltd's Board of Directors was Erik Valros, Managing Director of LocalTapiola Uusimaa.

The following two members resigned from the Board of Directors: Matti Niemi, Managing Director of the Helsinki Cooperative Society Elanto (as of 31 December 2017), and Harri Lauslahti, Innovation Director of the LocalTapiola Group.

The Board convened 13 times (14) during the financial period, and the average attendance rate of members was 96% (97). The fees paid to the members of the Board totalled EUR 30,000 (30,000).

CEO

The CEO is appointed by the Board of Directors of S-Bank. The CEO is responsible for the bank's day-to-day management in accordance with the instructions and orders issued by the Board of Directors, applicable legislation and regulations, and the Articles of Association. The CEO acts as the chairman of the Group Management Team appointed by the Board of Directors. The Group Management Team assists the CEO in the bank's day-to-day management. The Deputy CEO will handle the CEO's duties if the CEO is prevented from attending to them.

The CEO of S-Bank Ltd is Pekka Ylihurula and the Deputy CEO is Aki Gynther, EVP, Head of Retail and Corporate Banking.

PERSONNEL

At the end of the year, S-Bank Group employed a total of 685 people (656). Of this number, 565 (526) worked for S-Bank Ltd, 80 (91) for S-Asiakaspalvelu Ltd, and 40 (39) for the FIM companies. S Group's regional cooperatives and LocalTapiola Group's regional companies operate as S-Bank's agents.

SALARIES AND REMUNERATION

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

The Compensation and Nomination Committee of S-Bank's Board of Directors is a body that assists the Board, annually preparing performance-based compensation principles for the bank's personnel, in accordance with its rules of procedure, and submitting them to the Board for confirmation. The Compensation and Nomination Committee works to ensure that the bank's policies concerning salaries and remuneration are consistent with sound and effective risk management and do not encourage excessive risk-taking. The Compensation and Nomination Committee consists of at least two members and a Chairman appointed by the bank's Board of Directors.

At S-Bank Group, the remuneration model consists of a basic salary and performance-based variable compensation. The objective of the variable compensation models is to encourage employees to focus on the key activities needed to reach the strategic and operational goals. The variable compensation systems used by S-Bank Group are valid for a maximum of one calendar year at a time, with the exception of the long-term incentive scheme. The targets in the variable compensation models are based on the entire bank's shared targets, unit-level targets and/or personal targets, and they can vary by personnel group. The performance-based compensation is paid in cash. In 2018, S-Bank Group established a personnel fund to which the employees can transfer some of their variable compensation earned in 2018.

The salaries and fees paid to personnel at S-Bank Group totalled EUR 40.4 million (37.4) in 2018. S-Bank Ltd paid a total of EUR 30.6 million (27) in salaries and EUR 3.3 million (3.4) in other remuneration. S-Asiakaspalvelu paid EUR 2.7 million (2.9) in salaries and EUR 0.2 million (0.2) in other remuneration. The FIM companies paid EUR 3.1 million (3.1) in salaries and EUR 0.5 million (0.7) in other remuneration. Moreover, S-Bank Group paid EUR 0.2 million towards additional pensions.

The fees paid to the members of the Board of Directors of S-Bank Ltd totalled EUR 30,000 (30,000). The fees paid to the members of the Board of Directors of FIM Asset Management Ltd totalled EUR 12,000 (9,000). The members of the Board of Directors of FIM Real Estate Ltd were paid EUR 13,800 (11,000) in fees.

In 2018, S-Bank Ltd paid EUR 5.4 million (4.9) in salaries and EUR 1 million (0.7) in other remuneration to persons whose professional activities have a material impact on the risk profile of the credit institution. A total of 61 persons (56) received salaries and remuneration under this category. At FIM companies, persons in this category of staff were paid a total of EUR 2.5 million (2.1) in salaries and EUR 0.4 million (0.5) in other remuneration in 2018. A total of 28 persons (23) received salaries and remuneration under this category. In accordance with S-Bank Ltd's remuneration policies, part of the variable compensation is postponed if the remuneration of an individual exceeds EUR 50,000 for an earnings period of one year. In 2018, no individual's compensation was postponed.

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

SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL PERIOD

In January 2019, S-Bank's Wealth Management business strengthened its position in responsible investing by concluding a transaction in which FIM Private Equity Funds Ltd acquired Epiqus Oy. Epiqus Oy, a fund manager specialising in impact investment funds, will become a subsidiary of FIM Private Equity Funds Ltd and its employees will be transferred to S-Bank's Wealth Management business.

OUTLOOK FOR 2019

The global economic outlook for 2019 is moderate, although it involves some risks. The pace of economic growth will slow down in many countries. A rise in interest rates, a decrease in monetary stimulus and political uncertainty will hamper economic growth across the globe this year. The risks facing economic performance are higher. We forecast that interest rates will remain low in the eurozone this year. Worries over economic growth and political uncertainty will keep the investment environment challenging.

We expect Finland to see more moderate economic growth in 2019. Household spending will maintain growth, but a slowdown in construction will curb investment. As demand levels off in Finland's key export markets, growth in exports will be more subdued. Inflation will pick up somewhat, while growth in employment will even out. Activity in the housing market will most likely remain at its current level, and we estimate that housing prices will rise slowly.

S-Bank Group expects its profitability to improve significantly in 2019. This is underpinned by the measures started in 2018 for increasing income and boosting the efficiency of operations.

PROPOSAL BY THE BOARD OF DIRECTORS FOR THE DISPOSAL OF DISTRIBUTABLE FUNDS

The Board of Directors proposes that the parent company S-Bank Ltd's profit for the financial year of EUR 7,123,020.41 be entered in the retained earnings account and that no dividend be distributed.

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 and currency operations + net income from financial assets measured at fair value through the fair value reserve + net income from hedge accounting + other operating income

Operating expenses:

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

Cost-to-income ratio:

$$\frac{\text{Administrative expenses + depreciation, amortisation and impairment on tangible assets and intangible assets + other operating expenses (excluding impairment losses)}}{\text{Net interest income + return on equity investments + net fee and commission income + net income from securities and currency operations + net income from financial assets measured at fair value through the fair value reserve + net income from hedge accounting + net income from investment properties + other operating income + share of in the profits of associated companies (net)}}$$

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), %:

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

Equity ratio, %:

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

Capital adequacy ratio, %:

$$\frac{\text{Total capital}}{\text{Total minimum capital requirement}} \times 8\%$$

Tier 1 capital adequacy ratio, %:

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

Leverage ratio, %:

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

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

CORPORATE RESPONSIBILITY REPORT

S-Bank is a Finnish bank that provides its customers with banking and wealth management services. S-Bank was established in 2007 and is founded on strong cooperative values, which means responsibility is naturally at the core of its operations. S-Bank also offers its customers the chance to make responsible choices.

This has also come across to our customers, as Finns chose S-Bank as the most responsible bank in 2018 for the sixth year in a row in the Sustainable Brand Index, the largest survey on sustainable development in the Nordic countries[1].

The key responsibility themes identified for the operations of S-Bank are benefiting customers and society, as well as ensuring the well-being of the personnel. These themes were identified through background analyses, surveys of key stakeholders and management workshops conducted in autumn 2017.

S-BANK GROUP'S BUSINESS MODEL

S-Bank Ltd focuses on products and services offered to retail customers. In addition to this, S-Bank offers targeted services to companies.

S-Bank provides services under two brands. The S-Bank brand is used to offer services for daily banking, saving and investment, and the financing of various needs. Under the FIM brand, the bank offers private banking services as well as services for institutional investors. The operations of the Group's subsidiaries are described in further detail in the section Group structure and S-Bank's subsidiaries.

S-Bank serves its customers at the customer service points located in S Group's business locations and through its telephone service, its online bank, the S-mobiili app and various social media channels. S-Bankers serve customers, mainly in matters related to housing loans, in 13 cities and towns. In addition, FIM's private bankers offer their services at six localities.

The regional cooperatives of S Group act as agents of S-Bank, offering its banking services at their business locations.

S-Bank's services are primarily offered to the co-op members of S Group and their households, who receive basic banking services free of charge. S-bank aims to maintain reasonable prices for other services, and all services are priced transparently. The cash benefits paid to co-op members, such as the Bonus earned from shopping and payment-method benefits, are paid to the customer's account in S-Bank.

The bank's earnings model is mainly based on accepting customer deposits, granting loans and engaging in investment activities. The bank's largest source of income, net interest income, is the difference between interest income received and interest expenses paid. Interest income is mainly earned from credit and loans granted to customers. Interest expenses depend on the interest paid on deposits and the interest paid on funds obtained from other funding sources.

The second largest source of income is fee and commission income, which comes from services related to lending, payment transmission, services related to the use of cards and the Wealth Management business. Fee and commission expenses include expenses related to the Wealth Management business and service fees paid to service providers for the use of cards. Net fee and commission income is the difference between fee and commission income and expenses. In the Banking business, the amount of net fee and commission income is dependent on the degree and extent of the use of banking services. In the Wealth Management business, net fee and commission income is dependent on the amount of assets under management. The amount of these assets is influenced by the actions of the Wealth Management business as well as the performance of the securities markets. Since the management fees for funds are calculated as percentages of the funds' net asset value, market performance is directly reflected in the amount of these fees.

Operating expenses mainly consist of personnel expenses, IT expenses and other administrative expenses, including agency fees paid to the cooperative societies.

In order for business operations to be profitable the bank must manage its balance sheet, risks and expenses effectively. The bank's duty is to ensure sufficient capital adequacy and liquidity under all conditions.

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

[1]In the Sustainable Brand Index survey about 40,000 respondents in the Nordic countries, of whom 9,600 were from Finland, were interviewed from January to March 2018. The target group for the survey were people aged 16–70 years.

FOR THE BENEFIT OF THE CUSTOMER

In accordance with its vision, "Superior ease and benefits", S-Bank aims to be a fair partner for its customers with which they can take care of their banking needs easily and conveniently. Basic banking services – a bank account, card and banking IDs for electronic services – that S-Bank offers free of charge to all the co-op members and their families form the cornerstone of S-Bank's responsibility.

S-Bank aims to offer everyone the chance to have a slightly wealthier future. S-Bank's goal is to make saving a new national pastime and to lower the threshold for saving by making saving in funds as easy and cheap as possible. In 2018, 13.4% of customers who started saving with S-Bank were first-time savers.

S-Bank's services are easily accessible through digital channels and the telephone services, or at one of the customer service points in connection with a shopping trip. Customers can also withdraw and deposit cash at the checkouts of approximately 1,000 S Group stores around Finland. The aim is to provide seamless customer service through different channels.

Customer trust and satisfaction are one of the most important measures of success for S-Bank. The bank tracks customer satisfaction on two levels. The quality of customer service is measured continuously in connection with individual service encounters through the different channels. Additionally, a broader customer survey is conducted twice a year to measure customers' satisfaction with their customer relationship as a whole. In 2018, the customers who used S-Bank's services actively gave S-Bank an overall score of 8.3 out of 10[2].

Many factors contribute to the ease of doing business with S-Bank. Key factors include open and understandable communications, clear pricing and easy-to-use services. S-Bank's customers consider it to be very easy on average to do business through the different channels.

[2]Source: S-Bank's customer satisfaction survey in 2018. Question: What overall score would you give S-Bank? On a scale of 1–10, where 1 = Very weak and 10 = Excellent (conducted by Kantar TNS)

Table 6: Ease of doing business with S-Bank

	2018	2017
Telephone service[3]	4.1	4.1
Customer service points[3]	4.6	4.6
Online bank[3]	4.5	4.4
S-mobiili[4]	4.6	4.6

(scale 1–5, 1 = Very difficult and 5 = Very easy)

[3]The figures are channel-specific average scores from 2018. Question: How easy was it to achieve what you wanted to do? Source: measurements of S-Bank's customer service encounters, January–December 2018 (conducted by Bisnode).

[4]Ease of use has been measured for the bank section of S-mobiili. The figure is the mean value of monthly weighted averages. Source: survey carried out on S-mobiili, January–December 2018.

FOR THE WELL-BEING OF THE PERSONNEL

S-Bank aims to make its customers feel their expectations are always exceeded. S-Bank also strives to challenge the traditional practices in the banking sector. Success in achieving these aims depends on a competent and committed personnel. The well-being and competence of its personnel and good management are thus important focus areas for S-Bank.

NUMBER OF PERSONNEL

At the end of 2018, a total of 685 (656) people were in an active employment relationship with S-Bank Group.

Most employment relationships with S-Bank are permanent and full-time. However, some positions in customer service and the back office can be staffed with part-time employees. Part-time work may also be 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. Employment relationships may also be for a fixed term, for example, when recruiting substitutes for permanent employees or addressing temporary resource needs. S-Bank also employs people on apprenticeship contracts. During their two-year apprenticeship training, the employees work in customer service positions, completing a vocational qualification in business management at the same time.

S-Bank makes it easy for its employees to combine work with their private lives. Over the course of the year, the number of employees who took family leave (excluding part-time child-care leave) was 65, of whom 50 were women and 15 were men. At the end of the year, 28 employees were on study leave.

During 2018, a total of 152 new employees started work at S-Bank. A total of 133 employees left the bank, with 6 employees retiring. No employees stopped working because of a disability. In autumn 2018, S-Bank held cooperation negotiations with the employees concerning redundancies, which led to a reduction of 9 employees.

PERSONNEL SATISFACTION AND GOOD MANAGEMENT

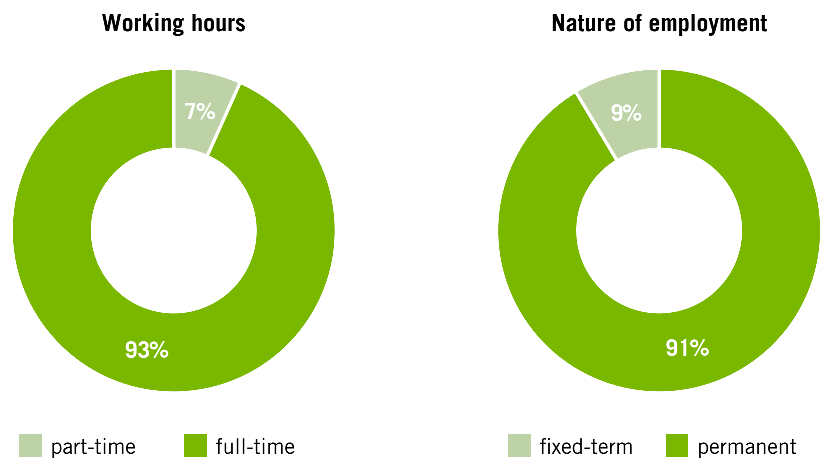
S-Bank offers its employees versatile work tasks and the opportunity to influence their own job descriptions. Employees are given plenty of responsibility as they develop operations and the services offered to more than three million S-Bank customers.

S-Bank tracks employee satisfaction and the well-being of the personnel with an annual personnel survey. In 2018, the job satisfaction index derived from the outcomes of key questions in the survey was 73.1 (on a scale of 0–100). This good result was 2.3 points higher than in the previous year and clearly exceeded the norm for expert positions in Finland. The response rate of 89.7% was also excellent in 2018.

Table 7: Personnel gender distribution

	Men	Women	Total
Permanent full-time	247	340	**587**
Permanent part-time	6	33	**39**
Fixed-term full-time	14	38	**52**
Fixed-term part-time	5	2	**7**
Total	**272**	**413**	**685**

Figure 3: Nature of employment and working hours



The results of the survey improved in all areas, but especially in questions related to the company as a whole. The immediate work community was cited as the biggest strength of S-Bank. The personnel were particularly satisfied with team-level communications and participation, as well as with the work of their managers.

S-Bank has identified good management as a key factor influencing personnel motivation and commitment. The bank focuses on developing and supporting managers in their work by actively communicating with them and arranging training and discussion events and manager events, among other things. S-Bank emphasises good cooperation and open discussion between the management and the employees.

DEVELOPMENT OF EXPERTISE

In order for S-Bank to execute its strategy successfully, it is crucial for it to possess the right kind of expertise and for this expertise to be constantly developed in a changing regulatory and operating environment.

The level of expertise of individual employees is annually assessed in performance appraisals, where each team member assesses their expertise together with their manager and agrees on any necessary development measures. In addition to the one-on-one performance appraisals, S-Bank uses team-level expertise discussions where an entire team can discuss its existing and required expertise.

In a changing operating environment and with digitalisation becoming more ubiquitous, learning is a part of the day-to-day work of every employee, often occurring during the performance of one's duties. In addition to personal learning, internal job mobility helps to deepen communications and cooperation between units.

The development of expertise is also supported with various training and coaching events.

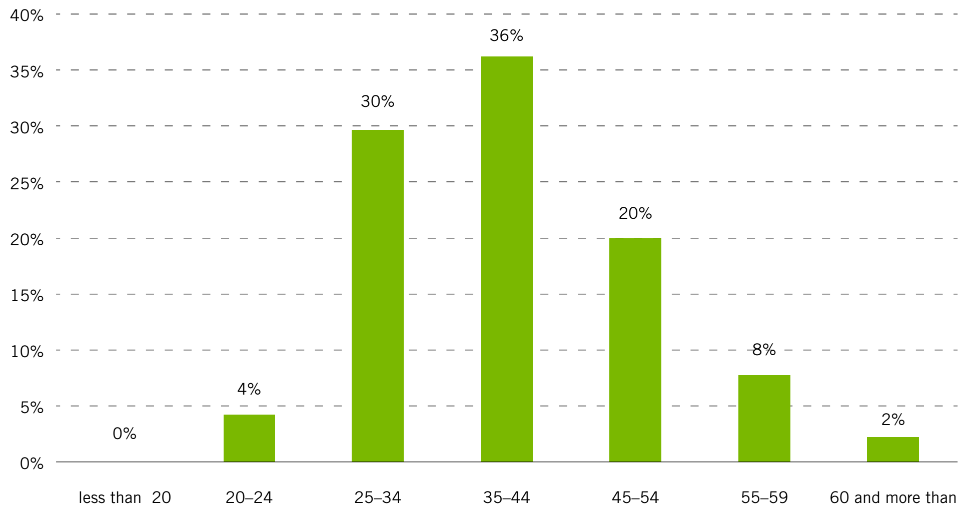
REMUNERATION

Remuneration supports S-Bank's vision, the achievement of the strategic goals and implementation of the bank's values. S-Bank aims to commit its personnel to profitable operations and to the company in the long term through competitive, motivating and fair remuneration. The remuneration principles are confirmed every year.

Remuneration at S-Bank consists of a basic salary and variable compensation. The aims 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 annual compensation models for different personnel groups. They are based on the result of the business units and the individual performance of the employees. In 2018, S-Bank established a personnel fund based on a proposal by the employees. S-Bank also offers its employees comprehensive personnel benefits.

S-Bank uses a system to assess how demanding work tasks are to assist it in determining a fair and motivating salary level. Wage gaps between men and women are reviewed annually. No gender gaps in salaries were detected in the review conducted in 2018.

Figure 4: Personnel age distribution



At S-Bank, 66% of the personnel are aged 25–44.

FOR THE BENEFIT OF SOCIETY

S-Bank provides benefits and services, and thus well-being, to the co-op members of S Group.

ETHICAL AND COMPLIANT OPERATIONS

In addition to complying with laws and regulations, S-Bank is committed to observing its code of ethics, which is in line with the bank's values and is underpinned by the principles of openness, fairness and transparency. The code of ethics also observes the good banking principles – including bank secrecy and privacy protection for customers – prepared by Finance Finland.

The code of ethics is discussed with all new employees, who must commit to observing the code before starting their employment relationship. In addition, code of ethics training is arranged for the entire personnel. At the end of 2018, 86.7% of the active personnel had completed the code of ethics training.

The personal interests of the employees or those of their related parties may not influence their decisions in the course of their duties. Employees have an obligation to report any conflicts of interest they detect to their supervisor or to the Compliance function. S-Bank's Compliance function monitors compliance with internal guidelines, the code of ethics and official regulations in accordance with its annual plan, which is approved by the Board of Directors. Moreover, the operational and support functions perform internal control measures to ensure compliance with guidelines and regulations. Ethical violations and conflicts of interest may be reported confidentially through a whistleblowing channel. S-Bank aims to identify and prevent conflicts of interest in all its operations before they arise.

S-Bank is committed to respecting all internationally recognised human rights. The same is also expected from the bank's partners.

S-Bank maps out its operational risks as part of its continuing operations. The key risks to which S-Bank is exposed are described in this Report by the Board of Directors (2.4.3 S-Bank Group's risk position). Additionally, risks and risk management are described in more detail in Note 2 to the consolidated financial statements: Group risks and risk management.

Preventing money laundering and terrorist financing

Processes aiming at the prevention of money laundering and terrorist financing are part of S-Bank's day-to-day operations. They ensure that the bank's services and systems are not used directly or indirectly for any illegal activities. To prevent money laundering, S-Bank has the obligation to know its customers. S-Bank's customer registers and the account transactions of customers are continuously monitored and compared with sanction lists published by the authorities in order to prevent terrorist financing. Continuous monitoring is also carried out in order to identify suspicious transactions referred to in anti-money laundering regulations.

The personnel and management of S-Bank and S-Bank's agency operations are regularly trained in the prevention of money laundering and terrorist financing. The aim of this training is to maintain the personnel's competence in identifying money laundering risks and complying with regulatory duties, as well as to ensure the trustworthiness of the bank's operations.

Insider and trading guidelines

S-Bank's insider and trading guidelines include regulations applicable to all the employees and the senior management concerning the possession of insider information, the maintenance of insider registers and trading rules. The guidelines aim to ensure that insider information is properly managed. Trading conducted by all persons included in the insider register and persons exercising significant influence is regularly monitored, and the results of the monitoring are reported to the bank's senior management.

Related party lending

S-Bank's related party lending policy specifies the terms and procedures applied to credit or other forms of financing granted to the bank's related parties. S-Bank regularly monitors the terms and procedures applied to credit or other forms financing granted to related parties in order to ensure compliance with regulations and ethical operations.

Assessment of trustworthiness

All new employees undergo an assessment of trustworthiness to determine any connections they have that could lead to conflicts of interest. The trustworthiness of members of the Boards of the Group companies, the executive management and persons in key positions is assessed regularly.

ENVIRONMENT

S-Bank does not have an extensive network of its own branches, as it operates as a lessee mostly at the business locations of the S Group regional cooperatives. Similarly, S-Bank's headquarters are located at the same property as the headquarters of SOK, which means the direct environmental impacts of the branch network arise as part of the power and heating consumption of S Group's network of business locations. S Group aims to reduce emissions in its own operations primarily by cutting energy consumption and increasing the use of renewable energy.

S-Bank strives to promote paperless banking, including the use of e-invoices and electronic balance statements. Ever since S-Bank was founded, its balance statements have been delivered electronically to the customer's online bank, with less than one percent of customers also receiving a paper statement. At the close of 2018, 50.1% of the invoices sent by S-Bank to its customers were electronic e-invoices or NetPosti invoices.

In 2018, S-Bank piloted the possibility of allowing customers to sign agreements electronically at customer service points and archive their copies of agreements in the online bank. This practice, which promotes paperless banking, will be adopted in 2019. S-Bank aims to reduce the number of customer letters sent by post by shifting its customer communications to its electronic channels.

RESPONSIBLE INVESTMENT

S-Bank aims to be a pioneer in responsible investment. The bank firmly believes that increasingly better results can be achieved for the customers by systematically taking responsibility into account in investment activities. S-Bank's subsidiary FIM Asset Management Ltd administers the S-Bank, FIM and LocalTapiola funds and provides the fund and wealth management services of S-Bank Group.

FIM became a signatory to the UN Principles for Responsible Investment (UN PRI) already in 2009. The UN PRI lays down general guidelines on how to incorporate responsibility issues into investment processes. FIM's own principles for responsible investment were updated in 2018. In addition to the UN PRI, FIM is also a signatory to the CDP, an international investor-driven initiative for reporting environmental impacts, and Finland's Sustainable Investment Forum (Finsif), which promotes responsible investment.

The responsible investment strategies executed by FIM consist of screening of international norms, taking ESG (environmental, social and governance) issues into consideration in its investment decisions, impact investment, exclusion and engagement.

When observing international norms, FIM aims to ensure that it invests in companies that adhere to international initiatives and recommendations related to responsibility and business practices, such as the UN Global Compact and the OECD guidelines for multinational enterprises. The UN Global Compact includes principles governing human rights, labour and corruption. The human rights principles include the elimination of all forms of forced and compulsory labour and the abolition of child labour. The implementation of international norms in the investments are monitored through external analyses and ratings.

ESG issues are considered in investment activities by, for instance, assessing how climate change or other key ESG issues impact the companies being examined. When it updated its principles for responsible investment in 2018, FIM highlighted the TCFD framework (Task Force on Climate-related Financial Disclosure) as an example of how risks and opportunities arising from climate change will be assessed in the future when making investment decisions.

Impact investing is one of the strategies of responsible investment. In fact, FIM is one of the pioneers in impact investing in Finland. In impact investing, capital is allocated to investments that aim to achieve positive and quantifiable social and environmental impacts in addition to financial gain. FIM acts as the project manager in the Lapset SIB project which was launched in 2018 with the aim of preventing the social exclusion of children and youth. The Lapset SIB project is funded with a private-equity type investment instrument managed by FIM. The funds collected by the Lapset ja nuoret I Ky private equity fund will be invested in projects, or interventions, that aim to reduce child protection costs and loss of income for the public sector as a result of social exclusion. The fund's return is based on performance-based fees paid by the customers (the municipalities), which are based on the reduction of the aforementioned costs and loss of income.

Active ownership is an important strategy for the responsible investor. FIM Funds revised their ownership policy in 2018. The new policy describes how and why an activist shareholder policy is pursued. Active ownership includes such elements as exercising voting rights at general meetings, direct engagement with companies and participation in joint engagement projects with other investors. In 2018, S-Bank's Wealth Management business joined the Climate Action 100+ initiative which a significant number of international investors have signed up for. The five-year project aims to influence more than 150 companies that play a key role in achieving the targets of the Paris Climate Agreement.

FIM excludes companies in certain sectors from its direct investments. Its funds do not invest directly in the manufacturers of weapons banned under international treaties. This category includes nuclear, biological and chemical weapons, as well as cluster bombs and anti-personnel mines. Furthermore, the funds do not invest in tobacco manufacturers or recreational cannabis manufacturers. FIM uses external analyses to determine the companies belonging to the aforementioned categories. FIM has also used its own analyses to exclude mining and electricity generation companies whose business is heavily dependent on coal. Companies in violation of international norms can also be excluded from FIM's investments.

FIM publishes the carbon footprints of its funds in its responsible investment reports, with the aim of increasing transparency and comparability with regard to the carbon emissions of the funds. The carbon footprint is published for direct equity and corporate bond funds for which emissions data, either reported or estimated by an external party, is available for more than 50% of the fund's investments.

In 2017–2018, FIM introduced two products to the market in which responsible investment is taken a step further from FIM's general principles for responsible investment. These funds are the FIM Emerging Markets ESG equity fund and Finland's first bond fund investing mostly in green bonds, FIM IG Green ESG. At the close of 2018, these funds, which belong to FIM's Responsibility Plus fund range, had a total of EUR 216.5 million in capital.

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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

(EUR '000)	Note	1.1.–31.12.2018	1.1.–31.12.2017
Interest income	3	**81,106**	**81,175**
Interest expenses	3	**-7,142**	**-7,910**
NET INTEREST INCOME		**73,964**	**73,265**
Return on equity investments	4	**0**	**58**
Fee and commission income	5	**103,790**	**100,612**
Fee and commission expenses	5	**-42,754**	**-41,413**
Net income from securities and currency operations	6	**2,162**	**-395**
Net income from securities trading		2,370	-561
Net income from currency operations		-207	166
Net income from financial assets measured at fair value through the fair value reserve		**2,088**	**6,809**
Net income from hedge accounting	7	**-371**	**-367**
Other operating income	8	**14,813**	**15,728**
Administrative expenses		**-114,529**	**-113,214**
Personnel expenses		-49,541	-46,155
Salaries and fees		-40,120	-37,410
Indirect personnel expenses		-9,422	-8,745
Pension expenses		-7,804	-7,196
Other indirect personnel expenses		-1,618	-1,549
Other administrative expenses		-64,988	-67,058
Depreciation, amortisation and impairment on consolidated goodwill		**-3,472**	**-4,336**
Depreciation and impairment on tangible and intangible assets	10	**-9,265**	**-8,183**
Other operating expenses	9	**-5,862**	**-5,982**
Expected credit losses on financial assets measured at amortised cost	11	**-8,752**	**-**
Expected credit losses and impairment losses on other financial assets	11	**-197**	**-**
Impairment losses on loans and other commitments *	11	**-**	**-6,563**
Share of the profits of associated companies		**-16**	**1**
OPERATING PROFIT (LOSS)		**11,601**	**16,020**
Income taxes		**-4,720**	**-3,541**
Profit (loss) from ordinary activities after taxes		**6,881**	**12,479**
Profit or loss for the period attributable to minority interests		**-199**	**-127**
PROFIT (LOSS) FOR THE PERIOD		**6,682**	**12,352**

* Impairment losses on loans and other commitments were recognised in accordance with IFRS 9 in 2018.

CONSOLIDATED BALANCE SHEET

ASSETS (EUR '000)	Note	31 Dec. 2018	31 Dec. 2017
Cash and cash equivalents	12, 28, 29, 30	**468,436**	**493,015**
Debt securities eligible for refinancing with central banks	12, 29, 30	**1,002,523**	**860,478**
Other		1,002,523	860,478
Receivables from credit institutions	12, 13, 28, 29, 30	**27,838**	**25,737**
Repayable on demand		15,601	14,823
Other		12,237	10,914
Receivables from the public and public sector entities	12, 14, 28, 29, 30	**4,187,001**	**3,724,854**
Repayable on demand		3,952	2,977
Other		4,183,049	3,721,877
Debt securities	12, 15, 28, 29, 30	**665,438**	**464,280**
From others		665,438	464,280
Shares and interests	12, 16, 28, 29	**25,209**	**30,965**
Shares and interests in associated companies	16, 28, 29	**9**	**5**
Derivatives	12, 17, 18, 28, 29, 30	**649**	**999**
Intangible assets		**38,337**	**38,696**
Goodwill		74	892
Consolidated goodwill		5,460	8,931
Intangible rights		741	0
Other non-current expenses		32,063	28,873
Tangible assets	20, 29	**138**	**232**
Other tangible assets		138	232
Other assets	21, 29	**7,102**	**4,605**
Accrued income and prepayments made	22, 29	**23,658**	**25,071**
Deferred tax assets	23, 29	**2,550**	**1,674**
TOTAL ASSETS		**6,448,888**	**5,670,612**

LIABILITIES (EUR ’000)	Note	31 Dec. 2018	31 Dec. 2017
LIABILITIES			
Liabilities to credit institutions	12, 28, 29, 30	**302**	**10,109**
To credit institutions		302	10,109
Repayable on demand		302	109
Other		0	10,000
Liabilities to the public and public sector entities	12, 28, 29, 30	**5,883,806**	**5,047,522**
Deposits		5,832,669	5,005,766
Repayable on demand		5,827,466	4,999,990
Other		5,203	5,775
Other liabilities		51,137	41,757
Repayable on demand		49,190	39,747
Other		1,947	2,010
Derivatives and other liabilities held for trading	12, 28, 29, 30	**13,103**	**6,260**
Other liabilities	24, 29	**31,706**	**112,110**
Other liabilities		**31,706**	**112,110**
Accrued expenses and prepayments received	25, 29	**19,410**	**19,781**
Subordinated debts	12, 26, 28, 29, 30	**50,000**	**50,000**
Other		50,000	50,000
Deferred tax liabilities	23, 29	**8,448**	**10,763**
TOTAL LIABILITIES		**6,006,774**	**5,256,546**

LIABILITIES (EUR '000)	Note	31 Dec. 2018	31 Dec. 2017
EQUITY AND MINORITY INTERESTS			
Share capital	27	**82,880**	**82,880**
Other restricted reserves	27	**-2,981**	**11,590**
Fair value reserve			
Carried at fair value		-2,981	11,590
Non-restricted reserves	27	**283,809**	**243,813**
Reserve for invested non-restricted equity		283,809	243,813
Retained earnings (losses)	27	**71,484**	**63,262**
Profit (loss) for the period	27	**6,682**	**12,352**
Equity attributable to minority interests	27	**240**	**169**
TOTAL EQUITY AND MINORITY INTERESTS		**442,114**	**414,066**
TOTAL EQUITY AND LIABILITIES		**6,448,888**	**5,670,612**

OFF-BALANCE SHEET LIABILITIES (EUR '000)	33		
Commitments given to third parties in favour of customers		**23,768**	**24,881**
Guarantees and pledges		23,768	24,881
Irrevocable commitments given in favour of customers		**176,803**	**145,661**
Other		176,803	145,661

In the 2017 financial statements, irrevocable and revocable commitments were reported under off-balance sheet commitments. The comparative figures have been adjusted to correspond to the new interpretation, according to which irrevocable commitments are reported as off-balance sheet commitments in the balance sheet and the notes.

CONSOLIDATED CASH FLOW STATEMENT

EUR million	2018	2017
Cash flow from operating activities		
Profit for the period	12	16
Adjustments to the profit for the period	15	14
Increase (-) or decrease (+) in operating assets	-467	-239
Receivables from the public and public sector entities	-463	-234
Other assets	-6	-5
Increase (-) or decrease (+) in operating liabilities	747	444
Liabilities to credit institutions	-10	-15
Liabilities to the public and public sector entities	836	464
Other liabilities	-80	-5
A. Total cash flow from operating activities	306	234
Cash flow from investing activities		
Investments in tangible and intangible assets	-12	-8
Shares and interests in associated companies	0	0
B. Total cash flow from investing activities	-12	-8
Cash flow from financing activities		
Subordinated debts, deductions	0	8
Other monetary increases to equity items	40	0
Dividends paid and other distribution of profits	0	0
Change in minority interest	0	0
C. Total cash flow from financing activities	40	8
Net change in cash and cash equivalents (A+B+C)	**333**	**233**

EUR million	2018	2017
Cash and cash equivalents at the start of the period	1,865	1,635
Cash and cash equivalents at the end of the period	2,199	1,869
Interest income	84	79
Interest expenses	-7	-8
Profit adjustments for the period		
Net income from hedge accounting	0	0
Depreciation according to plan	13	13
Share of the profits of associated companies	0	0
Impairment losses on loans and other receivables	1	1
Non-cash items and other adjustments	1	0
Other adjustments	0	0
Other impairments	0	0
Expected credit losses and impairment losses on other financial assets	0	-
Interest accruals on debt securities	1	0
Adjustments, total	**15**	**14**
Cash and cash equivalents		
Cash and cash equivalents	468	493
Debt securities	1,677	1,324
Shares and interests	25	26
Receivables from credit institutions	28	26
Total	**2,199**	**1,869**

Cash and cash equivalents at the start of the period include an adjustment item due to a change in classification in accordance with IFRS 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 TO THE CONSOLIDATED FINANCIAL STATEMENTS: ACCOUNTING POLICIES USED IN THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Basic information

S-Bank Group consists of S-Bank Ltd and its subsidiaries. S-Bank is a deposit bank that engages in credit institution operations pursuant to the Finnish Act on Credit Institutions (610/2014). The bank engages in the operations and related activities referred to in Chapter 5, section 1, of the above-mentioned Act, as well as offering investment services pursuant to Chapter 1, section 15, of the Act on Investment Services (747/2012). As the parent company, S-Bank performs such tasks of the Group companies that must be carried out in a centralised manner, such as the Group's administration, guidance and supervision.

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

On 6 February 2019, the Board of Directors approved the financial statements for the period 1 January–31 December 2017.

General 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 Finnish Financial Supervisory Authority's regulations governing the financial sector. The general instructions issued by the Finnish Accounting Standards Board (KILA) have also been considered, as applicable, when preparing the financial statements.

In addition, the capital requirements directive (CRD IV), the EU Capital Requirements Regulation ("CRR", EU 575/2013) and the related implementation regulations, as well as the regulations of the European Banking Authority and the reports of the Finnish Financial Supervisory Authority were observed when preparing the financial statements.

The financial statement information is presented in thousands of euros, unless stated otherwise.

Consolidation principles

The consolidated financial statements include S-Bank and all the subsidiaries in which the bank has a controlling interest. A controlling interest arises when the Group has the right to control a company's financial and operational policies in order to obtain benefits from its operations. The following subsidiaries are consolidated into the financial statements: FIM Asset Management Ltd, FIM Private Equity Funds Ltd, FIM Real Estate Ltd, S-Asiakaspalvelu Ltd, FIM Infrastructure Mezzanine Debt Fund GP Ltd, FIM Private Debt Fund I GP Ltd and FIM SIB Ltd.

Subsidiaries established or acquired during the period under review are consolidated into the consolidated financial statements as of the date of establishment or 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 in the consolidated financial statements.

Items denominated in foreign currencies

The financial statements are presented in euros. The euro is the operating currency of the Group and the parent company. Transactions in foreign currencies are recorded at the exchange rates prevailing on the transaction date. At the balance sheet date, foreign currency balance sheet items are converted into euro at the closing rate.

Exchange rate differences are recognised as exchange rate profits or losses in the income statement. The exchange rate differences for financial items are recognised under net income from securities trading and currency operations, and for accounts payable, they are recognised under other administrative expenses.

Comparability

New accounting policies concerning financial instruments were introduced on 1 January 2018 with the adoption of IFRS 9: Financial Instruments. The comparable information for 2017 presented in the financial statements were prepared using accounting policies based on IAS 39 Financial Instruments: Recognition and Measurement.

Adoption of IFRS 9 on 1 January 2018

S-Bank adopted IFRS 9 on 1 January 2018. The adoption was based on amendments to the regulations and guidelines of the Finnish Financial Supervisory Authority concerning the financial sector's accounting, financial statements and report by the Board of Directors, which entered into force on 15 February 2018. IFRS 9 introduced certain clarifications to the accounting treatment of financial instruments, the key impacts of which for S-Bank are related to the recognition of expected credit losses in the lending portfolio. The table below illustrates the effects of the transition to the standard on S-Bank Group's equity.

Table 8: Effects of IFRS 9 on S-Bank Group's equity

EUR MILLION	Share capital	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Non-controlling interests	Total equity
Balance sheet at 31 Dec. 2017	**82.9**	**11.6**	**243.8**	**75.6**	**0.2**	**414.1**
Effects of transition to IFRS 9						
Effects of expected credit losses (ECL)		0.7		-9.9		-9.2
Reclassification of financial assets		-5.8		5.8		0.0
Opening balance sheet at 1 Jan. 2018	**82.9**	**6.5**	**243.8**	**71.5**	**0.2**	**404.9**

Reclassifications due to the transition to IFRS 9

The transition provisions of IFRS 9 have been followed in the reclassification. According to the transition provisions, gains or losses are not recognised through profit or loss but instead in retained earnings under equity.

In connection with the transition, S-Bank has reclassified its financial assets and liabilities in accordance with IFRS 9. Financial assets have been classified based on business models used in the management of cash assets and on the contractual cash flow characteristics of the financial assets. The classification of S-Bank's financial liabilities was not adjusted in the transition to IFRS 9. The changes made to the classification of financial assets and liabilities are described in the table below.

Table 9: Classification of financial assets and liabilities in accordance with IFRS 9

RECLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES IN ACCORDANCE WITH IFRS 9 (EUR MILLION)			31 DEC. 2017	1 JAN. 2018
Financial assets	**IAS 39**	**IFRS 9**	**Carrying amount, IAS 39**	**Carrying amount, IFRS 9**
Cash and cash equivalents	Loans and receivables	Amortised cost	493.0	493.0
Receivables from credit institutions	Loans and receivables	Amortised cost	25.7	25.7
Receivables from the public and public sector entities	Loans and receivables	Amortised cost	3,724.9	3,716.9
Debt securities eligible for refinancing with central banks	Available-for-sale financial assets	Fair value through other comprehensive income	860.5	860.5
Debt securities	Available-for-sale financial assets	Fair value through other comprehensive income	259.4	259.4
Debt securities (investment certificates)	Available-for-sale financial assets	Fair value through profit or loss	204.9	204.9
Other shares and interests	Fair value through profit or loss	Fair value through profit or loss	30.7	30.7
Other shares and interests (available-for-sale)	Available-for-sale financial assets	Fair value through other comprehensive income	0.2	0.2
Derivatives	Fair value through profit or loss	Fair value through profit or loss	1.0	1.0

Financial liabilities	**IAS 39**	**IFRS 9**	**Carrying amount, IAS 39**	**Carrying amount, IFRS 9**
Derivatives and other liabilities held for trading	Fair value through profit or loss	Fair value through profit or loss	-6.3	-6.3
Subordinated debts	Amortised cost	Amortised cost	-50.0	-50.0

Impairment model in accordance with IFRS 9
The impairment model in IFRS 9 is based on the calculation of the expected credit losses. The impairment model in accordance with IFRS 9 and the calculation of the expected credit losses are described below (Impairment of financial instruments and Calculation of expected credit losses). Additionally, the key credit risk management methods, S-Bank's credit risk exposure and quantitative and qualitative information on monetary amounts arising from the expected credit losses are presented in Note 2 to the consolidated financial statements: Group risks and risk management, Credit and counterparty risks.

In June 2018, S-Bank adopted a model for adjusting the total amount of expected credit losses so that it corresponds to expectations of future economic performance. The forecast economic performance is based on economic scenarios prepared by S-Bank. Three scenarios are used – strong scenario, basic scenario and weak scenario – and their probabilities are based on S-Bank's estimates. For the purposes of IFRS 9, the macroeconomic scenarios are prepared three times a year. When calculating the amount of expected credit losses, the effects of the economic outlook are taken into account using an adjustment factor. The adjustment factor is based on the trend in housing prices and the unemployment rate in the different scenarios. Since information on the precise behaviour of the macroeconomic model and its effects on the expected credit losses has only been collected for 2018, S-Bank recognises the need for prudence. For this reason, the effects of the model on the calculation of the expected credit losses are not accounted for at their full weight. The weight is determined on the basis of an assessment by the management, which takes into consideration the uncertainty involved in the factors used in the model and their underlying assumptions, as well as accounting for the model risk.

Table 10 describes the bridge calculations of impairments in accordance with IAS 39 and the expected credit losses calculated in accordance with IFRS 9. Before the adoption of the macroeconomic model, the estimated level of expected credit losses as at 1 January 2018 was EUR 15.9 million, and after the adoption of the macroeconomic model the figure was EUR 14.1 million. Therefore the amount of expected credit losses in the opening balance sheet has been reduced by EUR 1.8 million due to the effect of the macroeconomic model (including the management's estimate). The impairments calculated using the previous model in accordance with IAS 39 were about EUR 4.2 million. During the period under review, economic forecasts were positive, so the effects of the macroeconomic model reduced the amount of expected credit losses during the reporting period.

Table 10: IAS 39 – IFRS 9 bridge calculation, taking the macroeconomic model into account

IMPAIRMENTS, EXPECTED CREDIT LOSSES (EUR '000)	IAS 39 31 Dec.2017	IFRS 9 1 Jan. 2018, before adoption of the macro model				IFRS 9 1 Jan. 2018, after adoption of the macro model			
		Stage 1	Stage 2	Stage 3	Total IFRS 9 ECL	Stage 1	Stage 2	Stage 3	Total IFRS 9 ECL
Secured credit granted to retail customers	919	318	3,075	1,254	4,647	282	2,729	1,113	4,125
Unsecured credit granted to retail customers	3,301	1,044	5,931	620	7,595	926	5,265	550	6,741
Investing activities	-	823	-	-	823	731	-	-	731
Corporate customers	26	1,323	-	4	1,327	1,174	-	3	1,178
Corporate customers, housing companies	-	86	137	-	223	76	122	-	198
Off-balance sheet commitments	-	668	655	3	1,325	593	581	2	1,176
Total	**4,247**	**4,261**	**9,797**	**1,881**	**15,939**	**3,783**	**8,697**	**1,670**	**14,149**

The table indicates that out of the expected credit losses calculated in accordance with IFRS 9, taking the macroeconomic model into account, impairments had the most significant effect, in euro terms, on receivables from retail customers. On transition to calculations in accordance with IFRS 9, they totalled approximately EUR 10.9 million. The difference is also evident in the recognition of expected credit losses in investing activities and receivables from corporate customers (about EUR 2.1 million in total). Expected credit losses of about EUR 1.1 million were booked on off-balance sheet receivables. The effect of the transition to IFRS 9 on the total capital adequacy, calculated as at 31 December 2017, was about -0.4 percentage points.

The classification of impairments has been further specified relative to the classification described in the financial statements for 2017. The 'Companies and entrepreneurs' and 'Large enterprises' categories presented in the financial statements for 2017 have been combined into the single category of 'Corporate customers' in the table above. The effects of the change are minor, as the expected credit losses presented in the financial statements for the 'Companies and entrepreneurs' item was about EUR 0.1 million. Moreover, the expected credit losses calculated for off-balance sheet commitments are presented in the table above as a separate item (EUR 1.1 million), whereas in the financial statements for 2017, the expected credit losses on off-balance sheet commitments were included in each relevant item.

The IFRS 9 impairment model has been further developed during the reporting period. Account overdrafts and unlikely-to-pay items were included in the calculation of the expected credit losses in September 2018. The effect of this revision on the amount of expected credit losses is not material.

The treatment of forbearance in the calculation of expected credit losses was revised in October 2018. Following the revision, forbearance on performing loans will always be classified under stage 2 and forbearance on non-performing loans will be classified under stage 3. The revision somewhat increased the loans in stage 3, and thus the amount of expected credit losses. Forbearance is presented in more detail below in the section Impairment of financial instruments.

The changes and deferrals in the loss allowance for the reporting period and the reconciliation of the expected credit losses illustrate the effects of the revisions presented above. The calculations are presented in note 2 to the consolidated financial statements (Credit and counterparty risks: Table 23 and Table 24).

Financial assets and liabilities

Initial recognition and measurement of financial instruments

After initial recognition, the Group's financial assets are measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. The classification depends on the purpose for which the financial assets and liabilities have been acquired. Items recognised at fair value through other comprehensive income are initially measured at fair value added with or less direct transaction costs arising from the acquisition of each item. Loans and receivables are initially measured at their acquisition cost, which is the fair value of the consideration paid, added with directly attributable transaction costs. Subsequent to initial recognition, loans and off-balance sheet commitments are measured at amortised cost. Items recognised at fair value through profit or loss are measured at fair value at initial recognition.

Financial liabilities are measured at amortised cost using the effective interest method, except for financial liabilities measured at fair value through profit or loss, which include derivative contracts. Financial liabilities measured at amortised cost are recognised at fair value (acquisition cost less attributable expenses) when a contract is entered into, and subsequently at amortised cost. Liabilities measured at fair value through profit or loss are subsequently measured at fair value. The expenses attributable to transactions are recognised through profit or loss as they arise.

S-Bank Group applies the 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. These latter financial assets and liabilities are recognised on the balance sheet using the trading date practice.

Financial assets are derecognised from the balance sheet once the contractual rights to the cash flows arising from the financial asset cease or once the rights with substantially all their risks and rewards are transferred to another party. Financial liabilities are removed from the balance sheet when they are extinguished, that is, when the obligation specified in the contract is discharged and it has expired.

Classification of financial assets and liabilities

Financial assets

Financial assets are divided into three classifications. Classification and measurement are based on the business model according to which a financial instrument is managed and on the characteristics of the financial instrument's contractual cash flows. Financial instruments are classified as follows:

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

Business model refers to the method with which financial assets are managed to collect cash flows. In different business models, cash flows arise from the collection of contractual cash flows, the sale of financial assets or a combination of the two.

Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss include financial assets held for trading, derivative contracts held for trading and financial assets initially measured at fair value through profit or loss.

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. Additionally, all non-equity shares and fund units 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 recorded 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 a 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 fair value through other comprehensive income

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

Financial assets measured at fair value through comprehensive income statement items include debt securities and other domestic and foreign securities. Financial assets measured at fair value through other comprehensive income are carried 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 valuation methods that are generally approved in the market. Should this not yield a reliably determinable fair value, the acquisition cost is used. The change in fair value is recorded in the fair value reserve under equity. When a financial instrument is sold, the change in the fair value accrued in equity, together with accrued interest and capital gains or losses, is recognised in the income statement.

S-Bank has recognised some equity instruments at fair value through other comprehensive income. In their case, the bank has made an irreversible decision to recognise the changes in their fair value through other comprehensive income instead of through profit or loss.

The bank calculates the expected credit losses on financial assets measured at fair value through other comprehensive income, and recognises these losses through profit or loss. The changes in the fair value of financial assets measured at fair value through other comprehensive income and the loss allowance are recognised in the fair value reserve. More detailed information on these calculations is provided in the section "Calculation of expected credit losses".

Financial assets measured at amortised cost

Items that meet the following criteria are measured at amortised cost: the item is held in accordance with a business model that aims at the possession of financial assets in order to collect contractual cash flows, and the contractual terms specify payments at specific times that are solely payments of the capital as well as interest on the remaining capital. At S-Bank, financial assets that are not quoted on the active financial markets, for which the payments are fixed or determinable, are measured at amortised cost. Financial assets of this type include receivables from credit institutions and receivables from the public and public sector entities.

After initial recognition, the assets measured at amortised cost are valued using the effective interest method. Transaction costs are included in the amortised 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.

S-Bank calculates the expected credit losses on financial assets measured at amortised cost. More detailed information on these calculations is provided in the section "Calculation of expected credit losses".

Financial liabilities

S-Bank classifies financial liabilities in accordance with IFRS 9 as follows:

- Financial liabilities measured at amortised cost
- Financial liabilities measured at fair value through profit or loss

In general, financial liabilities are measured at the amortised cost on the balance sheet date using the effective interest method. Derivative contract liabilities held for trading are recognised at fair value through profit or loss.

Derivative contracts and hedge accounting

Derivative contracts

Derivative contracts are classified as hedging or held for trading, and at S-Bank, they include interest derivatives, currency derivatives and optional derivatives. Derivative contracts are primarily entered into for hedging purposes and always measured at fair value.

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

Embedded derivatives

An embedded derivative is part of a hybrid instrument that also contains a non-derivative main contract. For this reason, part of the cash flow from the hybrid instrument fluctuates in a manner similar to the cash flow from a standalone derivative contract.

Hybrid contracts where the host contract is an item included in financial assets are treated in accordance with IFRS 9 in their 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. If the embedded derivative's characteristics or risks are not closely connected to the financial characteristics or risks of the host contract, it is treated as a separate instrument with the same terms as the embedded derivative. In this case it fulfils 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. They can be classified as above-mentioned hybrid instruments due to the options included in the contracts which entitle the bank to the repayment of debt before the maturity date.

S-Bank does not separate embedded derivatives from the host 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 entered into primarily for hedging purposes. S-Bank applies fair value hedge accounting to the above-mentioned derivative contracts that meet the documented effectiveness and other requirements for hedge accounting. In such cases, the interest rate risk exposure is 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 6.2.2 of IFRS 9.

Hedging should be effective when hedge accounting is applied. The actual results of the hedge must be within a range of 80–125% effectiveness. 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 under "Net income from securities trading" as of the previous effectiveness test.

S-Bank applies fair value hedging to derivative contracts entered into for the purpose of hedging the fair value changes of assets exposed to the interest rate risk. S-Bank hedges the risk related to changes in fair value mainly in the case of securities with a fixed interest rate, which are exposed to the interest rate risk. The interest rate risk is described in Note 2 to the consolidated financial statements: Group risks and risk management.

Changes in the fair value of a hedged item that are attributable to the hedged risk are recognised in the income statement under "Net result from hedge accounting". Changes in fair value not attributable to the hedged risk are recognised in the fair value reserve. Changes in the fair value of the hedging items included in hedge accounting are recognised in the income statement under "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 uses 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.

Measuring financial instruments at fair value
Fair value is the price that would be obtained from the sale of an asset or the transfer of debt between market participants in a customary business transaction executed on the valuation date.

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 accepted in the markets. A market is considered to be active if price quotes are readily and regularly available and they reflect actual and recurring market transactions between independent parties.

Valuations are determined on the basis of the prices of market transactions, the discounted cash flow method or the fair value at the balance sheet date of another essentially similar instrument. The valuation methods account for an estimate of the credit risk, the discount rates used, the possibility of early repayment and other factors that affect the reliable determination of the fair value of a financial instrument.

Financial assets and liabilities measured at fair value are divided into three categories according to the method with which their fair value is determined:

- Level 1 fair values are determined using the quoted, unadjusted prices of completely identical financial asset and liabilities in an active market.
- Level 2 fair values are determined using generally accepted valuation models in which the input data is, to a significant extent, based on verifiable market information.
- Level 3 market prices are based on input data concerning an asset or liability that are not based on verifiable market information but, to a significant extent, on the management's estimates.

Impairment of financial instruments
The entry into force of IFRS 9 on 1 January 2018 introduced significant changes to the testing of impairment. The new impairment model in accordance with IFRS 9 is based on the calculation of expected credit losses (ECL), where the expected credit loss is estimated at the time a contract is recognised for balance sheet items measured at amortised cost or at fair value through other comprehensive income and for off-balance sheet credit commitments and guarantee contracts. Any measurement of expected credit losses under IFRS 9 should reflect an unbiased and probability-weighted amount that is determined by evaluating the range of possible outcomes. The measurement should also reflect the time value of money as well as reasonable and supportable information that is available on the reporting date without undue cost or effort and

that concerns past events, current conditions and forecasts of future economic conditions.

This section presents the material estimation methods and assumptions used in the impairment of financial instruments, contractual changes to financial assets and the credit losses recorded on impaired liabilities. The next section presents information on the measurement of expected credit losses.

Classification of financial instruments for the measurement of impairment

A three-stage impairment model is used to measure credit risk, where a financial instrument is grouped under one of the stages based on the risk level of the credit contract. Figure 5 demonstrates the classification of financial instruments into three stages for the purposes of calculating impairment. In order to be able to estimate whether the risk level of a credit contract has increased relative to the initial recognition, and for the purposes of classifying the financial instrument, S-Bank uses the probability of default (PD) risk model. This risk model generates a PD risk estimate illustrating the probability of default over a 12-month period, in which variations are deemed to reasonably reflect changes in the credit risk over the lifetime of the contract. In addition to the aforementioned quantitative criteria (change in PD estimate between the date of recognition and the reporting date), the grouping of financial instruments is influenced by, among other things, factors related to the maturing of the credit. The estimates provided by the risk model as well as effects of maturity and other criteria on the grouping of financial instrument are constantly monitored.

Stage 1 – no significant changes in the credit risk

Stage 1 applies to receivables in which the credit risk has not increased significantly since the credit was granted and the value of which is not impaired. The expected credit loss is measured for the contracts for a period of 12 months and the effective interest is calculated on the gross carrying amount. In other words, stage 1 includes contracts in which:

- an increase in the PD estimate is below the limits defined for the specific product, and
- the receivable has been past due for a maximum of 30 days.

Stage 2 – significant increase in credit risk

Stage 2 applies to receivables in which the credit risk has increased significantly since the credit was granted. The lifetime expected credit loss is measured for the contract and the effective interest is calculated on the gross carrying amount. The criteria for assessing significant increases in credit risk and the limit values of the probability of default are determined for each product and customer group, and they are based on analyses and expert opinions of S-Bank's data.

Figure 5: Grouping of financial instruments into three stages for the measurement of impairment

Current risk level of the financial instrument in comparison to the risk at the time of lending

Stage 1	Stage 2	Stage 3
No significant change	Significant increase	Credit-impaired receivables due to credit risk
Expected credit loss is measured for a period of 12 months	The lifetime expected credit loss is measured for the contract	The lifetime expected credit loss is measured for the contract

The credit risk is deemed to have increased significantly if the probability of default has materially increased since the time of recording of the contract, in other words:

- the PD estimate exceeds the limit value determined for the specific product,
- the PD estimate has increased significantly within the aforementioned limit values since the credit was granted,
- a payment of capital or interest has been past due for more than 30 days but the receivable has not been impaired yet due to the credit risk,
- changes in the credit risk since initial recognition cannot be estimated reliably, or
- the contract is classified as a performing forborne exposure (forbearance is described in the section "Contractual changes in financial assets").

If none of the above-mentioned stage 2 criteria are fulfilled, the contract should be treated according to stage 1. Thereafter the criteria for transferring receivables to stage 2 are observed for the contract consistently with other contracts in stage 1.

Stage 3 – credit-impaired receivables

Stage 3 applies to credit-impaired receivables. The lifetime expected credit loss is measured for the contract and the effective interest is calculated on the net carrying amount. A receivable is deemed to be credit-impaired if:

- A payment of capital or interest has been past due for more than 90 days (non-performing contracts).
  - o If an exposure has been classified in part as non-performing on the balance-sheet, the remaining undrawn off-balance sheet amount is also classified as non-performing.
  - o If more than 20 per cent of the receivables from the same borrower on the balance sheet are classified as non-performing liabilities, all of the exposures of the customer in question, both on-balance sheet and off-balance sheet, are classified as non-performing.
- Payment in accordance with the contract is unlikely to be received before the receivable becomes non-performing (unlikely-to-pay items).
- The contract is forborne and it becomes non-performing (see the section "Contractual changes in financial assets").

If the status of a stage 3 receivable changes so that none of the above-mentioned stage 3 criteria are no longer fulfilled, the contract should be treated according to stage 1. Thereafter the criteria for transferring receivables to stage 2 are observed for the contract consistently with other contracts in stage 1.

A credit-adjusted effective interest rate is applied to purchased or originated credit-impaired (POCI) financial assets as of the date on which the financial asset measured at amortised cost was initially recognised. S-Bank does not have any financial assets of this type.

Contractual changes to financial assets

Changes to the terms of credit contracts are made on commercial grounds or if the customer faces difficulties in performing payments on the contract. Contract terms can be amended on commercial grounds if a customer receives a better offer from a competitor and S-Bank considers it important to maintain the customer relationship. When amending contracts on commercial grounds, the customer's credit risk must not have increased significantly (stage 2) and the customer must not be in payment difficulties. In this case, the customer's contract is classified automatically under stage 1 in impairment measurement and the changes to the contract do not change its status.

If a change is made to a credit agreement due to the customer's inability to pay, it is referred to as forbearance. Forbearance measures aim to assist the customer in managing short-term payment difficulties. The key objective of granting forbearance measures is to prevent performing borrowers from reaching a non-performing status or to pave the way for non-performing borrowers to exit their non-performing status. Forbearance measures always aim to return the exposure to a situation of sustainable repayment.

If a receivable has not already been classified as non-performing and forbearance measures are granted to it, it is classified as 'performing forborne'. In this case, the contract is classified under stage 2 in impairment measurement for a probation period of two years.

If the receivable is already non-performing and it is granted forbearance, it becomes 'non-performing forborne'. A performing forborne credit becomes non-performing if one of the factors causing non-performance is triggered. Such factors include a second forbearance within the probation period or payments more than 30 days past due in relation to the payment schedule. A non-performing forborne credit is given a minimum of a 12-month cure period and classified in impairment testing under stage 3. If the factor or factors causing non-performance are removed, the contract is treated as performing forborne for a probation period of two years and classified under stage 2.

Recognition of realised credit losses

A credit contract or a part of it is recognised as a credit loss when it is unlikely that its amount will be recovered. S-Bank has internal definitions for cases where the probability of a credit loss is high and a realised credit loss is recognised on the receivable. Depending on the product, credit losses are recorded as follows:

- Credit losses on unsecured credit are recorded no later than 4 months after they have been transferred to collection.
- Credit losses on secured receivables are recorded at the earliest when the collateral has been realised and allocated to the receivable. In this case, the remaining receivable may not be recorded as a credit loss if a payment schedule has been created for it.

Even if a receivable is accepted and recorded as a credit loss, collection will continue in the form of post-collection. After the recognition of a credit loss, the credit in question will no longer be included in the calculation of expected credit losses and thus will no longer be impaired.

Collection of the receivable will continue until there are sufficient grounds for discontinuing it.

The impairments for the reporting period are presented in note 2 to the financial statements (Quantitative and qualitative information on amounts arising from expected credit losses and exposure to credit risks). In the future, the amount of expected credit losses is forecast to react sensitively to changes in the economic outlook. This may increase short-term fluctuation in profits.

Calculation of expected credit losses

S-Bank uses the probability of default (PD), Loss Given Default (LGD) and Credit Conversion Factor (CCF) parameters for measuring risks in the credit portfolio and for calculating the impairments of financial instruments. The CCF parameter can be employed to determine the amount of exposure, i.e. Exposure at Default (EAD). By utilising these parameters, the expected credit losses are calculated with the formula PD x LGD x EAD.

The same models are also used in the calculation of expected credit losses (ECL) under IFRS 9.

Expected credit losses are calculated either for a period of 12 months or for the lifetime of the original contract, depending on the current risk level of the credit (see the information on the classification of financial instruments presented in the previous section and Figure 4: Classification of financial instruments into three stages for the measurement of impairment).

Table 11 presents the credit risk models S-Bank employs in the calculation of expected credit risks for each customer group.

Table 11: Credit risk models used by S-Bank in the calculation of expected credit risks

Customer group	Credit risk model	Use	Internal/external model
Retail customers	**PD model:** probability of default within the next 12 months	Determining the risk at initial recognition and currently, classifying financial instruments for measurement of value	S-Bank internal model, parameters derived from S-Bank's credit portfolio
	LGD model: S-Bank's realised credit losses after collection measures.	As a parameter in ECL calculation	S-Bank internal model, parameters derived from S-Bank's credit portfolio
	CCF/EAD-model: exposure at default	As a parameter in ECL calculation	S-Bank internal model, parameters derived from S-Bank's credit portfolio
Corporate customers	**PD-model:** probability of default within the next 12 months	Determining the risk at initial recognition and currently, classifying financial instruments for measurement of value	S-Bank's internal model for corporate customers and PD estimates derived from a market database for housing companies
	LGD-model: S-Bank's realised credit losses after collection measures.	As a parameter in ECL calculation	Parameters derived from a market database
	CCF/EAD-model: exposure at default	As a parameter in ECL calculation	Parameters derived from S-Bank's credit portfolio
Investing activities	**PD** and **LGD**	As a parameter in ECL calculation	Parameters derived from a market database

ECLs are calculated by determining the PD, LGD and EAD for every future month and each separate contract. These three components are multiplied by one another. The income for each future month is discounted to the reporting date and added together. The discount rate used in the ECL calculation is the interest rate of the original contract.

Classification of credit risks and probability of default

As presented above, S-Bank uses various credit risk models to forecast the probability of default, depending on the product and customer group. When forecasting the probability of default for a customer, S-Bank uses either a classification of the contract at the application stage or a classification based on its credit history. The application-stage classification is based on the personal and credit data collected from the customer on the application (e.g. income and collateral information from retail customers and revenue and sector information from corporate customers). The information obtained on the credit application is supplemented with external information, such as payment default information available from Suomen Asiakastieto. A classification based on the credit history of the contract is made for retail customers who have had a valid credit agreement with S-Bank for at least six months. In other words, when forecasting the customer's probability of default, the customer information is supplemented using the customer's payment behaviour and other banking history, and if necessary, with an expert assessment by S-Bank, before calculating a final PD estimate for the exposure. Based on the PD estimates, loans are assigned a credit category. The 7-tier distribution of the categories is described below. The probability of default is the lowest in credit category 1 and the highest in credit category 7. The credit categories are calibrated in such a way that the risk grows exponentially in the higher risk categories. Thus the difference in the probability of default (PD estimate) between credit categories 1 and 2 is smaller than that between credit categories 5 and 6, for example.

The functioning of the credit categories and the credit risk models is tracked and controlled regularly. The risk models are validated and, if necessary, calibrated annually to ensure that their predictions are consistent with actual observations of credit in default.

Use of average parameters

S-Bank does not use group-specific PD estimates when calculating expected credit losses. If the PD estimate for a contract at initial recognition is unavailable, the receivable is classified in stage 2. In cases where the current PD estimate for a contract is not available, impairment is calculated using an averaged PD estimate for the same type of customer or product group. This also applies to cases where the initial PD estimate for the contract is not available.

Table 12: PD estimates for the credit categories

Credit category	PD minimum (%)	PD maximum (%)
1	0.00	< 0.15
2	0.15	< 0.25
3	0.25	< 0.50
4	0.50	< 0.75
5	0.75	< 2.50
6	2.50	< 10.00
7	10.00	< 100.00
In default		100.00

Forward-looking information used in the calculation of expected credit losses

The calculation of a significant increase in credit and expected credit losses entails making forward-looking estimates. S-Bank has analysed historical data and identified the key economic variables that impact potential credit risks. Using these variables, the total amount of expected credit losses is adjusted so that it corresponds to expectations of future economic performance.

The forecast economic performance is based on economic scenarios prepared by S-Bank. Three scenarios are used – strong scenario, basic scenario and weak scenario – and their probabilities are based on S-Bank's estimates. For the purposes of IFRS 9, the macroeconomic scenarios are prepared three times a year. When calculating the amount of expected credit losses, the effects of the economic outlook are taken into account using an adjustment factor. The adjustment factor is based on the trend in housing prices and the unemployment rate in the different scenarios.

Since information on the precise behaviour of the macroeconomic model and its effects on the expected credit losses has only been collected for 2018, S-Bank recognises the need for prudence. For this reason, the effects of the model on the calculation of the expected credit losses are not accounted for at their full weight. The weight is determined on the basis of an assessment by the management, which takes into consideration the uncertainty involved in the factors used in the model and their underlying assumptions, as well as accounting for the model risk.

Since its adoption, the macroeconomic model was updated with new forecasts in October 2018. At the same time, an update was made to the factor based on the management's estimate that affects the weight of the macroeconomic model, which was introduced in June 2018. The effects of the changes to the aforementioned variables are minor.

The introduction of the macroeconomic model and its effects on the calculation of expected credit losses are discussed above in the section "Adoption of IFRS 9 on 1 January 2018".Table 10 presents the bridge calculations of impairments in accordance with IAS 39 and the expected credit losses calculated in accordance with IFRS 9, including the effects of the macroeconomic model.

Accounting policies in accordance with IAS 39
The comparative information in the financial statements has been prepared in accordance with IAS 39, under which financial assets are classified into four categories for the purpose of measurement:

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

Financial assets measured at fair value through profit or 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.

Investments held to maturity

Held-to-maturity investments include bonds and notes and other non-derivative financial assets which have fixed or floating cash flows, and which have matured on a certain date and were held to maturity.

Loans and receivables

Loans and other receivables consist of financial assets that are not quoted on an active financial market which have fixed or floating cash flows and which are not classified as financial assets measured at fair value through profit or loss, investments held to maturity or available-for-sale financial assets. The transaction costs related to loans and other receivables are included in the amortised cost measured using the effective interest method and amortised through profit or loss over the term-to-maturity of the receivable. After initial recognition, loans and other receivables are measured at amortised cost using the effective interest method.

Principles of income recognition

Interest income and expenses
Interest on financial assets and liabilities and interest-rate derivatives is accrued as interest income or expenses for the financial periods to which they are to be allocated over time. Fees that form an essential part of the effective interest on loans, receivables or deposits are recognised as interest income or 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.

Intangible and tangible assets

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 licence fees: 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, if any. Straight-line depreciation is recorded on tangible assets in accordance with each item's economic life.

Depreciation periods for tangible assets:
Machinery and equipment: 3 years

Impairment of tangible and intangible assets
At the end of each financial period, S-Bank 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 recoverable amount from the receivable or asset item is estimated based on objective criteria. The recoverable amount is defined as the higher of the asset's fair value less cost to sell and value in use. An impairment loss is recognised when the carrying amount of an asset is higher than its recoverable amount. The impairment loss and its changes are recognised on the income statement and the balance sheet using a review of impairment at least four times per year.

Income taxes

Income taxes include current taxes for the financial period and adjustments to taxes for previous periods, as well as changes in deferred tax assets and liabilities. The tax effects of items that are recognised directly in equity are 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 available new tax rate.

Future changes to the accounting policies used in the preparation of S-Bank Group's financial statements

S-Bank will adopt the International Financial Reporting Standards as of 1 January 2019. In accordance with the transition rules, the Group will report IFRS-compliant comparative information for the 2018 financial year in its interim reports and its financial statements for 2019.

The Group will in future report three segments: the Banking business, the Wealth Management business and other.

Owing to revisions to the regulations and guidelines of the Finnish Financial Supervisory Authority concerning accounting, financial statements and the report by the Board of Directors, S-Bank Group adopted IFRS 9 as of 1 January 2018. Full adoption of IFRS reporting is expected to result in minor changes to the consolidated balance sheet and income statement. Changes will be made due to the application of the following standards:

- IFRS 15: Revenue from Contracts with Customers
- IFRS 16: Leases
- IAS 19: Employee Benefits
- IAS 38: Intangible assets

IFRS 15 will impact the recognition of certain fees as income. IFRS 16 will alter the treatment of leases, as a leased commodity will be treated by the lessee as if it were acquired. Moreover, the reporting of pension liabilities in accordance with IAS 19 will result in minor changes to previous policies. The revisions brought by IAS 38 concern the capitalisation of hours performed allocated to projects.

The tables below describe the estimated effects of the transition to IFRS. The tables do not account for the effect of deferred taxes.

Table 13: Estimated effects of the transition to IFRS on consolidated equity at 1 January 2018

	Share capital	Comprehensive income items (Fair value reserve)	Reserve for invested non-restricted equity	Retained earnings	Non-controlling interests	Total equity
Opening balance sheet at 1 January 2018 after adoption of IFRS 9	**82.9**	**6.5**	**243.8**	**71.5**	**0.2**	**404.9**
IAS 16 and IAS 38, intangible assets						
Capitalisation of hours performed in projects				0.8		0.8
IAS 19, employee benefits						
Pension liabilities				-0.4		-0.4
IFRS 15, revenue						
Changes to the accrual of fees				-1.0		-1.0
Opening balance sheet at 1 Jan. 2018	**82.9**	**6.5**	**243.8**	**70.9**	**0.2**	**404.3**

Table 14: Estimated effects of the transition to IFRS on balance sheet items (excl. consolidated equity) for 2018

EUR million		1 Jan. 2018	31 Dec. 2018
IAS 16 and IAS 38	(receivables)	0.80	2.60
IFRS 15	(liabilities)	1.00	1.70
IFRS 16	(receivables)	5.30	5.40
IFRS 16	(liabilities)	5.30	5.40
IAS 19	(liabilities)	0.40	0.30
Consolidated goodwill	(receivables)	8.93	8.93

Table 15: Estimated effects of the transition to IFRS on profit for 2018

EUR million		1 Jan.–31 Dec. 2018
IAS 16 and IAS 38	(increase in depreciation and amortisation)	-0.3
IAS 16 and IAS 38	(decrease in personnel expenses)	2.1
IFRS 15	(decrease in income)	-0.7
IFRS 16	(increase in depreciation and amortisation)	-2.2
IFRS 16	(decrease in lease expenses)	2.2
IAS 19	(adjustment of expenses)	0.1
Reversal of consolidated goodwill amortisation	(decrease in amortisation)	3.5

NOTE 2 TO THE CONSOLIDATED FINANCIAL STATEMENTS: GROUP RISKS AND RISK MANAGEMENT

S-Bank Group engages in banking and wealth management operations. Due to the nature of its operations, risks and risk management hold a key role in the management of business operations and changes in the operating environment. The most significant risk types from the perspective of the Pillar 1 capital requirements are credit risks and operational risks. In addition to calculating Pillar 1 capital requirements, S-Bank also calculates an internal Pillar 2 capital requirement in order to assess all the material risks related to its operations and to ensure a comprehensive overview of its risk profile.

The Report by the Board of Directors in the financial statements includes a general description of risk management (Risk management) and presents the key indicators concerning S-Bank's risk exposure. The report also discusses S-Bank's capital adequacy and own funds (Capital adequacy and own funds). Part Eight of the EU Capital Requirements Regulation (CRR, 575/2013) sets out the requirements on disclosure of information (Pillar 3) concerning institutions' risks, risk management and capital adequacy. The Pillar 3 report (Capital and Risk Management Report) in accordance with this regulation is published in a document separate from the financial statements. The report is available on S-Bank's website, at www.s-pankki.fi.

Governance of risk management

S-Bank's risk management is built on three lines of defence as illustrated in Figure 6.

The first line of defence consists of S-Bank's business and support units, which conduct business operations in accordance with S-Bank's strategy and business plan. The business and support units are responsible for risk-taking, the identification of risks, day-to-day risk management and risk reporting.

The second line of defence consists of the Group-level internal control functions, which are independent of the business units. These are Risk Control and Compliance. The Risk Control function monitors and assesses risk-taking, the identification of risks and the efficiency of risk management in the Group. The function also oversees the execution of the risk strategy, as well as monitoring the total risk exposures in relation to the risk capacity and appetite. The Compliance function assesses and monitors S-Bank's compliance with relevant external regulations, internal policies and the decisions of S-Bank's management.

The Internal Audit is the third line of defence and is independent of the functions being audited. The purpose of the function is to audit and evaluate the effectiveness of the risk management and internal control measures carried out by the Group. Thus, the Internal Audit also reviews the activities of the Risk Control and Compliance functions.

Figure 6: Three lines of defence in risk management

Roles and responsibilities in risk management

Figure 7 depicts S-Bank's administrative structure, which also describes the governance of risk management. The roles and responsibilities of the relevant governing bodies in terms of risk management are described consequently.

Board of Directors

The parent company's Board of Directors is responsible for overall risk management in S-Bank Group, ensuring that the Group's operations are appropriately organised in compliance with applicable laws and regulations. The Board approves the risk strategy and defines the risk capacity, risk appetite and risk management objectives of S-Bank, as well as ensuring that the Group has appropriate operating and risk management principles for implementing the strategy and achieving the objectives. In addition, the Board of Directors confirms the risk category specific principles related to risk management, approves the principles of risk modelling and calculation, and sets sufficient limits on risks as part of the 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. The Board of Directors monitors the bank's capital and its allocation, the sufficiency of liquidity and risk limits.

The Board of Directors is assisted by the Risk and Audit Committee and the Remuneration and Nomination Committee, which have no independent decision-making power. Both committees are composed of members of the Board of Directors.

CEO and Group Management Team

S-Bank's Chief Executive Officer (CEO), assisted by the Group Management Team, is responsible for the practical execution of risk management in accordance with the principles set by the Board of Directors. The CEO and the Group Management Team ensure that the objectives and limits set for S-Bank's risk capacity and risk appetite are considered in the bank's strategic process, planning of operations and risk management. Additionally, they are responsible for achieving the set objectives and managing and monitoring any risks threatening these objectives.

Business and support functions

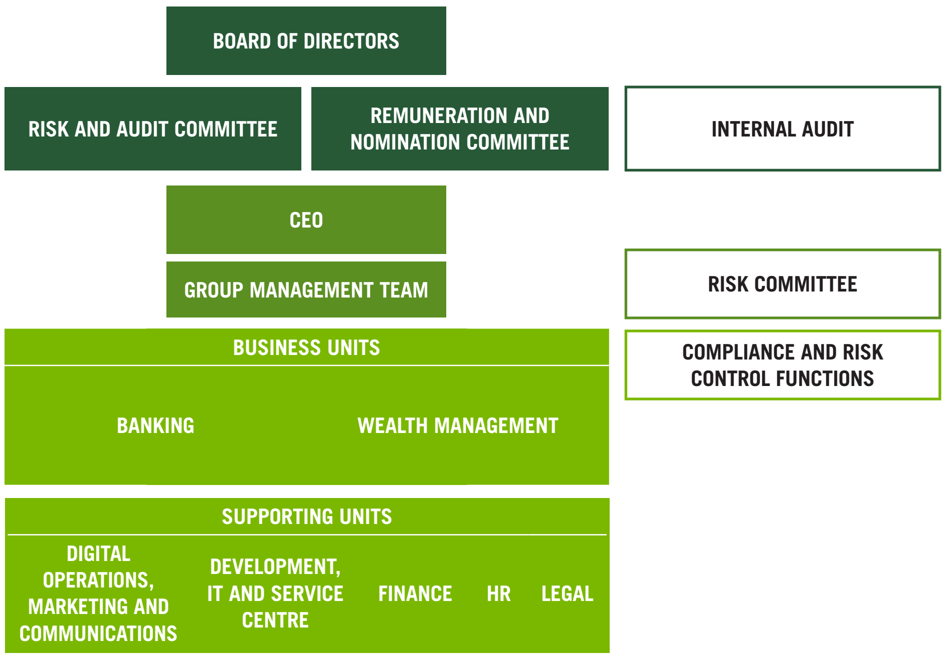
The directors of S-Bank's business and support units are primarily responsible for the risks in their respective areas and for ensuring that the operations of their units are carried out in accordance with S-Bank's guidelines and principles. These units are also responsible for running their operations within the set risk limits. Therefore the business and support units are responsible for identifying and assessing the risks associated with their processes, as well as managing and monitoring these risks. Each business unit and support unit is responsible for providing a clear and adequate description of the pertinent frameworks, operational requirements and risk management requirements in its operations.

The business units also have separate Executive Teams that include business unit directors. The Executive Teams are responsible for the execution, implementation and monitoring of quantitative and qualitative targets, as well as for the development and profitability of the business units. The business units may apply stricter risk limits than those confirmed by the Board of Directors.

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 assist them in discharging their duties and responsibilities and support them in decision making. The Risk Committee confirms the key risk management principles and procedures for processing by the Risk and Audit Committee and approval by the Board of Directors. Moreover, the Risk Committee ensures that proposals for decisions are compliant with regulation as well as with the risk capacity and risk appetite confirmed by the Board of Directors.

Kuvio 7: S-Pankin hallinnollinen rakenne



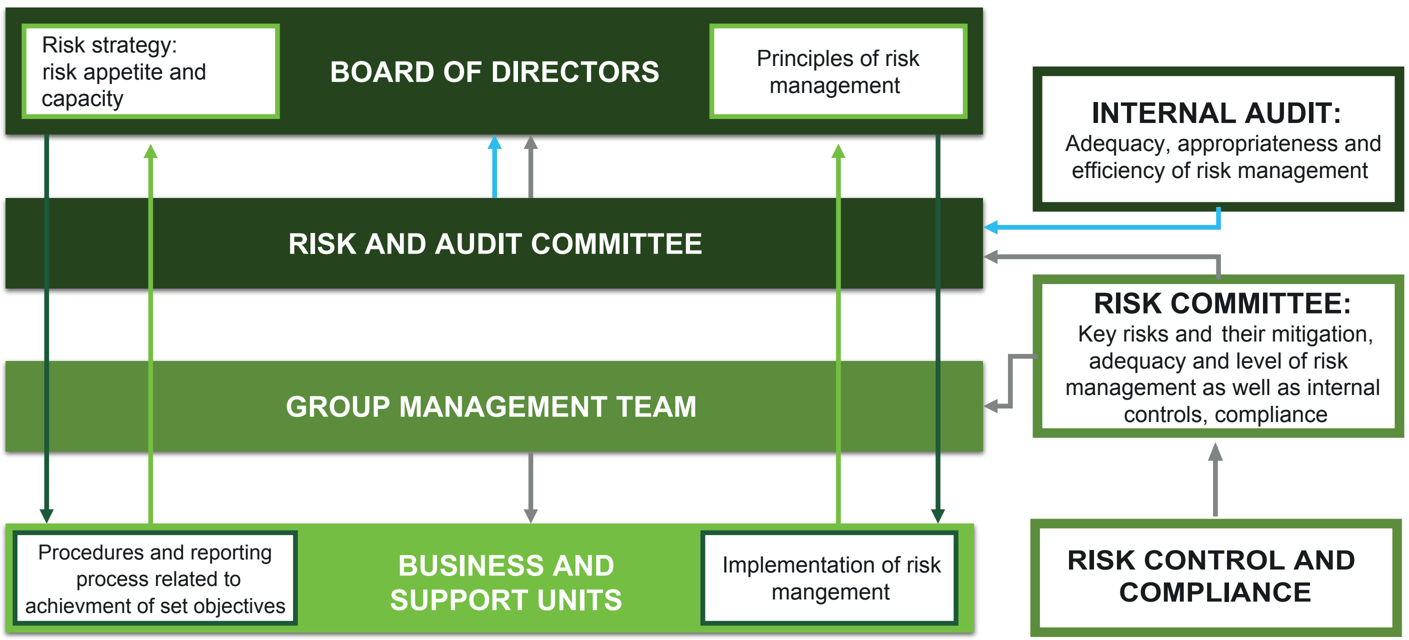
Independent functions

Risk Control is a function tasked with comprehensively monitoring and assessing S-Bank's risk-taking level and the implementation of risk management. The Risk Control function monitors the execution of the risk strategy and the total risk exposure, ensuring that the risks taken by S-Bank are proportionate to its risk capacity and the set objectives. The Risk Control function maintains and develops methods for measuring, assessing and reporting risks, and supports the business units in identifying and managing risks. The function prepares regular reports on S-Bank's risks, risk exposure and risk management level to S-Bank's management, the Risk Committee, the Risk and Audit Committee, the Board of Directors and the authorities.

The **Compliance** function is tasked with making sure that S-Bank has adequate and appropriate policies and procedures in place for ensuring compliance with regulatory requirements. The function 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.

The **Internal Audit** function performs independent reviews and verification activities that focus on auditing the adequacy, functionality and effectiveness of the internal control and risk management frameworks across the entire Group. These features are evaluated with a risk-oriented approach in accordance with the auditing plan approved by the Board of Directors annually. When conducting audits according to plan, the Internal Audit function uses auditing criteria that are based on external regulations, internal guidelines and set objectives.

Figure 8: Risk reporting



Risk monitoring and reporting

S-Bank monitors risks continuously, and each employee must be aware of their personal responsibilities in risk management. Employees are tasked with observing the implementation of risk management within their area of responsibility and instructed to report any observed deviations and deficiencies in risk management in accordance with agreed procedures.

Risks are measured, monitored and reported in such a way that the Board of Directors of S-Bank and the executive management have adequate and relevant information on risks and their management procedures. S-Bank's internal risk reporting process includes, alongside financial reporting, regular analyses on the achievement of the objectives set by the Board of Directors. Risk-taking in relation to the risk capacity is monitored regularly and assessed, for example, when updating the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) reports, processing strategy or making decisions concerning important business projects or investments for S-Bank. Figure 8 illustrates the risk reporting process.

As part of continuous risk reporting, the risk exposure of S-Bank and the Group companies and the practical implementation of risk management are assessed daily based on set 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 a monthly and quarterly basis, and whenever necessary.

The Risk Control function 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. In addition to regular reports, the aforementioned bodies are provided with a separate report and analysis if any major changes or deviations occur that may influence S-Bank's risk position or capital adequacy.

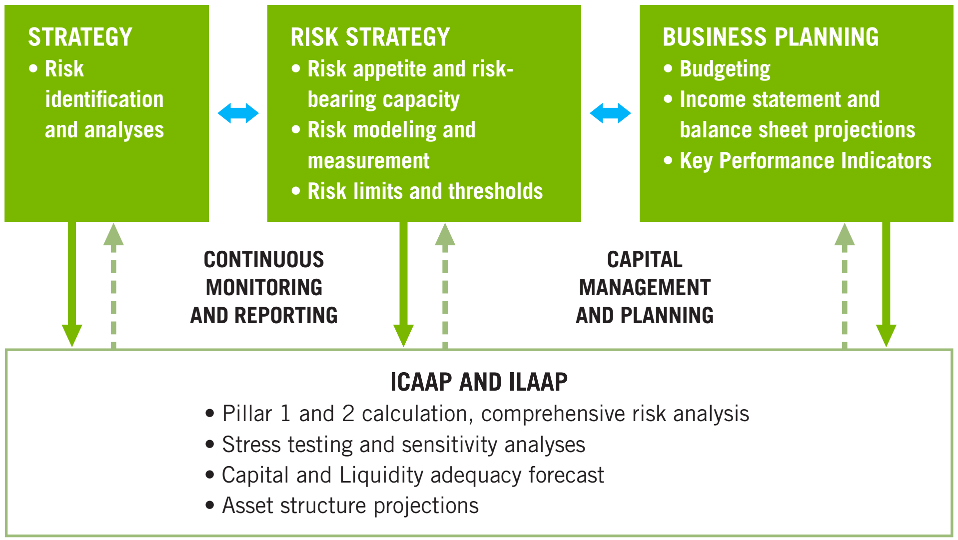
The Internal Audit function evaluates the processes concerning risk and capital management in accordance with the annual auditing plan. The Internal Audit function regularly reports on the results of the audits, key audit observations, any improvement recommendations and the realisation of the audit plan to the Risk and Audit Committee and the Board of Directors, as well as to all the other relevant bodies in the organisation.

Capital and liquidity management

Capital and liquidity management are fundamental parts of the risk management process. The objective of sound capital and liquidity management is to ensure that S-Bank continuously has an appropriate capital and liquidity position required to achieve its strategic business goals. Furthermore, the aim is to ensure that S-Bank continuously has sufficient capital and liquidity buffers to guard against unexpected events. Figure 10 illustrates the capital and liquidity management framework.

Figure 9: The Risk Control function's reports that are independent of the business units

Figure 10: Capital and liquidity management framework



Capital and liquidity management are based on a proactive approach that accounts for S-Bank's strategy, business plan and risk strategy. The process begins with strategic and comprehensive risk analyses. S-Bank utilises a variety of stress scenarios to estimate how potentially unfavourable developments could affect capital adequacy and liquidity at the Group level as well as at an individual subsidiary level over a certain time frame. Factors taken into consideration include various development patterns in the macroeconomic, regulatory and competitive environment. Moreover, the scenarios include potential changes in S-Bank's business volumes and in the behaviour of its customers.

Stress testing

Stress testing exploits various sensitivity analyses, enabling assessment of the impact of certain assumptions and parameters in selected risk categories and risk models. The sensitivities of expected credit risk losses are calculated with the Probability of Default (PD) and Loss Given Default (LGD) parameters. Possible concentration risks arising from corporate counterparties and the effects of potential changes in the value of collateral for immovable property are taken into account while stressing credit risk effects on capital adequacy. From a market risk point of view, the Net Interest Income (NII) risk is calculated as the deviation between the budgeted and the scenario specific net interest income, taking into consideration changes in the market interest rate levels. The effects of changes in the risk-free yield curve on market prices are calculated based on Economic Value (EV) risk calculations. The credit spread risk is assessed based on historical data by simulating effects of changes on the fair value reserve under a chosen scenario and taking into account relevant credit spreads. The stressing of interest rate risk in the banking book is presented in more detail below (section Interest rate risk in the banking book).

S-Bank prepares, at least once a year, a long-term capital plan that provides a comprehensive overview of its capital and risk positions in various stress scenarios. The capital plan also describes the measures that could be taken in negative scenarios to restore capital to the target levels, if necessary. The Internal Capital Adequacy Assessment Process (ICAAP) accounts for the material risk types to which S-Bank is exposed. Table 16 illustrates the relevant risk types for S-Bank and how they are accounted for in the calculation of capital in accordance with regulatory requirements (Pillar 1) and using the internal risk-based approach (Pillar 2).

S-Bank does not have a trading book. For this reason, S-Bank is not subject to the Pillar 1 capital requirement for market risk. As S-Bank's market risks arise from the banking book, these are – in accordance with the Pillar 1 requirement and methods – included in the regulatory capital requirements for credit risk using the standardised approach. In the ICAAP, the capital requirement for market risk is calculated according to S-Bank's internal market risk parameters and model. Market risks are described in further detail below (Market risk). The Pillar 2 capital

Table 16: Risk types in ICAAP

RISK TYPE AND ALLOCATION OF CAPITAL	Pillar 1	Pillar 2
Credit risk	Yes	Yes
Concentration risk	No	Yes
Operational risk	Yes	Yes
Market risk; foreign exchange rate risk	Yes	Yes
Market risk; interest rate risk in the banking book	No	Yes
Market risk; spread risk	No	Yes
Market risk; equity risk	No	Yes
Market risk; real estate risk	No	Yes
Strategic and business risk	No	Yes
Liquidity risk	No	ILAAP

requirements for strategic and business risks are based on various scenario analyses.

Liquidity stress tests are, as a general rule, conducted annually as a part of the Internal Liquidity Adequacy Assessment Process (ILAAP). The ILAAP report, together with the ICAAP report, provides a comprehensive overview of S-Bank's liquidity risk position in various stress scenarios.

Liquidity stress testing is based on the 30-day liquidity analyses, i.e. the Liquidity Coverage Ratio (LCR), and the adequacy of available long-term stable funding compared to the required long-term funding, i.e. the Net Stable Funding Ratio (NSFR). The key aim of stress testing is to ensure the adequacy of S-Bank's liquid assets in order to cover unexpected liquidity outflows, and to confirm that the LCR and NSFR ratios fluctuate within the accepted limits.

The immediate short-term effects of liquidity shocks can be evaluated through the cost of accumulating S-Bank's cash and liquidity reserves, which is impacted by, for example, potential losses due to the selling of securities at unfavourable prices. Indirect effects are related to constraints on business operations and opportunity costs incurred due to a weakened liquidity position. Longer-term effects of a stressed liquidity position are related to the reputation risk, which may result in higher costs for long-term funding and lower-than-expected business volumes. Ultimately the short- and long-term direct and indirect effects of a weakened liquidity position would have a negative impact on S-Bank's profitability, regardless of whether the liquidity shock is sudden or gradual.

Credit and counterparty risks

S-Bank's business focuses on credit cards as well as consumer loans and housing loans granted to retail customers. The majority of S-Bank's corporate lending portfolio consists of financing extended to new housing companies for the construction of apartment buildings. S-Bank maintains a low credit risk profile in line with its conservative risk appetite, supported by active management and monitoring of credit risks.

Credit risk refers to the probability of a counterparty failing to meet its contractual payment obligations, thus causing a credit loss for S-Bank. The risk may arise in cases where lending is not based on accurate and sufficient information or if changes occur in the customer's financial condition or in the value of the collateral pledged by the customer over the lifetime of the credit.

The Pillar 1 credit risk capital requirement includes the Treasury portfolio since S-Bank does not have a trading book.

The Board of Directors approves S-Bank's credit risk strategy and credit decision mandates, which are in line with good banking and lending practices and with external regulation. The credit risk strategy contains key lending goals and limitations that are aligned with S-Bank's strategy and the business plan derived from it as well as with the risk strategy. Credit risks arising from the Treasury portfolio and the limits set for them are described in the Treasury's annual investment plan.

Credit risks are managed by the business and support units through the framework of principles and limits set in the Group risk strategy, the credit risk strategy and the Treasury unit's investment plan. This ensures that the bank has sufficient capital reserves to cover the risk exposure and that the aims of the risk appetite and risk management are achieved. The credit risk management framework includes the credit granting process, credit risk mitigating factors such as collateral management and guarantees, pricing, credit risk monitoring, control and reporting. Credit risk management is based on continuous credit and customer monitoring. This enables the bank to detect any non-performing loans and to react to them with the necessary measures.

S-Bank does not have securitisation positions on its balance sheet.

S-Bank utilises various credit risk models for managing and measuring credit risks and calculating impairment on financial instruments. The measurement of liabilities exposed to the credit risk is impacted by the prevailing economic conditions and the amount of expected cash flows over time. Assessment of the credit portfolio's risk exposure also entails estimating the probability of default and the amount of resulting credit losses. The measurement of impairment on financial instruments and the calculation of credit losses are described in the accounting policies used in the preparation of the financial statements (Impairment of financial instruments and Calculation of expected credit losses). Contractual changes in the financial assets and recognition of realised credit losses are also discussed in the same sections.

S-Bank's credit risk exposure and risk concentrations

Credit risk is the most significant risk type for S-Bank, as it constitutes 90% (EUR 2.4 billion) of S-Bank's total risk exposure (further information Table 5: Summary of S-Bank's capital adequacy information). Table 17 indicates the gross and total carrying amounts of the credit risk liabilities included in S-Bank's material balance sheet items. The total carrying amounts are derived by deducting expected credit losses from the gross carrying amounts. Since the expected credit losses on debt securities are recognised through the fair value reserve, their amount is not presented in Table 17. However, expected credit losses of EUR 0.9 million have been recognised on this item, as described below (see the section Quantitative and qualitative information on amounts arising from expected credit losses and exposure to credit risks). The expected credit losses on off-balance sheet items are also presented in connection with this.

The most significant credit risk exposure for S-Bank, accounting for about 65% of the on-balance sheet carrying amount, consists of receivables from the public and public sector entities. This item includes loans granted to retail customers and corporate customers. This item also creates the most significant risk exposure for S-Bank in the form of expected credit losses.

Table 17: S-Bank's credit risk exposure

BALANCE SHEET ITEMS, EUR MILLION	Gross carrying amount	Expected credit loss (ECL)	Total carrying amount
Cash and cash equivalents	468.4	0.0	468.4
Receivables from credit institutions	27.8	0.0	27.8
Receivables from the public and public sector entities	4,204.8	-12.8	4,192.0
Debt securities	1,674.1	0.0	1,674.1
Shares and interests	25.2	0.0	25.2
Derivatives	0.7	0.0	0.7
Other items	60.6	0.0	60.6
Total	**6,461.7**	**-12.8**	**6,448.9**

The concentration risk may arise from a concentration of S-Bank's exposure in a geographical area, industry, collateral type or an individual customer (single name). Concentration risks are managed within the defined limits and monitored regularly as part of the management's risk reporting. Moreover, concentration risks are assessed through stress testing in the context of capital planning (ICAAP) as a part of scenario analyses.

From a geographical perspective, the majority (about 92%) of S-Bank exposure is in Finland, followed by the other Nordic countries (about 5%). No significant changes have taken place in the geographical distribution of the exposures since 2017. S-Bank has a large customer base in terms of lending to retail customers, and the concentration risk is mitigated by the fact that the customers and collateral are dispersed across Finland and the credit portfolio is distributed across different credit products. Therefore no concentration risk arises from the geographical distribution of the exposures.

Table 18: Concentration of exposures by industry

BALANCE SHEET ITEMS, EUR MILLION	Manufacturing	Electricity, gas, heating and air conditioning supply	Construction	Wholesale and retail trade	Transport and storage	Financial and insurance	Real estate	Professional, scientific and technological activities	Administrative and support service	Public administration and defence, compulsory social security	Other industries	Unclassified	Total
Cash and cash equivalents	0.0	0.0	0.0	0.0	0.0	468.4	0.0	0.0	0.0	0.0	0.0	0.0	468.4
Receivables from credit institutions	0.0	0.0	0.0	0.0	0.0	27.8	0.0	0.0	0.0	0.0	0.0	0.0	27.8
Receivables from the public and public sector entities	0.1	33.8	1.3	24.6	0.2	69.3	654.9	4.6	0.6	0.0	6.3	3,396.5	4,192.0
Debt securities	111.2	0.0	25.2	10.0	22.8	903.8	18.5	8.0	38.4	512.9	23.5	0.0	1,674.1
Shares and interests	0.0	0.0	0.0	0.0	0.0	16.5	8.5	0.0	0.0	0.0	0.2	0.0	25.2
Derivatives	0.0	0.0	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.7
Other items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	60.6	60.6
Total	**111.3**	**33.8**	**26.5**	**34.6**	**23.0**	**1,486.5**	**681.9**	**12.6**	**38.9**	**512.9**	**30.0**	**3,457.1**	**6,448.9**

Table 18 illustrates the distribution of credit risk exposures across industry and exposure group. The table presents the industries and exposure groups deemed material. The industries and exposure groups that were not deemed material are collectively stated under "Other exposures" or in the column "Other industries total". The majority, or around 54%, of S-Bank's credit risk exposures are unclassified by industry. This column consists mostly of credit granted to retail customers. Lending to corporate customers mainly consists of financing for construction by new housing companies. After the construction stage, the credit risk is divided among the shareholders of the housing company. Therefore S-Bank does not have a concentration of risks in an individual industry. No significant changes have taken place in the distribution by industry of the exposures since 2017.

The value of collateral is monitored and updated over the lifetime of credit, and information on the characteristics of collateral is maintained in order to identify and manage potential risk concentrations. Immovable property is S-Bank's largest individual category of collateral. However, immovable property collateral is distributed across numerous individual loans and is geographically dispersed across Finland. The effects of potential changes in the value of immovable property collateral on the Group's capital adequacy are assessed as part of the scenario analyses in the capital plan. Collateral and collateral management are also discussed below (Collateral and credit enhancement).

The concentration risk may arise for S-Bank mainly from credit institutions and corporate customers. These risks are managed at the Group level by setting total limits for each individual customer and monitoring the development of large single name risks. Capital is allocated to this risk as part of S-Bank's capital plan (Table 16: Risk types in ICAAP).

Quantitative and qualitative information on amounts arising from expected credit losses and exposure to credit risks
This section discusses quantitative and qualitative information on expected credit losses and S-Bank's exposure to credit risks. The measurement of impairment on financial instruments and the calculation of credit losses are described in the accounting policies used in the preparation of the financial statements (Impairment of financial instruments and Calculation of expected credit losses). Further information is available in the relevant note to the consolidated financial statements (Note 11 to the consolidated financial statements: Expected credit losses on financial assets, guarantees and other off-balance sheet liabilities measured at amortised cost and expected credit losses and impairment losses on other financial assets).

S-Bank is exposed to risks arising from exposures held by retail and corporate customers, investing activities (debt securities) and off-balance sheet commitments. Table 19–Table 21 describe the cash amounts exposed to credit risks, excluding collateral or other credit enhancement arrangements. The information is distributed across credit risk rating categories in the table. The probability of default is the lowest in credit category 1 and the highest in credit category 7.

Credit granted to retail customers forms the largest exposure to credit risk in the form of expected credit losses. The exposures of retail customers include housing loans and consumer credit, of which the latter generate a relatively larger credit risk, as they are unsecured credit products. The exposures of corporate customers are mostly held by large companies with a good credit rating. These loans are mostly used to finance the construction of new housing companies. Since they are secured by mortgages on immovable property, these loans pose a smaller risk, which also reduces the amount of expected credit losses.

At the close of the financial period, the expected credit losses (ECL) totalled EUR 14.5 million. The expected credit losses have grown steadily during the review period in the same proportion with the increase in the credit risk exposure. The expected credit losses were within the risk appetite limits set in the credit risk strategy by the Board of Directors.

Table 19: Credit risk exposure (retail customers)

LENDING TO RETAIL CUSTOMERS, 31 DEC. 2018, EUR '000	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Category 1	2,309,351.7	231,176.7	0.0	2,540,528.4
Category 2	182,340.4	26,118.8	0.0	208,459.2
Category 3	155,453.8	28,617.5	0.0	184,071.2
Category 4	63,498.6	23,598.8	0.0	87,097.4
Category 5	181,764.0	26,872.0	0.0	208,636.0
Category 6	73,139.6	28,041.0	0.0	101,180.6
Category 7	593.1	67,313.9	0.0	67,907.0
In default	0.0	0.0	19,113.5	19,113.5
Gross carrying amount	**2,966,141.1**	**431,738.8**	**19,113.5**	**3,416,993.4**
ECL provision	1,273.5	8,108.3	2,594.7	11,976.6
Net carrying amount	**2,964,867.6**	**423,630.5**	**16,518.8**	**3,405,016.8**

Table 20: Credit risk exposure (corporate customers)

LENDING TO CORPORATE CUSTOMERS, 31 DEC. 2018, EUR '000	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Category 1	310,444.8	10,835.4	0.0	321,280.2
Category 2	175,087.5	914.9	0.0	176,002.3
Category 3	104,459.5	68.6	0.0	104,528.1
Category 4	66,996.0	805.0	0.0	67,801.0
Category 5	64,647.8	1,197.3	0.0	65,845.1
Category 6	49,134.3	14,354.4	0.0	63,488.7
Category 7	0.0	0.0	0.0	0.0
In default	0.0	0.0	14.9	14.9
Gross carrying amount	**770,769.7**	**28,175.7**	**14.9**	**798,960.3**
ECL provision	736.7	96.5	0.6	833.8
Net carrying amount	**770,033.1**	**28,079.2**	**14.3**	**798,126.6**

Table 21: Credit risk exposure (investing activities)

INVESTING ACTIVITIES, 31 DEC. 2018, EUR '000	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Category 1	771,823.6	0.0	0.0	771,823.6
Category 2	93,600.5	0.0	0.0	93,600.5
Category 3	208,278.9	0.0	0.0	208,278.9
Category 4	16,585.6	0.0	0.0	16,585.6
Category 5	153,974.9	0.0	0.0	153,974.9
Category 6	7,085.4	0.0	0.0	7,085.4
Category 7	0.0	0.0	0.0	0.0
In default	0.0	0.0	0.0	0.0
Total	**1,251,348.9**	**0.0**	**0.0**	**1,251,348.9**
ECL provision	927.1	0.0	0.0	927.1

Table 22: Credit risk exposure (off-balance sheet commitments)

OFF-BALANCE SHEET COMMITMENTS, 31 DEC. 2018, EUR '000	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Category 1	1,346,669.7	47,297.3	0.0	1,393,967.0
Category 2	100,137.8	13,707.9	0.0	113,845.7
Category 3	81,011.1	6,774.7	0.0	87,785.8
Category 4	38,525.4	11,206.2	0.0	49,731.6
Category 5	149,085.2	7,770.4	0.0	156,855.6
Category 6	21,341.5	1,436.5	0.0	22,778.1
Category 7	117.6	4,381.3	0.0	4,498.9
In default	0.0	0.0	158.6	158.6
Total	**1,736,888.3**	**92,574.4**	**158.6**	**1,829,621.3**
ECL provision	200.2	564.5	7.9	772.6

S-Bank does not have any financial instruments consisting of acquired or originated financial assets that are impaired due to the credit risk.

Changes and deferrals in the loss allowance
This section demonstrates how significant changes in the gross carrying amounts of financial instruments that occurred during the period have impacted changes in the loss allowance. Table 23 and Table 24 describe the deferrals and changes in expected credit losses per financial instrument category during the period. The tables present the reconciliation between the opening and closing balance of the loss allowance, where Table 23 contains the receivables from retail and corporate customers as well as off-balance sheet items and Table 24 contains the calculations for investing activities (debt securities).

The expected credit losses for the reporting period have grown steadily in the same proportion as the increase in the credit risk exposure. The total amount of expected credit losses (ECL) grew by EUR 361.2 thousand during the financial period. Changes in the risk parameters totalled EUR -647.4 thousand during the financial period. The item in question is impacted by changes made during the period to the calculation of the loss allowance, among other things. These changes include the introduction of the macroeconomic model, an increase in the factor applied by the management to the weight of the macroeconomic model and changes in the treatment of forbearance when classifying loans into stages, which impact the item in question. The changes are discussed in the accounting policies used in the preparation of the financial statements (Adoption of IFRS 9 on 1 January 2018 and Impairment model in accordance with IFRS 9). In other respects, the changes and deferrals that have occurred in the loss allowances are in line with the credit risk strategy and the prevailing economic conditions.

Table 23: Reconciliation of expected credit losses (receivables from customers and off-balance sheet items)

RECEIVABLES FROM CUSTOMERS AND OFF-BALANCE SHEET ITEMS, 2018, EUR '000	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL 1 Jan. 2018	**3,052.0**	**8,696.7**	**1,669.6**	**13,418.3**
Transfers from stage 1 to stage 2	-197.3	3,911.9	0.0	3,714.6
Transfers from stage 1 to stage 3	-24.7	0.0	958.9	934.3
Transfers from stage 2 to stage 1	131.6	-2,620.0	0.0	-2,488.3
Transfers from stage 2 to stage 3	0.0	-654.1	792.6	138.5
Transfers from stage 3 to stage 1	0.6	0.0	-72.0	-71.3
Transfers from stage 3 to stage 2	0.0	26.7	-39.8	-13.1
Changes in the risk parameters	-376.7	-251.3	-175.5	-803.5
Increases due to origination and acquisition	420.1	1,069.4	84.4	1,573.9
Decreases due to derecognition	-773.7	-578.5	-269.8	-1,621.9
Decrease in allowance account due to write-offs	-21.6	-831.6	-345.1	-1,198.3
Net change in ECL	-841.5	72.5	933.7	164.6
ECL 31 Dec. 2018	**2,210.4**	**8,769.3**	**2,603.2**	**13,582.9**

Table 24: Reconciliation of expected credit losses (investing activities)

INVESTING ACTIVITIES, 2018, EUR '000	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL 1 Jan. 2018	**730.6**	0.0	0.0	**730.6**
Transfers from stage 1 to stage 2	0.0	0.0	0.0	0.0
Transfers from stage 1 to stage 3	0.0	0.0	0.0	0.0
Transfers from stage 2 to stage 1	0.0	0.0	0.0	0.0
Transfers from stage 2 to stage 3	0.0	0.0	0.0	0.0
Transfers from stage 3 to stage 1	0.0	0.0	0.0	0.0
Transfers from stage 3 to stage 2	0.0	0.0	0.0	0.0
Changes in the risk parameters	156.1	0.0	0.0	156.1
Increases due to origination and acquisition	171.1	0.0	0.0	171.1
Decreases due to derecognition	-130.8	0.0	0.0	-130.8
Decrease in allowance account due to write-offs	0.0	0.0	0.0	0.0
Net change in ECL	196.5	0.0	0.0	196.5
ECL 31 Dec. 2018	**927.1**	**0.0**	**0.0**	**927.1**

The recognition of realised credit losses is discussed above in the accounting policies used for the preparation of the consolidated financial statements (Impairment of financial instruments). For S-Bank, the largest amount of credit losses is generated by unsecured credit, which is recognised as a credit loss at an early stage (within 4–7 months after the receivable is past due). Early recognition as a credit loss naturally reduces the amount of expected credit losses. However, collection agencies are still applying active measures to collect these debts, which will eventually reduce the amount of credit losses recognised on the income statement through recoveries. During the reporting period, a total of EUR 12.2 million in financial assets were written off as realised credit losses that are still subject to collection measures.

The note to the consolidated income statement presents numerical information on expected credit losses and realised credit losses (Note 11 to the consolidated financial statements: Expected credit losses on financial assets, guarantees and other off-balance sheet liabilities measured at amortised cost and expected credit losses and impairment losses on other financial assets). During the period under review, EUR 13.3 million was recognised as realised credit losses on the income statement. Reversals recorded amounted to EUR 4.7 million.

Collateral and credit enhancement

S-Bank uses collateral, guarantees and derivatives to manage credit risks. As credit enhancement arrangements, they also affect the granting of secured credit. The Board of Directors of S-Bank decides on the accepted collateral types and their valuation principles.

S-Bank generally requires comprehensive collateral in order to mitigate the credit risk in all types of credit, excluding credit cards and unsecured credit granted to retail customers. The methods specified in the credit granting guidelines are used to ensure that collateral is acceptable, binding, comprehensive and cashable.

The guiding principle is that credit may only be granted to customers with an adequate repayment ability, regardless of the value of possible collateral. Depending on its type, collateral is measured at market value or fair value. Based on the principle of prudence, a haircut is applied to the value of collateral in order to mitigate credit risk, and the size of this haircut depends on several criteria. The values of immovable property collateral are monitored and updated regularly over the lifetime of credit. Expected credit loss calculations take into account the effect of collateral and the uncertainties and costs associated with its realisation through the parameters indicating the Loss Given Default (LGD).

S-Bank uses normal guarantees, such as government guarantees or guarantee commitments given by a natural or legal person. Guarantees transfer the credit risk from the counterparty to the guarantor. The risk-mitigating factors used when calculating the credit risk capital adequacy requirement include immovable property collateral and unfunded credit protection (such as government guarantees for student, housing and housing company loans and S-Asuntotakaus guarantees provided by an external service provider for retail customers' housing loans).

No significant changes occurred during 2018 in the quality of the collateral held by S-Bank.

Table 25 presents quantitative information on collateral held for credit-impaired financial assets (stage 3). Off-balance sheet exposures are included in each respective financial asset item. The collateral values of stage 3 secured exposures covers the gross carrying amounts of these exposures.

Table 25: Credit-impaired exposures and their collateral

CREDIT-IMPAIRED FINANCIAL ASSETS, EUR '000	Gross carrying amount	ECL provision	Net carrying amount	Fair value of collateral
Lending to retail customers	19,113.5	2,602.6	16,510.9	21,868.5
Lending to corporate customers	14.9	0.6	14.3	300.0
Credit-impaired financial assets, total	**19,128.4**	**2,603.2**	**16,525.2**	**22,168.5**

The calculation of expected credit losses use the value zero for the Loss Given Default (LGD) parameter in secured investment account credit limits and in loans secured by mortgages on immovable property if the amount of outstanding capital is less than 50% of the fair value of the collateral given for the credit. In these cases, no loss allowance is recorded for the credit.

The use of derivatives for managing credit risks is discussed in the next section (Counterparty credit risks).

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 unlikely to meet its contractual obligations when 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 derivatives solely for risk management purposes.

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. The management of the market risk related to derivative positions is described below (Market risks).

S-Bank enters into ISDA (International Swaps and Derivatives Association) and CSA (Credit Support Annex) agreements with its counterparties in derivative contracts. These agreements reduce the counterparty credit risk. The agreements specify the general terms and conditions related to derivatives and the collateral application methods between the counterparties. When calculating the maximum amount of 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.

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 a derivative contract. The risk-weighted exposure of the derivatives (EUR 1.6 million) is used to determine the Pillar 1 minimum capital requirement for counterparty credit risk (EUR 0.1 million), which is taken into account as part of the minimum capital requirement for credit risk.

Derivative contracts also involve the risk of a credit valuation adjustment (CVA), which refers to an adjustment of the fair value (or price) of derivative contracts to account for the counterparty credit risk. The CVA includes the counterparty's credit margins and market risk factors, which influence the valuation of derivatives and, thus, also the risk. The risk-weighted exposure amounts related to the CVA risk amounted to EUR 3.1 million at the close of the period, and the Pillar 1 minimum capital requirement for this risk was EUR 0.3 million.

Monitoring and reporting

The Banking business is responsible for credit risk management and the regular monitoring of the balance sheet and the credit portfolio. Reports are used to monitor the fulfilment of set objectives, the materialisation of risk levels, the distribution of the credit portfolio across different credit categories, the regional distribution of credit, risk concentrations, collateral values, realised margins, the performance of credit rating models, the consistency of the credit management processes, and non-performing loans and expected credit losses.

In addition, the Risk Control function oversees that the principles, limits and decision making authorisations set in the risk and credit risk strategy are observed in business operations. The function prepares regular reports on S-Bank's credit risk profile and on the success of risk management to S-Bank's management, the Risk Committee, the Risk and Audit Committee and the Board of Directors.

Operational risks

S-Bank's operational risk profile is materially impacted by system failures and disruptions, fraud and possible deficiencies in services procured from external service providers. The realised losses attributable to operational risks in 2018 were very low (EUR 633 thousand) in comparison to the regulatory capital requirement reserved for them. In 2018, S-Bank became the first bank in Finland to achieve the Payment Card Industry Data Security Standard (PCI DSS) status. PCI DSS provides technical and operational requirements designed to protect account data, which are implemented in S-Bank's operational processes in accordance with the security strategy.

Operational risk refers to the possibility of losses arising from unclear or inadequate processes, deficient systems, actions by the personnel or external factors. Legal and reputational risks are included in operational risks. The consequences of realised operational risks may include financial losses or a deterioration in S-Bank's reputation and its esteem and trustworthiness in the eyes of the public.

The primary objectives of S-Bank's operational risk management are to manage the reputational risk and to secure business continuity and compliance with external regulation in both the short and the long term. Operational risk management ensures that S-Bank´s values and strategy are implemented and good banking and lending practices are observed. The risk management process covers all material operational risks related to business operations.

To support the achievement of S-Bank's objectives, risk management is carried out throughout the organisation using the following measures:

- Identifying, measuring, monitoring and reporting all of S-Bank's material operational risks and their effects on the risk capacity and risk appetite.
- Determining methods for risk management and ensuring that they are effective, appropriate, cost-efficient and adequate, while accounting for S-Bank's risk appetite and internal control measures.
- Integrating risk management into S-Bank's management system, decision making and operating methods.

When identifying and assessing operational risks, S-Bank also accounts for the risks arising from the outsourcing of operations, as well as considering compliance risks, which consist of risks related to money laundering, terrorist financing and compliance with external regulation and internal policies. S-Bank's operational risk management also involves various procedures that aim to identify, assess and manage risks. New products and services are approved in accordance with a specific approval procedure before they are adopted or provided to the customers. A similar procedure is used to approve new counterparties and contractual partners before S-Bank starts cooperating with them. Continuity plans are prepared against major disturbances in operations. Realised operational risks are managed with a procedure for managing deviations. S-Bank prepares for potential operational risks with insurance against damage caused by misuse or criminal activity and damage to property, for example.

The Operational Risk Control function, which is independent of S-Bank's business operations, supervises and assesses the scope, adequacy and effectiveness of S-Bank's operational risk management in a comprehensive manner. The Operational Risk Control function supports the implementation of risk management within the organisation and ensures that all risks are identified and assessed and that appropriate and adequate procedures are in place for managing risks. The function also maintains and develops methods for measuring, assessing and reporting risks, and supports the business units in identifying and managing risks.

Monitoring and reporting

S-Bank monitors and supervises its operations continuously on various levels of the organisation. Every employee is responsible for the implementation of risk management within their area of responsibility and for reporting any deviations relating to operational risks.

S-Bank employs an operating model and reporting system for managing realised operational deviations. A notification is made for situations or events that hamper ordinary operations or violate regulatory requirements or S-Bank's guidelines. Actions by contracting parties or subcontractors that adversely affect S-Bank's operations are also considered deviations. The notification must describe the reasons leading to the event and assess the impacts of the event and the possible costs arising from it. If necessary, plans are made and procedures are determined for preventing similar events in the future. Moreover, S-Bank has an internal whistleblowing channel through which employees can report violations confidentially.

The Operational Risk Monitoring function reports regularly on the most significant realised operational risks and on the level of risk management at S-Bank to the Board of Directors, the Risk and Audit Committee, the Risk Committee, the CEO and the Group Management Team, as well as to the authorities. The Compliance function supervises compliance with regulations and the adequacy of various procedures, in addition to providing recommendations for development measures and supervising the implementation of these measures.

Market risk

S-Bank's market risks are mainly comprised of the spread risk and the interest rate risk in the banking book, which are attributable to the structural interest rate risk in the balance sheet and the investment operations of the Treasury unit. Other market risks in S-Bank's banking book, which include equity risks, real estate risks and exchange rate risks, are insignificant. The market risk profile is managed with a conservative risk appetite.

In general, market risk refers to the impact of fluctuation in the prices of securities, in interest rates and currency exchange rates and in the market values of balance sheet items on the bank's profits and balance sheet. S-Bank's market risks mainly consist of the interest rate risk in the banking book and the interest rate risk attributable to the investment activities of the Treasury unit. Additionally, the Group's banking book also includes equity, foreign exchange and real estate risks to a very small extent. S-Bank does not have a trading book or a trading portfolio, and for this reason S-Bank is not subject to a Pillar 1 capital requirement for market risk. As S-Bank's market risks arise from the banking book, the aforementioned capital requirement is included in the regulatory capital requirement for credit risk.

In the Internal Capital Adequacy Assessment Process (ICAAP) for Pillar 2 capital, S-Bank accounts for the aforementioned risk types that are identified in the banking book, in addition to considering the risk arising from the credit risk component in debt securities, which is called the spread risk. Thus S-Bank's Pillar 2 market risk as a whole consists of the interest rate risks in the banking book and the spread, equity, foreign exchange and real estate risks. Moreover, diversification benefits between the risk types 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 aim of S-Bank's market risk management is to manage unexpected changes in the bank's profits and capital adequacy as a result of fluctuations in market prices and to optimise the return on equity within the scope of the risk appetite. Monitoring and prediction of the external business environment are particularly emphasised in market risk management. 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. Market risk concentrations are managed with limits that are set at the Group level and the business unit level and determined as market risk-sensitivities in monetary terms. Internal transfer pricing is used as an aid in market risk management.

Market risks are reviewed in terms of present value, income and market price risks, which measure risks from different perspectives. The market price risk always relates to the market price sensitivity of balance sheet items and derivatives, as well as to the effects of market price fluctuations on fair value. Market risks are measured by means of allocation, sensitivity figures, stress tests and scenario analyses.

The Treasury unit is tasked with the day-to-day management of the Group's market risks within the scope of its authorisations. The Treasury unit sets targets and takes risk in its investing activities within the framework of the risk strategy and risk appetite approved by the Board of Directors of S-Bank.

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 business and as the interest rate risk of debt securities in the Treasury unit's investment portfolio.

The structural interest rate risk in the Banking business arises from differences between the interest rate fixings and maturities of receivables and liabilities, which is why the future net interest income of the Banking business (Net interest income (NII) risk/earnings-based risk) and the net present value of the balance sheet (economic value (EV) based risk) are not entirely foreseeable. The NII risk and the EV risk measure risks from different perspectives. The EV risk measures the net present value of liabilities and receivables on the balance sheet, i.e. the theoretical economic value of equity. The earnings-based risk is used to simulate the effects of the materialisation of risks on S-Bank's profits within a set period of time.

In addition to the structural interest rate risk arising from deposit and lending operations, S-Bank is exposed to interest rate risks from the Treasury unit's investing activities. An interest rate risk arises when the values of debt securities in a portfolio change as a result of fluctuations in market rates (price risk). The price risk relates to the market price sensitivity of balance sheet items, as well as to the effects of market price fluctuations 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. Table 26 presents the composition of the Treasury unit's investment portfolio.

Table 26: Composition of Treasury portfolio

31 DEC. 2018, EUR MILLION	Exposures	Risk-weighted exposure amounts (RWAs, credit risk, standard method)	RWA density
Exposure classes			
Central governments or central banks	463.2	0.0	0.0%
Regional governments or local authorities	484.3	0.0	0.0%
Public sector entities	5.0	1.0	20.0%
Institutions	420.3	128.2	31.5%
Corporates	293.3	293.2	100.0%
Covered bonds	465.3	46.5	10.0%
Collective investment undertakings	24.7	24.7	100.0%
Equity exposures	0.4	0.4	100.0%
Total	**2,156.5**	**494.1**	

31 DEC. 2017, EUR MILLION	Exposures	Risk-weighted exposure amounts (RWAs, credit risk, standard method)	RWA density
Exposure classes			
Central governments or central banks	516.3	0.0	0.0%
Regional governments or local authorities	264.0	0.0	0.0%
Public sector entities	7.1	1.4	20.0%
Institutions	384.3	117.9	31.8%
Corporates	307.6	310.8	101.0%
Covered bonds	360.6	36.1	10.0%
Collective investment undertakings	30.7	30.7	100.0%
Equity exposures	0.2	0.2	100.0%
Total	**1,870.9**	**497.1**	

The interest rate risk is managed by planning the balance sheet structure, such as the maturity and interest rate fixings of assets and liabilities, and with interest rate derivatives. The interest rate risk exposure is also described by the following table, which presents the breakdown of financial assets and liabilities by interest rate fixing. In the interest rate fixings of S-Bank's liabilities and receivables, the largest imbalance causing an EV risk is in the 0–1 month maturity portfolio, because S-Bank's main source of financing is based on non-maturity deposits, for which the conservative maturity of one month is applied at the computational interest rate reset date of these deposits.

Table 27: Breakdown of financial assets and liabilities by interest rate fixing

		a	b	c	d	e	f
FINANCIAL ASSETS AND LIABILITIES, 31 DEC. 2018, EUR MILLION		**0–3 months**	**3–12 months**	**1–5 years**	**5–10 years**	**More than 10 years**	**Total**
1	Cash and cash equivalents	468.4	0.0	0.0	0.0	0.0	468.4
2	Debt securities eligible for refinancing with central banks	188.8	68.4	661.0	84.3	0.0	1,002.5
3	Receivables from credit institutions	27.8	0.0	0.0	0.0	0.0	27.8
4	Receivables from the public and public sector entities	1,760.6	2,348.5	59.8	17.7	0.3	4,187.0
5	Debt securities	318.4	164.3	165.6	17.1	0.0	665.4
6	Derivatives (assets)	0.6	0.0	0.0	0.0	0.0	0.6
7	**Financial assets, total**	**2,764.8**	**2,581.2**	**886.5**	**119.1**	**0.3**	**6,351.9**
8	Liabilities to credit institutions	0.3	0.0	0.0	0.0	0.0	0.3
9	Liabilities to the public and public sector entities	5,879.5	0.8	3.4	0.0	0.0	5,883.8
10	Bonds issued to the public	0.0	0.0	0.0	0.0	0.0	0.0
11	Subordinated debts	0.0	50.0	0.0	0.0	0.0	50.0
12	Derivatives (liabilities)	4.6	2.1	6.4	0.0	0.0	13.1
13	**Financial liabilities, total**	**5,884.5**	**52.9**	**9.8**	**0.0**	**0.0**	**5,947.2**
14	**Financial assets and liabilities, total**	**-3,119.7**	**2,528.3**	**876.7**	**119.1**	**0.3**	**404.7**

	FINANCIAL ASSETS AND LIABILITIES, 31 DEC. 2017, EUR MILLION	a 0–3 months	b 3–12 months	c 1–5 years	d 5–10 years	e More than 10 years	f Total
1	Cash and cash equivalents	493.0	0.0	0.0	0.0	0.0	493.0
2	Debt securities eligible for refinancing with central banks	261.0	62.7	406.2	130.6	0.0	860.5
3	Receivables from credit institutions	25.7	0.0	0.0	0.0	0.0	25.7
4	Receivables from the public and public sector entities	1,817.6	1,780.8	103.5	18.4	4.6	3,724.9
5	Debt securities	176.7	88.0	175.0	24.6	0.0	464.3
6	Derivatives (assets)	0.8	0.0	0.2	0.0	0.0	1.0
7	**Financial assets, total**	**2,774.9**	**1,931.5**	**684.8**	**173.6**	**4.6**	**5,569.4**
8	Liabilities to credit institutions	10.1	0.0	0.0	0.0	0.0	10.1
9	Liabilities to the public and public sector entities	5,043.2	2.1	2.2	0.0	0.0	5,047.5
10	Bonds issued to the public	0.0	0.0	0.0	0.0	0.0	0.0
11	Subordinated debts	0.0	50.0	0.0	0.0	0.0	50.0
12	Derivatives (liabilities)	2.4	3.3	0.6	0.0	0.0	6.3
13	**Financial liabilities, total**	**5,055.7**	**55.3**	**2.8**	**0.0**	**0.0**	**5,113.9**
14	**Financial assets and liabilities, total**	**-2,280.9**	**1,876.2**	**682.0**	**173.6**	**4.6**	**455.5**

The Board of Directors has set a maximum amount for S-Bank's economic value risk, net interest income risk and price risk. The interest rate risk in the Banking business is monitored with an interest rate gap analysis, in which liabilities and receivables are grouped over time periods on the basis of their interest rate fixings. The impacts of changes in the interest rate curves on the interest rate risk exposure of S-Bank are monitored daily with the net present value method (price risk) for balance sheet items susceptible to market price fluctuations and monthly using the earnings-based risk and EV methods.

The table below presents the interest rate risk stress in the banking book, describing the parallel change of the market interest rate curve applied to a financing or credit agreement at all interest rate curve maturities.

Table 28: Sensitivity analysis for the interest rate risk in the banking book

NET INTEREST INCOME (NII) RISK, EUR MILLION	31 Dec. 2018	31 Dec. 2017
+100 basis points	27.7	27.0
-100 basis points	-7.7	-7.7

ECONOMIC VALUE (EV) RISK, EUR MILLION	31 Dec. 2018	31 Dec. 2017
+100 basis points	-31.0	-25.6
-100 basis points	102.5	75.6

Table 29: Treasury portfolio price risk

PRICE RISK, TREASURY PORTFOLIO, EUR MILLION	31 Dec. 2018			31 Dec. 2017		
Korkoshokki	Portfolio	Sensitivity	Sensitivity, %	Portfolio	Sensitivity	Sensitivity, %
+100 basis points	1,952.1	-17.4	-0.9%	1,870.9	-16.4	-1.1%
-100 basis points		18.0	0.9%		17.0	1.2%

Spread risk

The operations of the Treasury unit are also exposed to the spread risk arising from fixed-rate and floating-rate bonds in the portfolio. The spread risk is related to a change in the market's general opinion of the creditworthiness of an investment instrument's issuer or to a shift in the general market sentiment towards investments that involve a credit risk, due to which the investments depreciate in value. The amount of the spread risk is monitored regularly as part of day-to-day interest rate risk reporting.

The spread risk is assessed daily in accordance with S-Bank's internal market risk model, based on historical observations of stressed volatility levels for credit risk premiums. The market risk model applies a 12-month observation horizon and a 99.5% confidence level. The internal Pillar 2 capital requirement for spread risk is also calculated based on the internal market risk model.

The Board of Directors has set a maximum amount for the spread risk. Counterparty limits are defined by assessing the credit risk of counterparties, mainly on the basis of credit ratings provided by credit rating agencies. Investing activities are cautious, and assets are invested in liquid securities with a good credit rating.

Equity, foreign exchange and real estate risks and other market risks

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

Real estate risks arise as part of S-Bank's investing activities, and they are mainly intended to diversify the market risks in the portfolio. Real estate risks are primarily managed with allocation limits, and the risk level is kept low.

S-Bank is exposed to foreign exchange risks only when it invests in bonds that are denominated in foreign currencies as part of its investing activities, or in connection with trading denominated in foreign currencies carried out by customers, or in connection with foreign currency accounts. The permitted currencies are specified in the foreign exchange risk limits and the risks are primarily hedged.

As part of its investing activities, S-Bank is exposed to indirect market risks through fund investments in forest real estate. This risk is kept extremely moderate by means of investment limits.

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.

The Risk Control function also monitors market risk exposures on a daily basis. In addition, the Risk Control function supervises the management of S-Bank's market risks and the effectiveness and use of the applied market risk models. 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.

Liquidity risks

S-Bank is exposed to liquidity risks from lending to customers and in funding and Treasury operations. S-Bank's liquidity position is strong, and the liquidity risk appetite is conservative. The liquidity position is maintained through active risk management measures and continuous monitoring. The main objective of the Treasury unit's investing activities is to ensure that S-Bank's liquidity position is at all times above the minimum regulatory requirements and the minimum internal targets.

The liquidity risk is defined as the risk of S-Bank being unable to meet its payment obligations when they are due or being forced to fund these obligations at a higher-than-normal cost. The liquidity risk also refers to the uncertainty arising from the difference between the short-term inflow and outflow of cash, as well as to the structural financing risk, which is the uncertainty related to the financing of longer-term lending. The reasons behind the materialisation of a liquidity risk may be specific to the bank or to the market. The key risk factors in S-Bank's liquidity risk are:

- a withdrawal of deposits in different customer segments
- a sudden increase in the utilisation rate of (committed) credit lines and limits
- an increase in S-Bank's collateral requirements
- a decrease in the mark-to-market prices of securities in the liquidity reserve

S-Bank measures its liquidity coverage ratio (LCR) in accordance with parameters determined by the authorities and with an internal liquidity risk model and parameters. The limits and calculation parameters applied in internal modelling are approved by the Board of Directors of S-Bank and they are in line with the risk appetite defined in the risk strategy. The framework of limits is used to ensure that the liquidity position is continuously above the minimum regulatory requirements and the internal target levels. S-Bank's liquidity strategy also includes a liquidity continuity plan, which determines the measures needed for preserving an adequate liquidity position in a stressed market environment.

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 over time periods according to their maturity. This distribution is presented in the notes to the consolidated financial statements (Note 30: Breakdown of financial assets and liabilities according to maturity). The distribution of financial liabilities based on contractual maturities is weighted towards the 0–1-month maturity band due to the fact that S-Bank's funding is based on deposits by retail customers. From a liquidity risk perspective, however, these deposits are a stable and permanent source of funding, as according to statistics on depositor behaviour their maturity is considerably 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.

S-Bank's internal modelling of the liquidity risk is a key part of the annual Internal Liquidity Adequacy Assessment Process (ILAAP), in which S-Bank's liquidity risk profile is assessed comprehensively from both a qualitative and quantitative perspective. As part of the process, S-Bank reassesses its liquidity risk profile and updates the internal model for measuring liquidity risk and adequacy and the internal liquidity risk management guidelines. In the same process, scenario analyses are used to prepare forecasts for changes in S-Bank's liquidity position in various scenarios affecting the balance sheet and the external operating environment. The results of the process are reported to the management and Board of Directors of S-Bank. Liquidity stress tests are discussed in the section Capital and liquidity management.

Liquidity risk management is based on ensuring that the amount of S-Bank's unencumbered, liquid assets exceed the liquidity net outflows in normal and stressed operating environments in the short term (0–2 days), medium term (0–30 days) and long term (more than 30 days).

Liquidity risk concentrations arise from concentrations in the customer segments with deposits and financing limits and in 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 counterparty-specific limits and requirements on the structure of the buffer in compliance with the LCR regulations.

Liquidity management also includes collateral management, i.e. ensuring that S-Bank has an adequate number of eligible liquid securities at its disposal to cover the collateral required by various business operations. Moreover, minimum requirements for liquidity management include meeting the central bank's minimum reserve obligation and the regulatory Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) requirements.

The management of S-Bank's liquidity risk has been delegated to the Treasury unit. The liquidity risk is transferred from the business units to the Treasury unit in accordance with the principles of internal transfer pricing. The Treasury unit manages the liquidity buffers in accordance with the authorisations given to it. The unit is responsible for the operational execution of the risk appetite pursuant to the risk strategy with regard to the liquidity risk. Monitoring and prediction of the external business environment are emphasised in liquidity risk management. Applying a stricter liquidity risk appetite is appropriate if liquidity in the market is considered stressed. The LCR is used to monitor S-Bank's liquid assets and to manage the liquidity risk. The NSFR, a longer-term liquidity indicator, is used to measure structural liquidity risk in the Banking business.

S-Bank's liquidity risk position

S-Bank's liquidity position is extremely strong. Table 30 demonstrates the change in the liquidity buffer based on year-end information. The figures account for the valuation haircuts applied to balance sheet items. S-Bank's liquidity portfolio pursuant to the LCR requirements, which consists of unencumbered, high-quality liquid assets, amounted to EUR 1,4 billion at year-end. Level 1 high quality assets amounted to 84% and level 2 high quality assets to 16% of total liquidity portfolio market value. Net outflows totalled EUR 886 million, and the LCR was 156% (163). No significant changes took place in the allocation of S-Bank's liquidity buffer during the reporting period.

Table 30: Liquidity (LCR) by balance sheet item

LIQUIDITY COVERAGE RATIO (LCR), EUR MILLION	31 Dec. 2018		31 Dec. 2017	
	Market value	Buffer value	Market value	Buffer value
Level 1a	**955**	**955**	**809**	**809**
Assets from regional governments or local authorities	494	494	294	294
Funds from central administrations	21	21	22	22
Central bank reserves available for withdrawal	440	440	493	493
Level 1b	**259**	**241**	**219**	**204**
Extremely high-quality covered bonds	259	241	219	204
Level 2a	**209**	**178**	**126**	**107**
High-quality covered bonds (third country, CQS1)	123	105	56	48
High-quality covered bonds (CQS2)	81	69	62	53
Corporate bonds (CQS1)	5	4	7	6
Level 2b	**25**	**12**	**13**	**7**
Corporate bonds (CQS2 and CQS3)	25	12	13	7
Total	**1,448**	**1,386**	**1,167**	**1,127**
Liquidity outflows, total		932		753
Liquidity inflows, total		46		61
Liquidity Coverage Ratio (%)		156%		163%

Figure 11: Composition of the LCR buffer (market value), including CRR haircuts

Figure 12: Composition of the LCR buffer (buffer value), including CRR haircuts

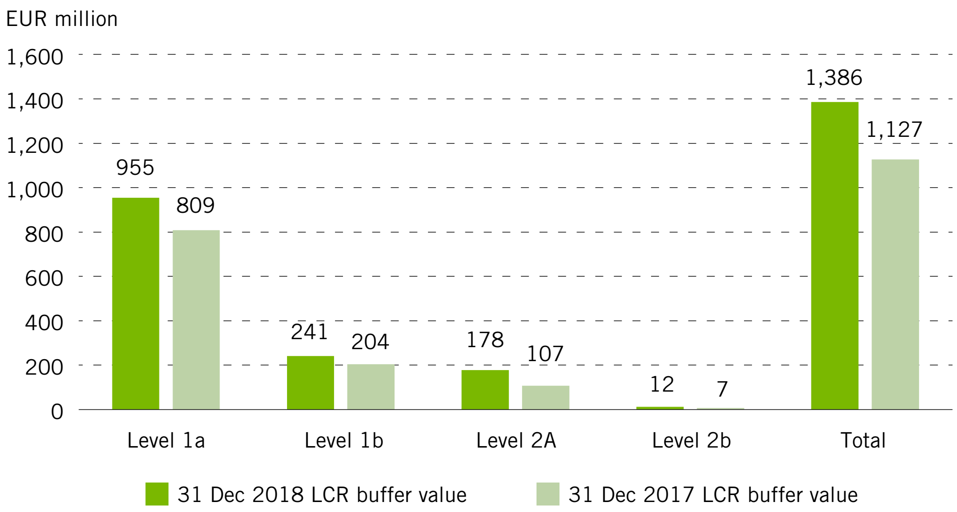
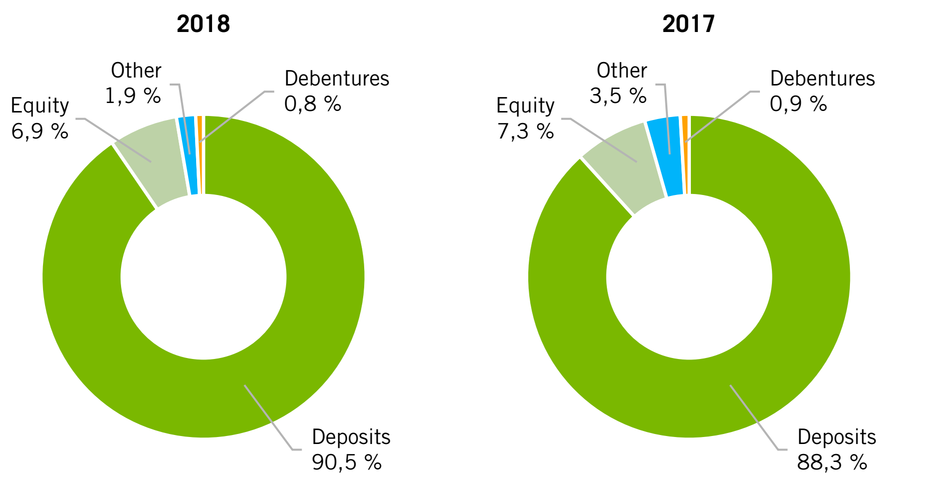


Figure 11 and Figure 12 illustrate the change in the liquidity buffer based on year-end information from the perspective of market value and buffer value.

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

Figure 13: Structure of S-Bank's funding, EUR million

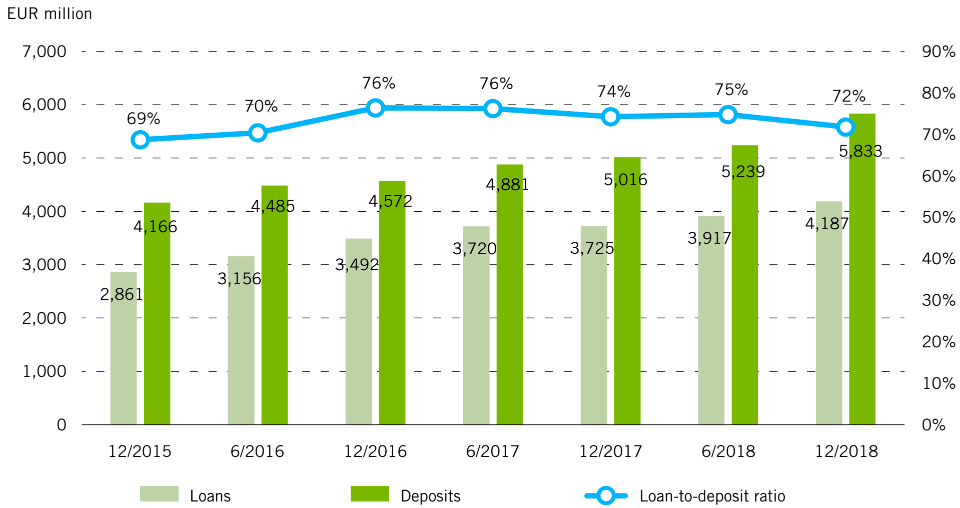


The Net Stable Funding Ratio (NSFR) measures the adequacy of the bank's structural long-term (1 year) funding. The NSFR is defined as the available stable funding relative to the required stable funding. Table 31 presents the development of the NSFR.

Table 31: Net Stable Funding Ratio (NSFR)

NET STABLE FUNDING RATIO (NSFR), EUR MILLION	31 Dec. 2018	31 Dec. 2017
	Buffer value	Buffer value
Available stable funding, total	5,296.6	4,645.4
Required stable funding, total	3,631.0	3,212.1
Net Stable Funding Ratio (NSFR)	145.9%	144.6%

Kuvio 14: Anto- ottolainaussuhteen kehittyminen



The total amount of the available stable funding was nearly 1.5 times the required stable funding on 31 December 2018. The ratio remained relatively stable compared to 2017.

Another key indicator of adequate long-term funding in the Group's business model is the ratio between lending and borrowing, which was 72% (74) on 31 December 2018. This ratio describes and forecasts the need for other sources of funding and takes into consideration short-term liquidity requirements. The stable funding risks at S-Bank are related to the funding of an increase in lending with deposits from the public. The ratio between lending and borrowing and the development of the retail customer deposit portfolio, which is crucial for S-Bank's funding, are monitored continuously (see Figure 14). The Treasury unit's liquidity strategy and the plan for restoring liquidity, which is included in the strategy, specify the measures that must be taken if the ratio between lending and borrowing exceeds specific thresholds.

In 2018, S-Bank began preparations for expanding its funding structure in order to ensure the availability of market-based long-term funding at competitive pricing in the coming years.

Monitoring and reporting

The Treasury unit and the Risk Control function monitor and assess S-Bank's liquidity position daily on the basis of the reports submitted to them, and they report on the situation to S-Bank's management on a regular basis. In addition, the Risk Control function assesses the management of S-Bank's liquidity risks as well as the effectiveness and use of the liquidity risk models. The key aspects of the liquidity risk 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 over time periods according to their maturity. This distribution is presented in the notes to the consolidated financial statements (Note 30: Breakdown of financial assets and liabilities according to maturity).

NOTES TO THE CONSOLIDATED INCOME STATEMENT

The information in the notes to the consolidated income statement is presented in thousands of euros.

Note 3 to the consolidated financial statements: Net interest income

	2018	2017
Interest income		
Receivables from credit institutions	-299	-98
Receivables from the public and public sector entities	72,090	69,306
Debt securities	9,111	11,567
Derivatives	200	400
Other interest income	4	0
Total	**81,106**	**81,175**
Interest income from stage 3 financial assets	1,632	
Interest expenses		
Liabilities to credit institutions	-364	-365
Liabilities to the public and public sector entities	-4,073	-3,603
Derivatives and other liabilities held for trading	-1,837	-3,177
Subordinated debts	-838	-731
Other interest expenses	-31	-33
Total	**-7,142**	**-7,910**

Note 4 to the consolidated financial statements: Return on equity investments

	2018	2017
Dividend income from investments classified as financial assets held for trading	-	19
Dividend income from associated companies	0	40
Total	**0**	**58**

Note 5 to the consolidated financial statements: Fee and commission income and expenses

	2018	2017
Fee and commission income		
From lending	29,316	25,455
From borrowing	3,341	3,686
From payment transactions	8,946	8,386
From funds	52,872	51,444
From wealth management	1,514	1,402
From legal duties	288	210
From securities brokerage	4,386	7,674
From insurance brokerage	527	521
From issuance of guarantees	119	-107
From other activities	2,483	1,940
Total	**103,790**	**100,612**
Fee and commission expenses		
From paid commission fees	-41	-38
Other	-42,713	-41,375
Total	**-42,754**	**-41,413**

Note 6 to the consolidated financial statements: Net income from securities and currency operations

2018	Capital gains and losses (net)	Changes in fair value (net)	Total
From debt securities	61	-11	50
From shares and interests	2,171	518	2,689
From derivatives	-419	50	-369
Net income from securities trading, total	**1,813**	**557**	**2,370**
Net income from currency operations	0	-207	-207
Net income from securities and currency operations	**1,813**	**350**	**2,162**

2017	Capital gains and losses (net)	Changes in fair value (net)	Total
From debt securities	-139	-29	-168
From shares and interests	153	15	168
From derivatives	-1,162	601	-561
Net income from securities trading, total	**-1,148**	**587**	**-561**
Net income from currency operations	0	166	166
Net income from securities and currency operations	**-1,148**	**753**	**-395**

Note 7 to the consolidated financial statements: Net income from hedge accounting

	2018	2017
Net result from hedging instruments	-7,252	3,657
Net result from hedged items	6,881	-4,024
Total	**-371**	**-367**

Note 8 to the consolidated financial statements: Other operating income

	2018	2017
Other income	14,813	15,728

Note 9 to the consolidated financial statements: Other operating expenses

	2018	2017
Lease expenses	-4,257	-4,560
Other expenses	-1,605	-1,422
Total	**-5,862**	**-5,982**
Auditor's fees		
Audit	-326	-345
Tax consultancy	-14	-8
Other services	-118	-94
Total	**-458**	**-447**
Payments to the Financial Stability Authority		
Financial stability contribution	-814	-449
Deposit guarantee fund contribution	-3,317	-4,052
Administrative fee	-32	-31
Total	**-4,163**	**-4,533**

The Deposit Guarantee Fund reimbursed the deposit guarantee contribution collected for the Financial Stability Fund and the Financial Stability Fund reimbursed the stability contribution, which had replaced the bank tax. These did not result in a profit or loss for S-Bank. The funds accumulated in the old deposit guarantee fund and the bank tax paid in previous years is estimated to cover the contributions paid to the Financial Stability Authority until 2020.

Note 10 to the consolidated financial statements: Depreciation and impairment on tangible and intangible assets

	2018	2017
Depreciation according to plan		
Intangible assets	-9,171	-7,912
Tangible assets	-94	-271
Total	**-9,265**	**-8,183**

Depreciation according to plan includes EUR 1.2 million in depreciation related to the scrapping of ICT systems.

Note 11 to the consolidated financial statements: Expected credit losses on financial assets, guarantees and other off-balance sheet liabilities measured at amortised cost, and expected credit losses and impairment losses on other financial assets

31 Dec. 2018	Contract-specific expected credit losses, gross *	Reversals **	Reversals recognised in the income statement	Realised credit losses recognised in the income statement
Expected credit losses on financial assets, guarantees and other off-balance sheet commitments measured at amortised cost				
Receivables from credit institutions	24	0	0	0
Receivables from the public and public sector entities	-593	1,198	4,719	-13,306
Commitments given on behalf and in favour of customers	404	0	0	0
Total	**-165**	**1,198**	**4,719**	**-13,306**
Expected credit losses and impairment losses on other financial assets, total				
Expected credit losses on financial assets measured at fair value through other comprehensive income in accordance with IFRS 9.4.1.2A	-197	0	0	0
Total	**-197**	**0**	**0**	**0**
Total expected credit losses	**-361**	**1,198**	**4,719**	**-13,306**

* Contract-specific expected credit losses (ECL) recognised in the income statement during the reporting period. There are no group-specific ECLs at the moment.

** Expected credit losses as at the opening balance sheet on receivables recognised as realised credit losses during the reporting period

31 Dec. 2017, Impairments on credit, other commitments and other financial assets	Contract-specific realised credit losses, gross	Contract-specific impairments, gross	Group-specific impairments, gross	Allowances	Recognised in the income statement
Receivables from the public and public sector entities	-11,214	485	3,762	5,277	-627

NOTES TO THE CONSOLIDATED BALANCE SHEET

The information in the notes to the consolidated balance sheet is presented in thousands of euros.

Note 12 to the consolidated financial statements: Classes of financial assets and liabilities

Classes of financial assets, 31 Dec. 2018	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss		Total
			Carried at fair value	Hedging derivatives	
Cash and cash equivalents	468,436				468,436
Debt securities eligible for refinancing with central banks		1,002,523			1,002,523
Receivables from credit institutions	27,838				27,838
Receivables from the public and public sector entities	4,187,001				4,187,001
Debt securities		242,674	422,764		665,438
Shares and interests		469	24,740		25,209
Derivatives				649	649
Total	**4,683,275**	**1,246,135**	**472,243**	**649**	**6,402,302**

Classes of financial assets, 31 Dec. 2017	Loans and receivables	Available-for-sale	Hedging derivatives	Total
Cash and cash equivalents	493,015			493,015
Debt securities eligible for refinancing with central banks		860,478		860,478
Receivables from credit institutions	25,737			25,737
Receivables from the public and public sector entities	3,724,854			3,724,854
Debt securities		464,280		464,280
Shares and interests		30,965		30,965
Derivatives			999	999
Total	**4,243,606**	**1,386,689**	**999**	**5,631,294**

Classes of financial liabilities, 31 Dec. 2018	Amortised cost	Hedging derivatives	Total
Liabilities to credit institutions	302		302
Liabilities to the public and public sector entities	5,883,806		5,883,806
Derivatives and other liabilities held for trading		13,103	13,103
Subordinated debts	50,000		50,000
Total	**5,934,108**	**13,103**	**5,947,211**

Classes of financial liabilities, 31 Dec. 2017	Amortised cost	Hedging derivatives	Total
Liabilities to credit institutions	10,109		10,109
Liabilities to the public and public sector entities	5,047,522		5,047,522
Derivatives and other liabilities held for trading		6,260	6,260
Subordinated debts	50,000		50,000
Total	**5,107,632**	**6,260**	**5,113,892**

Note 13 to the consolidated financial statements: Receivables from credit institutions

31 Dec. 2018	Repayable on demand	Other than repayable on demand	Loss allowance*	Total
From Finnish credit institutions	2,533	11,801	0	14,335
From foreign credit institutions	13,067	436	0	13,503
Receivables from credit institutions, total	**15,601**	**12,237**	**0**	**27,838**

* The loss allowance is the expected credit loss included in each item (other than repayable on demand).

31 Dec. 2017	Repayable on demand	Other than repayable 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**

Note 14 to the consolidated financial statements: Receivables from the public and public sector entities

31 Dec. 2018	Receivables from the public and public sector entities	Loss allowance*
Corporates and housing companies	725,941	642
Financial and insurance institutions	62,327	168
Households	3,389,925	11,960
Non-profit organisations serving households	4,135	21
Foreign entities	4,673	20
Receivables from the public and public sector entities, total	**4,187,001**	**12,810**

* The loss allowance is the expected credit loss included in each item.

31 Dec. 2017	Receivables from the public and public sector entities
Corporates and housing companies	648,465
Financial and insurance institutions	110,381
Households	2,957,447
Non-profit organisations serving households	5,279
Foreign entities	3,282
Receivables from the public and public sector entities, total	**3,724,854**

31 Dec. 2017	Impairment losses
Impairment losses at the start of the year	3,620
Receivable-specific impairment losses recorded for the period	485
Group-specific impairment losses recorded for the period	3,762
Group-specific impairment losses reversed during the period	-3,620
Impairment losses at the end of the year	**4,247**
Credit losses at the end of the financial period	6,563
Non-performing receivables at the end of the financial period	14,267

Note 15 to the consolidated financial statements: Debt securities

31 Dec. 2018	Publicly quoted	Total	Loss allowance
Debt securities issued by public sector entities			
Financial assets measured at fair value through profit or loss			
Local government securities	359,727	359,727	
Debt securities issued by public sector entities, total	**359,727**	**359,727**	
Debt securities issued by other than public sector entities			
Financial assets measured at fair value through profit or loss			
Commercial papers	63,037	63,037	
Financial assets measured at fair value through other comprehensive income	1,245,197	1,245,197	-927
Debt securities issued by other than public sector entities, total	**1,308,234**	**1,308,234**	**-927**
Debt securities, total	**1,667,961**	**1,667,961**	
Of which eligible for refinancing with central banks	1,002,523	1,002,523	
Of which those that accumulate no interest, total	25,807	25,807	

* The loss allowance is the expected credit loss for each item.

31 Dec. 2017	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
Other bonds issued by public sector entities	30,065	30,065
Other debt securities	108,010	108,010
Debt securities issued by public sector entities, total	**330,466**	**330,466**
Debt securities issued by other than public sector entities		
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

Note 16 to the consolidated financial statements: Shares and interests

31 Dec. 2018	Publicly quoted	Other	Total
Shares and interests			
Financial assets measured at fair value through profit or loss	24,740	0	24,740
Equity instruments recognised at fair value through other comprehensive income in accordance with IFRS 9.4.1.4	0	469	469
Shares and interests in associated companies	**0**	**9**	**9**
Total	**24,740**	**478**	**25,218**

31 Dec. 2017	Publicly quoted	Other	Total
Shares and interests			
Available-for-sale financial assets	30,706	259	30,965
Shares and interests in associated companies	**0**	**5**	**5**
Total	**30,706**	**264**	**30,970**

Note 17 to the consolidated financial statements: Derivatives

31 Dec. 2018	Notional value	Positive fair value	Negative fair value	31 Dec. 2017	Notional value	Positive fair value	Negative fair value
For hedging purposes							
Interest rate derivatives							
Interest rate swaps	746,200	41	-11,264		541,200	157	-4,591
Maturities of derivative exposures designated for hedge accounting							
less than one year	120,000				135,000		
1–5 years	549,000				284,000		
more than five years	77,200				122,200		
For non-hedging purposes							
Interest rate derivatives							
Options, bought	200,000	158	0		200,000	406	0
Options, written	150,000	0	-809		150,000	0	-828
Interest rate swaps	50,000	0	-464		160,000	18	-422
Maturities of derivative exposures not designated for hedge accounting							
less than one year	100,000				150,000		
1–5 years	270,000				330,000		
more than five years	30,000				30,000		

Note 18 to the consolidated financial statements: Information presented on hedge accounting

31 Dec. 2018	Notional value, total	Assets, fair values	Balance sheet item including the hedged item	Changes in fair value of the hedging instruments used for calculating hedge ineffectiveness during the period
Hedging derivatives				
Fair value hedge				
Interest rate derivatives	746,200	-11,223	Derivatives and other liabilities held for trading	334
Total	**746,200**	**-11,223**		**334**

Changes in the fair value of a hedged item that are attributable to the hedged risk are recognised in the income statement under "Net result from hedge accounting". Changes in the fair value not attributable to the hedged risk are recognised in the fair value reserve. Changes in the fair value of the hedging items included in hedge accounting are recognised in the income statement under "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.

Note 19 to the consolidated financial statements: Intangible assets

Changes in intangible assets in 2017	Intangible rights	IT software and licences	Advances paid	Goodwill	Consolidated goodwill	Total
Acquisition cost at 1 Jan. 2017	0	59,101	7,233	4,119	21,679	92,132
Increases	0	3,114	5,365	0	0	8,478
Transfers between items	0	5,525	-5,525	0	0	0
Acquisition cost at 31 Dec. 2017	0	67,740	7,073	4,119	21,679	100,611
Accumulated amortisation, depreciation and impairment at 1 Jan. 2017	0	-38,852		-2,403	-8,412	-49,667
Accumulated amortisation for allowances and transfers	0	0		0	0	0
Depreciation	0	-7,088		-824	-4,336	-12,248
Accumulated amortisation, depreciation and impairment at 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 at 31 Dec. 2017	**0**	**21,800**	**7,073**	**892**	**8,931**	**38,696**

Changes in intangible assets in 2018	Intangible rights	IT software and licences	Advances paid	Goodwill	Consolidated goodwill	Total
Acquisition cost at 1 Jan. 2018	0	67,740	7,073	4,119	21,679	100,611
Increases	571	-1,334	11,202	0	0	10,439
Transfers between items	328	2,415	-2,415	0	0	328
Acquisition cost at 31 Dec. 2018	899	68,821	15,859	4,119	21,679	111,378
Accumulated amortisation, depreciation and impairment at 1 Jan. 2018	0	-45,940		-3,227	-12,748	-61,914
Accumulated amortisation for allowances and transfers	0	1,516		0	0	1,516
Depreciation	-158	-8,194		-819	-3,472	-12,642
Accumulated amortisation, depreciation and impairment at 31 Dec. 2018	-158	-52,618		-4,045	-16,219	-73,040
Carrying amount 1 Jan. 2018	0	21,800	7,073	892	8,931	38,696
Carrying amount at 31 Dec. 2018	**741**	**16,203**	**15,859**	**74**	**5,460**	**38,337**

Note 20 to the consolidated financial statements: Tangible assets

Changes in tangible assets in 2017	Machinery and equipment	Other tangible assets	Prepayments and acquisitions in progress	Total
Acquisition cost at 1 Jan. 2017	3,992	124	0	4,116
Acquisition cost at 31 Dec. 2017	3,992	124	0	4,116
Accumulated amortisation, depreciation and impairment at 1 Jan. 2017	-3,613	0		-3,613
Depreciation	-271	0		-271
Accumulated amortisation, depreciation and impairment at 31 Dec. 2017	-3,884	0		-3,884
Carrying amount 1 Jan. 2017	379	124	0	503
Carrying amount at 31 Dec. 2017	**108**	**124**	**0**	**232**

Changes in tangible assets in 2018	Machinery and equipment	Other tangible assets	Prepayments and acquisitions in progress	Total
Acquisition cost at 1 Jan. 2018	3,992	124	0	4,116
Increases	0	0	328	328
Transfers between items	0	0	-328	-328
Acquisition cost at 31 Dec. 2018	3,992	124	0	4,116
Accumulated amortisation, depreciation and impairment at 1 Jan. 2018	-3,884	0		-3,884
Depreciation	-94	0		-94
Accumulated amortisation, depreciation and impairment at 31 Dec. 2018	-3,978	0		-3,978
Carrying amount 1 Jan. 2018	108	124	0	232
Carrying amount at 31 Dec. 2018	**14**	**124**	**0**	**138**

Note 21 to the consolidated financial statements: Other assets

	31 Dec. 2018	31 Dec. 2017
Receivables from payment transactions	2,886	1
Trade receivables from securities	0	27
From investment firms	0	8
From others	0	19
Other	4,216	4,577
Total	**7,102**	**4,605**

Note 22 to the consolidated financial statements: Accrued income and prepayments made

	31 Dec. 2018	31 Dec. 2017
Interest receivable	11,143	12,452
Other accrued income	12,515	12,619
Total	**23,658**	**25,071**

Note 23 to the consolidated financial statements: Deferred tax assets and liabilities

	31 Dec. 2018	31 Dec. 2017
Deferred tax assets attributable to losses	1,565	1,674
Deferred tax assets arising from the fair value reserve	985	0
Deferred tax liabilities arising from the fair value reserve	0	2,898
Deferred tax liability from appropriations	8,448	7,866

Note 24 to the consolidated financial statements: Other liabilities

	31 Dec. 2018	31 Dec. 2017
Payables arising from payment transactions	20,786	100,492
Payables from securities	301	0
Other	10,618	11,618
Total	**31,706**	**112,110**

Note 25 to the consolidated financial statements: Accrued expenses and prepayments received

	31 Dec. 2018	31 Dec. 2017
Interest payable	451	445
Accrued expenses	18,959	19,336
Total	**19,410**	**19,781**

Note 26 to the consolidated financial statements: Subordinated debts

31 Dec. 2018	Carrying amount *	Notional value	Interest rate	Maturity
Debenture I/2015	16,020	16,000	12-month Euribor + 1.5% annual interest	1 Dec. 2025
Debenture I/2016	26,239	26,000	12-month Euribor + 1.8% annual interest	30 Jun. 2026
Debenture I/2017	8,005	8,000	12-month Euribor + 1.8% annual interest	18 Dec. 2027

Terms of debenture loans:
The issuer reserves the right to call the loans before maturity. The issuer or a company within the same group of companies may only call a minor part of a loan before maturity without the approval of the Finnish Financial Supervisory Authority. A condition for calling the loans is that they can be resold to a new investor within a short period of time. The noteholders do not have the right to demand premature repayment of the loans.

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

*) Includes transferred interest.

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 of the instrument	Finnish law	Finnish law	Finnish law
Regulation			
Transitional CRR rules	Tier 2 (T2) capital	Tier 2 (T2) capital	Tier 2 (T2) capital
Post-transitional CRR rules	Tier 2 (T2) capital	Tier 2 (T2) capital	Tier 2 (T2) capital
Eligible at solo or consolidated/subconsolidated/ solo and consolidated/ sub-consolidation group	Solo and consolidated	Solo and consolidated	Solo and consolidated
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

Model of the key features of equity instruments	Debenture I/2015	Debenture I/2016	Debenture I/2017
Original date of issuance	1 Dec. 2015	30 Jun. 2016	18 Dec. 2017
Perpetual or dated	Dated	Dated	Dated
Original maturity date	1 Dec. 2025	30 Jun. 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 nominal value in equal instalments annually on 1 December, with the first instalment being paid on 1 Dec. 2021 and the last on 1 Dec. 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 permission for repayment earlier than in five (5) years.	The debenture will be repaid based on its nominal value in equal instalments annually on 30 June, with the first instalment being paid on 30 Jun. 2022 and the last on 30 Jun. 2026. 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 permission for 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 Dec. 2022 and the last on 18 Dec. 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 permission for 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	12-month Euribor + 1.5% annual interest	12-month Euribor + 1.8% annual interest	12-month Euribor + 1.8% annual interest
Existence of a 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 or cumulative	Non-cumulative	Non-cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger(s)	Not applicable	Not applicable	Not applicable
If convertible, fully or partially	Not applicable	Not applicable	Not applicable

Model of the key features of equity instruments	Debenture I/2015	Debenture I/2016	Debenture I/2017
If convertible, conversion rate	Not applicable	Not applicable	Not applicable
If convertible, mandatory or optional conversion	Not applicable	Not applicable	Not applicable
If convertible, specify instrument type convertible into	Not applicable	Not applicable	Not applicable
If convertible, specify issuer of instrument it converts into	Not applicable	Not applicable	Not applicable
Write-down features	Not applicable	Not applicable	Not applicable
If write-down, write-down trigger(s)	Not applicable	Not applicable	Not applicable
If write-down, full or partial	Not applicable	Not applicable	Not applicable
If write-down, permanent or temporary	Not applicable	Not applicable	Not applicable
If temporary write-down, description of 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 27 to the consolidated financial statements: Equity items

	31 Dec. 2018	31 Dec. 2017
Share capital, 1 Jan.	82,880	82,880
Share capital, 31 Dec.	**82,880**	**82,880**
Other restricted reserves		
Fair value reserve, 1 Jan.	11,590	11,359
Adjustments to opening balance according to IFRS 9	-5,041	-
Adjusted fair value reserve, 1 Jan.	6,550	11,359
Equity instruments	32	0
Changes in the period attributable to deferred tax liabilities	3,883	0
Profit/loss from measurement at fair value, other financial securities	-13,641	232
Amount transferred to the income statement, other financial securities	197	0
Fair value reserve, 31 Dec.	**-2,981**	**11,590**
Non-restricted reserves		
Reserve for invested non-restricted equity, 1 Jan.	243,813	243,813
Share issue	39,996	0
Reserve for invested non-restricted equity, 31 Dec.	**283,809**	**243,813**
Retained earnings (losses), 1 Jan.	75,614	63,262
Adjustments to opening balance according to IFRS 9	-4,130	-
Retained earnings (losses), 31 Dec.	**71,484**	**63,262**
Profit/loss for the period	**6,682**	**12,352**
Minority interests	240	169
Total equity	**442,114**	**414,066**

OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The information in the other notes to the consolidated financial statements is presented in thousands of euros.

Note 28 to the consolidated financial statements: Fair values and carrying amounts of financial assets and liabilities, and the hierarchy of fair values

	31 Dec. 2018		31 Dec. 2017	
Financial assets	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Cash and cash equivalents	468,436	468,436	493,015	493,015
Receivables from credit institutions	27,838	37,568	25,737	25,744
Receivables from the public and public sector entities	4,187,001	4,177,785	3,724,854	3,920,481
Debt securities	1,667,961	1,674,098	1,324,758	1,331,449
Shares and interests	25,209	25,209	30,965	30,885
Shares and interests in associated companies	9	13	5	18
Derivatives	649	649	999	999
Financial liabilities				
Liabilities to credit institutions	302	785	10,109	10,111
Liabilities to the public and public sector entities	5,883,806	5,898,745	5,047,522	5,141,470
Derivatives and other liabilities held for trading	13,103	13,103	6,260	6,260
Subordinated debts	50,000	50,245	50,000	50,273

S-Bank Group applies the settlement date practice in recognising financial assets and liabilities on the balance sheet, excluding financial assets and liabilities recognised at fair value through profit or loss. Financial assets and liabilities measured at fair value through profit or loss are recognised on the balance sheet using the trading date practice. A financial asset or liability 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, investments 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 accepted in the markets. The fair values of certificates of deposit, commercial papers and derivatives (excluding futures) are determined by discounting future cash flows to the present value, applying market interest rates on the closing date. Bonds, investment fund units and futures are measured at market value. Financial assets recognised at fair value are measured using the bid price, while financial liabilities at fair value are measured using the ask price.

Financial instruments measured at fair value, 31 Dec. 2018	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss				
Shares and interests	5,637	19,104	0	24,741
Debt securities	0	422,764	0	422,764
Total	**5,637**	**441,867**	**0**	**447,503**
Financial assets measured at fair value through other comprehensive income				
Debt securities eligible for refinancing with central banks	1,000,881	0	0	1,000,881
Debt securities	172,545	77,907	0	250,453
Shares and interests	0	103	365	467
Total	**1,173,427**	**78,010**	**365**	**1,251,801**
Derivative receivables	0	649	0	649
Derivative liabilities	0	13,103	0	13,103
Total	**0**	**13,752**	**0**	**13,752**

Financial instruments measured at fair value, 31 Dec. 2017	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	1,038,824	323,510	0	1,362,334
Derivative receivables	0	999	0	999
Derivative liabilities	0	6,260	0	6,260

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

Note 29 to the consolidated financial statements: Breakdown of balance sheet items into domestic and foreign amounts and amounts from Group entities

31 Dec. 2018	Finnish currency	Foreign currency	Total	From associated companies
Receivables from credit institutions	17,449	10,389	27,838	
Receivables from the public and public sector entities	4,187,001	0	4,187,001	
Debt securities	1,667,961	0	1,667,961	
Derivatives	649	0	649	
Shares and interests	25,218	0	25,218	9
Intangible assets	38,337	0	38,337	
Tangible assets	138	0	138	
Other assets (including cash)	501,739	7	501,747	
Total	**6,438,492**	**10,396**	**6,448,888**	**9**
Liabilities to credit institutions	0	302	302	
Liabilities to the public and public sector entities	5,873,647	10,159	5,883,806	
Derivatives and other liabilities held for trading	13,103	0	13,103	
Other liabilities	59,517	46	59,564	
Subordinated debts	50,000	0	50,000	
Total	**5,996,267**	**10,507**	**6,006,774**	**0**

31 Dec. 2017	Finnish currency	Foreign currency	Total	From associated companies
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	
Derivatives	999	0	999	
Shares and interests	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	
Derivatives and other liabilities held for trading	6,260	0	6,260	
Other liabilities	142,726	31	142,654	
Subordinated debts	50,000	0	50,000	
Total	**5,250,492**	**3,156**	**5,253,648**	**0**

Note 30 to the consolidated financial statements: Breakdown of financial assets and liabilities according to maturity

31 Dec. 2018	0–3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Cash and cash equivalents	468,436					468,436
Debt securities eligible for refinancing with central banks	69,161	71,159	777,951	84,251	0	1,002,523
Receivables from credit institutions	27,838	0	0	0	0	27,838
Receivables from the public and public sector entities	179,852	421,948	1,269,697	872,647	1 442 856	4,187,001
Debt securities	307,721	164,275	176,329	17,113	0	665,438
Derivatives (assets)	160	89	400	0	0	649
Financial assets, total	**1,053,169**	**657,471**	**2,224,378**	**974,011**	**1,442,856**	**6,351,885**
Liabilities to credit institutions	302	0	0	0	0	302
Liabilities to the public and public sector entities	5,879,546	847	3,413	0	0	5,883,806
Bonds issued to the public	0	0	0	0	0	0
Subordinated debts	0	0	0	50,000	0	50,000
Derivatives (liabilities)	0	503	10,506	2,093	0	13,103
Financial liabilities, total	**5,879,848**	**1,350**	**13,919**	**52,093**	**0**	**5,947,211**

31 Dec. 2017	0–3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Cash and cash equivalents	493,015					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
Derivatives (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
Bonds issued to the public	0	0	0	0	0	0
Subordinated debts	0	0	16,800	33,200	0	50,000
Derivatives (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**

Note 31 to the consolidated financial statements: Collateral given

	Other collateral	
	31 Dec. 2018	31 Dec. 2017
Collateral given for own debt		
Liabilities to credit institutions	168 660	165 660
Derivatives and liabilities held for trading	12 007	10 687
Collateral given on own behalf, total	**180 667**	**176 347**
Other collateral given on own behalf	**261**	**261**
Collateral given on behalf of others	**31**	**36**

Note 32 to the consolidated financial statements: Financial leasing and other lease liabilities

	31 Dec. 2018	31 Dec. 2017
Within one year	**3,390**	**2,163**
Due in 1–5 years	5,669	1,208
Total	**9,059**	**3,371**

Financial leasing and other lease liabilities concerning the leasing of premises, vehicles and telephones. The agreements cannot be cancelled mid-term.

Note 33 to the consolidated financial statements: Off-balance sheet commitments

	31 Dec. 2018	31 Dec. 2017
Guarantees	23,768	24,881
Undrawn credit facilities	176,803	145,661
Total	**200,570**	**170,542**

In the 2017 financial statements, irrevocable and revocable commitments were reported under off-balance sheet commitments. The comparative figures have been adjusted to correspond to the new interpretation, according to which irrevocable commitments are reported as off-balance sheet commitments in the balance sheet and the notes.

Note 34 to the consolidated financial statements: Brokerage receivables and payables

	31 Dec. 2018	31 Dec. 2017
Savings in accordance with the Finnish Act on Long-Term Savings Scheme	235	163
Other brokerage receivables and payables		
Purchases from brokers	9 138	15 774
Brokerage payables to customers	3 044	4 348
Total	**12 417**	**20 285**

Note 35 to the consolidated financial statements: Notes regarding trustee services and total amount of customer funds held

	31 Dec. 2018	31 Dec. 2017
Assets under management	7,576,176	6,891,668
- Assets under wealth management	1,914,371	861,831
- Mutual fund assets	5,661,805	6,029,836
Assets under consultative wealth management	10,873	33,627

Note 36 to the consolidated financial statements: Personnel and management

	2018		2017	
	Average number	Number at the end of the period	Average number	Number at the end of the period
Permanent full-time personnel	587	584	540	553
Permanent part-time personnel	42	42	63	53
Temporary personnel	68	59	59	50
Total	**698**	**685**	**662**	**656**

	2018	2017
Salaries and fees paid to Group management (EUR thousand)		
Group companies/CEO and CEO's deputy	931	914
Group companies/Board of Directors	56	50
Pension commitments to Group management (EUR thousand)		
Group companies/CEO and CEO's deputy	114	63

The amount of loans granted to the CEO, the CEO's deputy and the Board of Directors is provided in the note on related-party lending.

The statutory pensions of the personnel are arranged through Elo Mutual Pension Insurance Company and Ilmarinen Mutual Pension Insurance Company.

A voluntary additional pension insurance has been taken out for the management of S-Bank Group. The insured may draw down their additional pensions at any time after they have turned 60 years old.

Note 37 to the consolidated financial statements: Related parties

	Receivables from the public and public sector entities	
Loan receivables and other financial receivables from related parties	**31 Dec. 2018**	**31 Dec. 2017**
Basis for classification as a related party		
Management	1,499	1,146
Management of holding company	893	1,504
Kinship	15	19
Total	**2,407**	**2,669**
Expected credit losses (2018)		
At the start of the period	0	-
During the period	0	-
At the end of the period	0	-
Impairment losses at the end of the period (2017)	-	-1
Total	**0**	**-1**

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

Note 38 to the consolidated financial statements: Subsidiaries and associated companies

31 Dec. 2018	Share of ownership	Equity (EUR '000)	Profit/loss for the period (EUR '000)
Subsidiaries			
S-Asiakaspalvelu Ltd, Helsinki	100%	1,248	129
FIM Asset Management Ltd, Helsinki	100%	14,104	-407
FIM Private Equity Funds Ltd, Helsinki	100%	8,531	-210
FIM Real Estate Ltd, Helsinki	80%	1,195	994
FIM Infrastructure Mezzanine Debt Fund GP Ltd, Helsinki	100%	2	0
FIM Private Debt Fund I GP Ltd, Helsinki	100%	2	0
FIM SIB Ltd, Helsinki	100%	2	0
Subsidiaries have been consolidated using the acquisition cost method.			
Associated companies			
S-Crosskey Ab, Mariehamn	40%	33	1
Asian Pro Oy, Helsinki	40%	13	-40

Associated companies have been consolidated using the acquisition cost method.

FINANCIAL STATEMENTS OF S-BANK LTD

S-BANK LTD – INCOME STATEMENT

(EUR '000)	Note	1.1.–31.12.2018	1.1.–31.12.2017
Interest income	2	**81,157**	**81,204**
Interest expenses	2	**-7,119**	**-7,880**
NET INTEREST INCOME		**74,038**	**73,324**
Return on equity investments	3	**0**	**58**
From associated companies		0	40
From other companies		0	19
Fee and commission income	4	**56,819**	**54,605**
Fee and commission expenses	4	**-9,036**	**-9,201**
Net income from securities and currency operations	5	**2,150**	**-395**
Net income from securities trading		2,357	-561
Net income from currency operations		-207	166
Net income from financial assets recognised at fair value through the fair value reserve		**2,088**	**6,809**
Net income from hedge accounting	6	**-371**	**-367**
Other operating income	7	**15,985**	**16,373**
Administrative expenses		**-104,445**	**-103,187**
Personnel expenses		-41,707	-37,716
Salaries and fees		-33,611	-30,443
Indirect personnel expenses		-8,096	-7,273
Pension expenses		-6,677	-6,003
Other indirect personnel expenses		-1,419	-1,269
Other administrative expenses		-62,738	-65,470

(EUR '000)	Note	1.1.–31.12.2018	1.1.–31.12.2017
Depreciation and impairment on tangible and intangible assets	9	**-12,604**	**-12,426**
Other operating expenses	8	**-5,151**	**-5,217**
Expected credit losses on financial assets measured at amortised cost	10	**-8,752**	**-**
Expected credit losses and impairment losses on other financial assets	10	**-197**	**-**
Impairment losses on loans and other commitments *	10	**-**	**-6,563**
Impairment losses on other financial assets		**-**	**0**
OPERATING PROFIT (LOSS)		**10,524**	**13,814**
Appropriations		**340**	**-12,513**
Income taxes		**-3,741**	**-1,178**
PROFIT (LOSS) FOR THE PERIOD		**7,123**	**122**

* Impairment losses on loans and other commitments were recognised in accordance with IFRS 9 in 2018.

S-BANK LTD – BALANCE SHEET

ASSETS (EUR '000)	Note	31 Dec. 2018	31 Dec. 2017
Cash and cash equivalents	11, 28, 29, 30	**468,436**	**493,015**
Debt securities eligible for refinancing with central banks	11, 14, 28, 29, 30	**1,002,523**	**860,478**
Other		1,002,523	860,478
Receivables from credit institutions	11, 12, 28, 29, 30	**26,615**	**24,855**
Repayable on demand		14,378	13,941
Other		12,237	10,914
Receivables from the public and public sector entities	11, 13, 28, 29, 30	**4,186,865**	**3,724,718**
Repayable on demand		3,952	2,977
Other		4,182,913	3,721,741
Debt securities	11, 14, 28, 29, 30	**665,438**	**464,280**
From others		665,438	464,280
Shares and interests	11, 15, 28, 29	**25,139**	**30,909**
Shares and interests in associated companies	11, 15, 28, 29	**3**	**3**
Shares and interests in Group companies	11, 15, 28, 29	**29,942**	**29,942**
Derivatives	11, 16, 17, 28, 29, 30	**649**	**999**
Intangible assets	18, 29	**37,980**	**38,393**
Tangible assets	19, 29	**0**	**73**
Other tangible assets		0	73
Other assets	20, 29	**6,810**	**4,629**
Accrued income and prepayments made	21, 29	**17,090**	**19,744**
Deferred tax assets	22, 29	**985**	**0**
TOTAL ASSETS		**6,468,476**	**5,692,039**

LIABILITIES (EUR '000)	Note	31 Dec. 2018	31 Dec. 2017
LIABILITIES			
Liabilities to credit institutions	11, 28, 29, 30	**302**	**10,109**
To credit institutions		302	10,109
Repayable on demand		302	109
Other		0	10,000
Liabilities to the public and public sector entities	11, 28, 29, 30	**5,906,705**	**5,072,073**
Deposits		5,855,568	5,030,316
Repayable on demand		5,850,364	5,024,541
Other		5,203	5,775
Other liabilities		51,137	41,757
Repayable on demand		49,190	39,747
Other		1,947	2,010
Derivatives and other liabilities held for trading	11, 28, 29, 30	**13,103**	**6,260**
Other liabilities	23, 29	**31,459**	**111,700**
Other liabilities		31,459	111,700
Accrued expenses and prepayments received	24, 29	**12,678**	**12,846**
Subordinated debts	11, 25, 28, 29	**50,000**	**50,000**
Other		50,000	50,000
Deferred tax liabilities	22, 29	**0**	**2,898**
TOTAL LIABILITIES		**6,014,246**	**5,265,886**
ACCUMULATED APPROPRIATIONS			
Depreciation and amortisation difference		**5,576**	**5,916**
Taxation-based reserves		**33,341**	**33,341**
ACCUMULATED APPROPRIATIONS, TOTAL		**38,916**	**39,257**

LIABILITIES (EUR ’000)	Note	31 Dec. 2018	31 Dec. 2017
EQUITY			
Share capital	26, 27	**82,880**	**82,880**
Other restricted reserves	26	**-2,981**	**11,590**
Fair value reserve			
Carried at fair value		-2,981	11,590
Non-restricted reserves	26	**283,828**	**243,832**
Reserve for invested non-restricted equity		283,828	243,832
Retained earnings (losses)	26	**44,463**	**48,471**
Profit (loss) for the period	26	**7,123**	**122**
TOTAL EQUITY		**415,314**	**386,896**
TOTAL EQUITY AND LIABILITIES		**6,468,476**	**5,692,039**

OFF-BALANCE SHEET LIABILITIES (EUR ’000)	33		
Commitments given to third parties in favour of customers		**23,768**	**24,881**
Guarantees and pledges		23,768	24,881
Irrevocable commitments given in favour of customers		**181,923**	**150,781**
Other		181,923	150,781

In the 2017 financial statements, irrevocable and revocable commitments were reported under off-balance sheet commitments. The comparative figures have been adjusted to correspond to the new interpretation, according to which irrevocable commitments are reported as off-balance sheet commitments in the balance sheet and the notes.

S-BANK LTD – CASH FLOW STATEMENT

EUR million	2018	2017
Cash flow from operating activities		
Result for the period	11	14
Adjustments to the result for the period	15	13
Increase (-) or decrease (+) in operating assets	-467	-239
Receivables from the public and public sector entities	-462	-234
Other assets	-4	-5
Increase (-) or decrease (+) in operating liabilities	750	445
Liabilities to credit institutions	-10	-15
Liabilities to the public and public sector entities	835	466
Other liabilities	-74	-5
A. Total cash flow from operating activities	309	234
Cash flow from investing activities		
Investments in tangible and intangible assets	-12	-8
B. Total cash flow from investing activities	-12	-8
Cash flow from financing activities		
Subordinated debts, change	0	8
Other monetary increases to equity items	40	0
C. Total cash flow from financing activities	40	8
Net change in cash and cash equivalents (A+B+C)	**337**	**234**

EUR million	2018	2017
Cash and cash equivalents at the start of the period	1,861	1,631
Cash and cash equivalents at the end of the period	2,198	1,865
Interest income	82	78
Interest expenses	-7	-8
Profit adjustments for the period		
Net income from hedge accounting	0	0
Depreciation according to plan	13	13
Impairment losses on loans and other receivables	1	1
Interest accruals on debt securities	1	0
Expected credit losses and impairment losses on other financial assets	0	-
Other impairments	0	0
Other adjustments	0	0
Non-cash items and other adjustments	1	0
Adjustments, total	**15**	**13**
Cash and cash equivalents		
Cash and cash equivalents	468	493
Debt securities	1,678	1,322
Shares and interests	25	25
Receivables from credit institutions	27	25
Total	**2,198**	**1,865**

Cash and cash equivalents at the start of the period include an adjustment item due to a change in classification in accordance with IFRS 9.

S-BANK LTD – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 to the financial statements of S-Bank Ltd: Accounting policies used in the preparation of the financial statements

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). The bank engages in the operations and related activities referred to in Chapter 5, section 1, of the above-mentioned Act, as well as providing investment services pursuant to Chapter 1, section 11, of the Act on Investment Services (747/2012). As the parent company, S-Bank performs such tasks of the Group companies that must be carried out in a centralised manner, such as the Group's administration, guidance and supervision.

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

The parent company complies with the accounting policies used in the preparation of the consolidated financial statements. The parent company has included items based on the requirement laid down in tax legislation concerning the matching of accounting with tax declarations. These items are presented as appropriations.

S-BANK LTD – NOTES TO THE INCOME STATEMENT

The information in the notes to the income statement is presented in thousands of euros.

Note 2 to the financial statements of S-Bank Ltd: Net interest income

	2018	2017
Interest income		
Receivables from credit institutions	-299	-98
Receivables from the public and public sector entities	72,141	69,335
Debt securities	9,111	11,567
Derivatives	200	400
Other interest income	4	0
Total	**81,157**	**81,204**
of which intra-Group items	50	29
Interest income from stage 3 financial assets	1,632	
Interest expenses		
Liabilities to credit institutions	-364	-365
Liabilities to the public and public sector entities	-4,073	-3,603
Derivatives and other liabilities held for trading	-1,837	-3,177
Subordinated debts	-838	-731
Other interest expenses	-7	-3
Total	**-7,119**	**-7,880**

Note 3 to the financial statements of S-Bank Ltd: Return on equity investments

	2018	2017
Dividend income from investments classified as financial assets held for trading	-	19
Dividend income from associated companies	0	40
Total	**0**	**58**

Note 4 to the financial statements of S-Bank Ltd: Fee and commission income and expenses

	2018	2017
Fee and commission income		
From lending	29,316	25,455
From borrowing	3,341	3,686
From payment transactions	8,947	8,387
From wealth management	16	13
From legal duties	288	210
From securities brokerage	4,386	7,850
From insurance brokerage	527	521
From issuance of guarantees	119	-107
From other activities	9,880	8,590
Total	**56,819**	**54,605**
of which intra-Group items	7,398	6,827
Fee and commission expenses		
From paid commission fees	-41	-38
Other	-8,995	-9,163
Total	**-9,036**	**-9,201**
of which intra-Group items	0	-197

Note 5 to the financial statements of S-Bank Ltd: Net income from securities and currency operations

2018	Capital gains and losses (net)	Changes in fair value (net)	Total
From debt securities	61	-11	50
From shares and interests	2,160	516	2,677
From derivatives	-419	50	-369
Net income from securities trading, total	**1,802**	**555**	**2,357**
Net income from currency operations	0	-207	-207
Income statement item, total	**1,802**	**348**	**2,150**

2017	Capital gains and losses (net)	Changes in fair value (net)	Total
From debt securities	-139	-29	-168
From shares and interests	153	15	168
From derivatives	-1,162	601	-561
Net income from securities trading, total	**-1,148**	**587**	**-561**
Net income from currency operations	0	166	166
Income statement item, total	**-1,148**	**753**	**-395**

Note 6 to the financial statements of S-Bank Ltd: Net income from hedge accounting

	2018	2017
Net result from hedging instruments	-7,252	3,657
Net result from hedged items	6,881	-4,024
Total	**-371**	**-367**

Note 7 to the financial statements of S-Bank Ltd: Other operating income

	2018	2017
Other income	15,985	16,373
of which intra-Group items	2,676	2,348

Note 8 to the financial statements of S-Bank Ltd: Other operating expenses

	2018	2017
Lease expenses	-3,793	-4,073
Other expenses	-1,358	-1,143
Total	**-5,151**	**-5,217**
Auditor's fees		
Audit	-155	-174
Tax consultancy	0	-8
Other services	-108	-94
Total	**-263**	**-276**
Payments to the Financial Stability Authority		
Financial stability contribution	-814	-449
Deposit guarantee fund contribution	-3,317	-4,052
Administrative fee	-32	-31
Total	**-4,163**	**-4,533**

The Deposit Guarantee Fund reimbursed the deposit guarantee contribution collected for the Financial Stability Fund and the Financial Stability Fund reimbursed the stability contribution, which had replaced the bank tax. These did not result in a profit or loss for S-Bank. The funds accumulated in the old deposit guarantee fund and the bank tax paid in previous years is estimated to cover the contributions paid to the Financial Stability Authority until 2020.

Note 9 to the financial statements of S-Bank Ltd: Depreciation and impairment on tangible and intangible assets

	2018	2017
Depreciation according to plan		
Intangible assets	-12,532	-12,193
Tangible assets	-73	-232
Total	**-12,604**	**-12,426**

Depreciation according to plan includes EUR 1.2 million in depreciation related to the scrapping of ICT systems.

Note 10 to the financial statements of S-Bank Ltd: Expected credit losses on financial assets, guarantees and other off-balance sheet liabilities measured at amortised cost, and expected credit losses and impairment losses on other financial assets

31 Dec. 2018	Contract-specific expected credit losses, gross *	Reversals **	Reversals recognised in the income statement	Realised credit losses recognised in the income statement
Expected credit losses on financial assets, guarantees and other off-balance sheet commitments measured at amortised cost				
Receivables from credit institutions	24	0	0	0
Receivables from the public and public sector entities	-593	1,198	4,719	-13,306
Commitments given on behalf and in favour of customers	404	0	0	0
Total	**-165**	**1,198**	**4,719**	**-13,306**
Expected credit losses and impairment losses on other financial assets, total				
Expected credit losses on financial assets measured at fair value through other comprehensive income in accordance with IFRS 9.4.1.2A	-197	0	0	0
Total	**-197**	**0**	**0**	**0**
Total expected credit losses	**-361**	**1,198**	**4,719**	**-13,306**

* Contract-specific expected credit losses (ECL) recognised in the income statement during the reporting period. There are no group-specific ECLs at the moment.

** Expected credit losses as at the opening balance sheet on receivables recognised as realised credit losses during the reporting period.

31 Dec. 2017, Impairments on credit, other commitments and other financial assets	Contract-specific realised credit losses, gross	Contract-specific impairments, gross	Group-specific impairments, gross	Allowances	Recognised in the income statement
Receivables from the public and public sector entities	-11,214	485	3,762	5,277	-627

S-BANK LTD – NOTES TO THE BALANCE SHEET

The information in the notes to the balance sheet is presented in thousands of euros.

Note 11 to the financial statements of S-Bank Ltd: Classes of financial assets and liabilities

Classes of financial assets, 31 Dec. 2018	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss: Carried at fair value	Fair value through profit or loss: Hedging derivatives	Total
Cash and cash equivalents	468,436				468,436
Debt securities eligible for refinancing with central banks		1,002,523			1,002,523
Receivables from credit institutions	26,615				26,615
Receivables from the public and public sector entities	4,186,865				4,186,865
Debt securities		242,674	422,764		665,438
Shares and interests		399	24,740		25,139
Derivatives				649	649
Total	**4,681,916**	**1,245,996**	**472,243**	**649**	**6,400,804**

Classes of financial assets, 31 Dec. 2017	Loans and receivables	Available-for-sale	Hedging derivatives	Total
Cash and cash equivalents	493,015			493,015
Debt securities eligible for refinancing with central banks		860,478		860,478
Receivables from credit institutions	24,855			24,855
Receivables from the public and public sector entities	3,724,718			3,724,718
Debt securities		464,280		464,280
Shares and interests		30,909		30,909
Derivatives			999	999
Total	**4,242,588**	**1,386,577**	**999**	**5,630,164**

Classes of financial liabilities, 31 Dec. 2018	Amortised cost	Hedging derivatives	Total
Liabilities to credit institutions	302		302
Liabilities to the public and public sector entities	5,906,705		5,906,705
Derivatives and other liabilities held for trading		13,103	13,103
Subordinated debts	50,000		50,000
Total	**5,957,007**	**13,103**	**5,970,109**

Classes of financial liabilities, 31 Dec. 2017	Amortised cost	Hedging derivatives	Total
Liabilities to credit institutions	10,109		10,109
Liabilities to the public and public sector entities	5,072,073		5,072,073
Derivatives and other liabilities held for trading		6,260	6,260
Subordinated debts	50,000		50,000
Total	**5,132,182**	**6,260**	**5,138,442**

Note 12 to the financial statements of S-Bank Ltd: Receivables from credit institutions

31 Dec. 2018	Repayable on demand	Other than repayable on demand	Loss allowance*	Total
From Finnish credit institutions	1,314	11,801	0	13,115
From foreign credit institutions	13,064	436	0	13,500
Receivables from credit institutions, total	**14,378**	**12,237**	**0**	**26,615**

* The loss allowance is the expected credit loss included in each item (other than repayable on demand).

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
Repayable on demand, total	**13,941**	**10,914**	**24,855**

Note 13 to the financial statements of S-Bank Ltd: Receivables from the public and public sector entities

31 Dec. 2018	Receivables from the public and public sector entities	Loss allowance
Corporates and housing companies	725,941	642
Financial and insurance institutions	62,191	168
Households	3,389,925	11,960
Non-profit organisations serving households	4,135	21
Foreign entities	4,673	20
Receivables from the public and public sector entities, total	**4,186,865**	**12,810**

* The loss allowance is the expected credit loss included in each item.

31 Dec. 2017	Receivables from the public and public sector entities
Corporates and housing companies	648,465
Financial and insurance institutions	110,245
Households	2,957,447
Non-profit organisations serving households	5,279
Foreign entities	3,282
Receivables from the public and public sector entities, total	**3,724,718**

31 Dec. 2017	Impairment lossest
Impairment losses at the start of the year	3,620
Receivable-specific impairment losses recorded for the period	485
Group-specific impairment losses recorded for the period	3,762
Group-specific impairment losses reversed during the period	-3,620
Impairment losses at the end of the year	**4,247**
Credit losses at the end of the financial period	6,563
Non-performing receivables at the end of the financial period	14,267

Note 14 to the financial statements of S-Bank Ltd: Debt securities

31 Dec. 2018	Publicly quoted	Total	Loss allowance
Debt securities issued by public sector entities			
Financial assets measured at fair value through profit or loss			
Local government securities	359,727	359,727	
Debt securities issued by public sector entities, total	**359,727**	**359,727**	
Debt securities issued by other than public sector entities			
Financial assets measured at fair value through profit or loss			
Commercial papers	63,037	63,037	
Financial assets measured at fair value through other comprehensive income	1,245,197	1,245,197	-927
Debt securities issued by other than public sector entities, total	**1,308,234**	**1,308,234**	**-927**
Debt securities, total	**1,667,961**	**1,667,961**	
Of which eligible for refinancing with central banks	1,002,523	1,002,523	
Of which those that accumulate no interest, total	25,807	25,807	

* The loss allowance is the expected credit loss for each item.

31 Dec. 2017	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		
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	**1,325**	**1,325**
- of which eligible for refinancing with central banks	860,478	860,478
- of which those that accumulate no interest, total	11,670	11,670

Note 15 to the financial statements of S-Bank Ltd: Shares and interests

31 Dec. 2018	Publicly quoted	Other	Total
Shares and interests			
Financial assets measured at fair value through profit or loss	24,740	0	24,740
Equity instruments recognised at fair value through other comprehensive income in accordance with IFRS 9.4.1.4	0	399	399
Shares and interests in Group companies	**0**	**29,942**	**29,942**
Shares and interests in associated companies	**0**	**3**	**3**
Total	**24,740**	**30,344**	**55,084**

31 Dec. 2017	Publicly quoted	Other	Total
Shares and interests			
Financial assets held for trading	0	0	0
Available-for-sale financial assets	30,706	203	30,909
Shares and interests in associated companies	**0**	**3**	**3**
Shares and interests in Group companies	**0**	**29,942**	**29,942**
Total	**30,706**	**30,148**	**60,854**

Note 16 to the financial statements of S-Bank Ltd: Derivatives

31 Dec. 2018	Notional value	Positive fair value	Negative fair value	31 Dec. 2017 Notional value	Positive fair value	Negative fair value
For hedging purposes						
Interest rate derivatives						
Interest rate swaps	746,200	41	-11,264	541,200	157	-4,591
Maturities of derivative exposures designated for hedge accounting						
less than one year	94,000			135,000		
1–5 years	562,200			284,000		
more than five years	90,000			122,200		
For non-hedging purposes						
Interest rate derivatives						
Options, bought	200,000	158	0	200,000	406	0
Options, written	150,000	0	-809	150,000	0	-828
Interest rate swaps	50,000	0	-464	160,000	18	-422
Maturities of derivative exposures not designated for hedge accounting						
less than one year	100,000			150,000		
1–5 years	270,000			330,000		
more than five years	30,000			30,000		

Note 17 to the financial statements of S-Bank Ltd: Information presented on hedge accounting

31 Dec. 2018	Notional value, total	Assets, fair values	Balance sheet item including the hedged item	Changes in fair value of the hedging instruments used for calculating hedge ineffectiveness during the period
Hedging derivatives				
Fair value hedge				
Interest rate derivatives	746,200	-11,223	Derivatives and other liabilities held for trading	334
Total	**746,200**	**-11,223**		**334**

Changes in the fair value of a hedged item that are attributable to the hedged risk are recognised in the income statement under "Net result from hedge accounting". Changes in the fair value not attributable to the hedged risk are recognised in the fair value reserve. Changes in the fair value of the hedging items included in hedge accounting are recognised in the income statement under "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.

Note 18 to the financial statements of S-Bank Ltd: Intangible assets

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

Changes in intangible assets in 2018	Intangible rights	IT software and licences	Prepayments	Goodwill	Total
Acquisition cost at 1 Jan. 2018	0	67,288	6,636	17,628	91,552
Increases	571	-1,463	11,166	0	10,275
Transfers between items	328	1,943	-1,943	0	328
Acquisition cost at 31 Dec. 2018	899	67,768	15,859	17,628	102,155
Accumulated amortisation, depreciation and impairment at 1 Jan. 2018	0	-45,528		-7,630	-53,159
Accumulated amortisation for allowances and transfers	0	1,516		0	1,516
Depreciation	-158	-8,107		-4,266	-12,532
Accumulated amortisation, depreciation and impairment at 31 Dec. 2018	-158	-52,120		-11,897	-64,174
Carrying amount 1 Jan. 2018	0	21,759	6,636	9,998	38,393
Carrying amount at 31 Dec. 2018	**741**	**15,648**	**15,859**	**5,731**	**37,980**

Note 19 to the financial statements of S-Bank Ltd: Tangible assets

Changes in tangible assets in 2017	Machinery and equipment	Prepayments and acquisitions in progress	Total
Acquisition cost at 1 Jan. 2017	726	0	726
Acquisition cost at 31 Dec. 2017	726	0	726
Accumulated amortisation, depreciation and impairment at 1 Jan. 2017	-420		-420
Depreciation	-232		-232
Accumulated amortisation, depreciation and impairment at 31 Dec. 2017	-653		-653
Carrying amount 1 Jan. 2017	305	0	305
Carrying amount at 31 Dec. 2017	**73**	**0**	**73**

Changes in tangible assets in 2018	Machinery and equipment	Prepayments and acquisitions in progress	Total
Acquisition cost at 1 Jan. 2018	726	0	726
Increases	0	328	328
Transfers between items	0	-328	-328
Acquisition cost at 31 Dec. 2018	726	0	726
Accumulated amortisation, depreciation and impairment at 1 Jan. 2018	-653		-653
Depreciation	-73		-73
Accumulated amortisation, depreciation and impairment at 31 Dec. 2018	-726		-726
Carrying amount at 1 Jan. 2018	73	0	73
Carrying amount at 31 Dec. 2018	**0**	**0**	**0**

Note 20 to the financial statements of S-Bank Ltd: Other assets

	31 Dec. 2018	31 Dec. 2017
Receivables from payment transactions	2,886	1
Trade receivables from securities	0	27
From investment firms	0	8
From others	0	19
Other	3,925	4,601
Total	**6,810**	**4,629**
of which from the Group	31	211

Note 21 to the financial statements of S-Bank Ltd: Accrued income and prepayments made

	31 Dec. 2018	31 Dec. 2017
Interest receivable	11,143	12,452
Other accrued income	5,948	7,292
Total	**17,090**	**19,744**
of which from the Group	688	655

Note 22 to the financial statements of S-Bank Ltd: Deferred tax assets and liabilities

	31 Dec. 2018	31 Dec. 2017
Deferred tax assets attributable to losses	0	0
Deferred tax assets arising from the fair value reserve	985	0
Deferred tax liabilities arising from the fair value reserve	0	2,898

Note 23 to the financial statements of S-Bank Ltd: Other liabilities

	31 Dec. 2018	31 Dec. 2017
Payables arising from payment transactions	20,786	100,492
Payables from securities	301	0
Other	10,371	11,209
Total	**31,459**	**111,700**
of which to the Group	46	0

Note 24 to the financial statements of S-Bank Ltd: Accrued expenses and prepayments received

	31 Dec. 2018	31 Dec. 2017
Interest payable	451	445
Accrued expenses	12,227	12,401
Total	**12,678**	**12,846**
of which to the Group	0	7

Note 25 to the financial statements of S-Bank Ltd: Subordinated debts

31 Dec. 2018	Carrying amount *	Notional value	Interest rate	Maturity
Debenture I/2015	16,036	16,000	12-month Euribor + 1.5% annual interest	1 DEC. 2025
Debenture I/2016	25,418	26,000	12-month Euribor + 1.8% annual interest	30 Jun. 2026
Debenture I/2017	8,011	8,000	12-month Euribor + 1.8% annual interest	18 Dec. 2027

Terms of debenture loans:
The issuer reserves the right to call the loans before maturity. The issuer or a company within the same group of companies may only call a minor part of a loan before maturity without the approval of the Finnish Financial Supervisory Authority. A condition for calling the loans is that they can be resold to a new investor within a short period of time. The noteholders do not have the right to demand premature repayment of the loans.

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

* Includes transferred interest

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 of the instrument	Finnish law	Finnish law	Finnish law
Regulation			
Transitional CRR rules	Tier 2 (T2) capital	Tier 2 (T2) capital	Tier 2 (T2) capital
Post-transitional CRR rules	Tier 2 (T2) capital	Tier 2 (T2) capital	Tier 2 (T2) capital
Eligible at solo or consolidated/subconsolidated/ 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

Model of the key features of equity instruments	Debenture I/2015	Debenture I/2016	Debenture I/2017
Original date of issuance	1 Dec. 2015	30 Jun. 2016	18 Dec. 2017
Perpetual or dated	Dated	Dated	Dated
Original maturity date	1 Dec. 2025	30 Jun. 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 nominal value in equal instalments annually on 1 December, with the first instalment being paid on 1 Dec. 2021 and the last on 1 Dec. 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 permission for repayment earlier than in five (5) years.	The debenture will be repaid based on its nominal value in equal instalments annually on 30 June, with the first instalment being paid on 30 Jun. 2022 and the last on 30 Jun. 2026. 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 permission for 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 Dec. 2022 and the last on 18 Dec. 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 permission for 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	12-month Euribor + 1.5% annual interest	12-month Euribor + 1.8% annual interest	12-month Euribor + 1.8% annual interest
Existence of a 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 or cumulative	Non-cumulative	Non-cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger(s)	Not applicable	Not applicable	Not applicable
If convertible, fully or partially	Not applicable	Not applicable	Not applicable
If convertible, conversion rate	Not applicable	Not applicable	Not applicable

Model of the key features of equity instruments	Debenture I/2015	Debenture I/2016	Debenture I/2017
If convertible, mandatory or optional conversion	Not applicable	Not applicable	Not applicable
If convertible, specify instrument type convertible into	Not applicable	Not applicable	Not applicable
If convertible, specify issuer of instrument it converts into	Not applicable	Not applicable	Not applicable
Write-down features	Not applicable	Not applicable	Not applicable
If write-down, write-down trigger(s)	Not applicable	Not applicable	Not applicable
If write-down, full or partial	Not applicable	Not applicable	Not applicable
If write-down, permanent or temporary	Not applicable	Not applicable	Not applicable
If temporary write-down, description of 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 26 to the financial statements of S-Bank Ltd: Equity items

	31 Dec. 2018	31 Dec. 2017
Share capital, 1 Jan.	82,880	82,880
Share capital, 31 Dec.	**82,880**	**82,880**
Other restricted reserves		
Fair value reserve, 1 Jan.	11,590	14,198
Adjustments to opening balance according to IFRS 9	-5,041	-
Adjusted fair value reserve, 1 Jan.	6,550	14,198
Equity instruments	32	0
Changes in the period attributable to deferred tax liabilities	3,883	-2,898
Profit/loss from measurement at fair value, other financial securities	-13,641	290
Amount transferred to the income statement, other financial securities	197	0
Fair value reserve, 31 Dec.	**-2,981**	**11,590**
Non-restricted reserves		
Reserve for invested non-restricted equity, 1 Jan.	243,832	243,832
Share issue	39,996	0
Reserve for invested non-restricted equity, 31 Dec.	**283,828**	**243,832**
Retained earnings (losses), 1 Jan.	48,593	48,471
Adjustments to opening balance according to IFRS 9	-4,130	-
Retained earnings (losses), 31 Dec.	**44,463**	**48,471**
Profit/loss for the period	**7,123**	**122**
Total equity	**415,314**	**386,896**

Note 27 to the financial statements of S-Bank Ltd: Share capital

6,680,180 shares, totalling EUR 82,880,200.

No share classes entitling their holders to a different number of votes or a different amount of dividend

The information in the other notes to the financial statements is presented in thousands of euros

Note 28 to the financial statements of S-Bank Ltd: Fair values and carrying amounts of financial assets and liabilities, and the hierarchy of fair values

	31 Dec. 2018		31 Dec. 2017	
Financial assets	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Cash and cash equivalents	468,436	468,436	493,015	493,015
Receivables from credit institutions	26,615	37,568	24,855	24,862
Receivables from the public and public sector entities	4,186,865	4,177,785	3,724,718	3,920,345
Debt securities	1,667,961	1,674,098	1,324,758	1,331,449
Shares and interests	25,139	25,139	30,909	30,829
Shares and interests in associated companies	3	13	3	16
Shares and interests in Group companies	29,942	46,438	29,942	46,438
Derivatives	649	649	999	999
Financial liabilities				
Liabilities to credit institutions	302	785	10,109	10,111
Liabilities to the public and public sector entities	5,906,705	5,898,745	5,072,073	5,141,470
Derivatives and other liabilities held for trading	13,103	13,103	6,260	6,260
Subordinated debts	50,000	50,245	50,000	50,273

S-Bank Group applies the settlement date practice in recognising financial assets and liabilities on the balance sheet, excluding financial assets and liabilities recognised at fair value through profit or loss. Financial assets and liabilities measured at fair value through profit or loss are recognised on the balance sheet using the trading date practice. A financial asset or liability 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, investments 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 accepted in the markets. The fair values of certificates of deposit, commercial papers and derivatives (excluding futures) are determined by discounting future cash flows to the present value, applying market interest rates on the closing date. Bonds, investment fund units and futures are measured at market value. Financial assets recognised at fair value are measured using the bid price, while financial liabilities at fair value are measured using the ask price.

Financial instruments measured at fair value, 31 Dec. 2018	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss				
Shares and interests	5,637	19,103	0	24,740
Debt securities	0	422,764	0	422,764
Total	**5,637**	**441,867**	**0**	**447,503**
Financial assets measured at fair value through other comprehensive income				
Debt securities eligible for refinancing with central banks	1,000,881	0	0	1,000,881
Debt securities	172,545	77,907	0	250,453
Shares and interests	0	103	297	399
Total	**1,173,427**	**78,010**	**297**	**1,251,734**
Derivative receivables	0	649	0	649
Derivative liabilities	0	13,103	0	13,103
Total	**0**	**13,752**	**0**	**13,752**

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

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

Note 29 to the financial statements of S-Bank Ltd: Breakdown of balance sheet items into domestic and foreign amounts and amounts from Group entities

31 Dec. 2018	Finnish currency	Foreign currency	Total	From Group entities	From associated companies
Receivables from credit institutions	16,249	10,366	26,615	0	
Receivables from the public and public sector entities	4,186,865	0	4,186,865	0	
Debt securities	1,667,961	0	1,667,961	0	
Derivatives	649	0	649	0	
Shares and interests	55,084	0	55,084	29,942	3
Intangible assets	37,980	0	37,980	0	
Tangible assets	0	0	0	0	
Other assets (including cash)	493,322	0	493,322	719	
Total	**6,458,111**	**10,366**	**6,468,476**	**30,661**	**3**
Liabilities to credit institutions	0	302	302	0	
Liabilities to the public and public sector entities	5,896,546	10,159	5,906,705	22,898	
Derivatives and liabilities held for trading	13,103	0	13,103	0	
Other liabilities	44,091	46	44,137	46	
Subordinated debts	50,000	0	50,000	0	
Total	**6,003,739**	**10,507**	**6,014,246**	**22,945**	**0**

31 Dec. 2017	Finnish currency	Foreign currency	Total	From Group entities	From associated companies
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	
Derivatives	999	0	999	0	
Shares and interests	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	
Derivatives and liabilities held for trading	6,260	0	6,260	0	
Other liabilities	124,516	31	124,546	7	
Subordinated debts	50,000	0	50,000	0	
Total	**5,259,832**	**3,156**	**5,262,988**	**24,555**	**0**

Note 30 to the financial statements of S-Bank Ltd: Breakdown of financial assets and liabilities according to maturity

31 Dec. 2018	0–3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Cash and cash equivalents	468,436	0	0	0	0	468,436
Debt securities eligible for refinancing with central banks	69,161	71,159	777,951	84,251	0	1,002,523
Receivables from credit institutions	26,615	0	0	0	0	26,615
Receivables from the public and public sector entities	179,716	421,948	1,269,697	872,647	1,442,856	4,186,865
Debt securities	307,721	164,275	176,329	17,113	0	665,438
Derivatives (assets)	160	89	400	0	0	649
Financial assets, total	**1,051,810**	**657,471**	**2,224,378**	**974,011**	**1,442,856**	**6,350,526**
Liabilities to credit institutions	302	0	0	0	0	302
Liabilities to the public and public sector entities	5,902,445	847	3,413	0	0	5,906,704
Bonds issued to the public	0	0	0	0	0	0
Subordinated debts	0	0	0	50,000	0	50,000
Derivatives (liabilities)	0	503	10,506	2,093	0	13,103
Financial liabilities, total	**5,902,746**	**1,350**	**13,919**	**52,093**	**0**	**5,970,109**

31 Dec. 2017	0–3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Cash and cash equivalents	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
Derivatives (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
Bonds issued to the public	0	0	0	0	0	0
Subordinated debts	0	0	16,800	33,200	0	50,000
Derivatives (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**

Note 31 to the financial statements of S-Bank Ltd: Collateral given

	Other collateral	
	31 Dec. 2018	31 Dec. 2017
Collateral given for own debt		
Liabilities to credit institutions	168,660	165,660
Liabilities to the public and public sector entities	12,007	10,687
Derivatives and other liabilities held for trading	12,007	10,687
Collateral given on behalf of others	**24**	**24**

Note 32 to the financial statements of S-Bank Ltd: Financial leasing and other lease liabilities

	31 Dec. 2018	31 Dec. 2017
Within one year	3,176	1,984
Due in 1–5 years	5,628	1,204
Total	**8,804**	**3,188**

Financial leasing and other lease liabilities concern the leasing of premises, vehicles and telephones. The agreements cannot be cancelled mid-term.

Note 33 to the financial statements of S-Bank Ltd: Off-balance sheet commitments

	31 Dec. 2018	31 Dec. 2017
Guarantees	23,768	24,881
Undrawn credit facilities	181,923	150,781
Total	**205,690**	**175,662**
Of which intra-group off-balance sheet commitments:		
Undrawn credit facilities	**5,120**	**5,120**

In the 2017 financial statements, irrevocable and revocable commitments were reported under off-balance sheet commitments. The comparative figures have been adjusted to correspond to the new interpretation, according to which irrevocable commitments are reported as off-balance sheet commitments in the balance sheet and the notes.

Note 34 to the financial statements of S-Bank Ltd: Brokerage receivables and payables

	31 Dec. 2018	31 Dec. 2017
Savings in accordance with the Finnish Act on Long-Term Savings Scheme	235	163
Other brokerage receivables and payables		
Purchases from brokers	9,138	15,774
Brokerage payables to customers	3,044	4,348
Total	**12,417**	**20,285**

Note 35 to the financial statements of S-Bank Ltd: Notes regarding trustee services and total amount of customer funds held

	31 Dec. 2018	31 Dec. 2017
Assets under consultative wealth management	10,873	33,627

Note 36 to the financial statements of S-Bank Ltd: Personnel and management

	2018		2017	
	Average number	Number at the end of the period	Average number	Number at the end of the period
Permanent full-time personnel	504	499	445	462
Permanent part-time personnel	31	32	33	32
Temporary personnel	36	34	43	32
Total	**572**	**565**	**521**	**526**

	2018	2017
Salaries and fees paid to management (EUR thousand)		
CEO and CEO's deputy	586	528
Board of Directors	30	30
Pension commitments to the management (EUR '000)		
CEO and CEO's deputy	106	42

The amount of loans granted to the CEO, the CEO's deputy and the Board of Directors is provided in the note on related-party lending.

The statutory pensions of the personnel are arranged through Elo Mutual Pension Insurance Company.

A voluntary additional pension insurance has been taken out for the management of S-Bank Group. The insured may draw down their additional pensions at any time after they have turned 60 years old.

Note 37 to the financial statements of S-Bank Ltd: Related parties

	Receivables from the public and public sector entities	
Loan receivables and other financial receivables from related parties	**31 Dec. 2018**	**31 Dec. 2017**
Basis for classification as a related party		
Management	1,499	1,146
Management of holding company	893	1,504
Kinship	15	19
Total	**2,407**	**2,669**
Expected credit losses		
Impairment losses at the end of the period	-	-1
Total	**0**	**-1**

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

Note 38 to the financial statements of S-Bank Ltd: Holdings in other companies

	Share of ownership	Equity (EUR '000)	Profit/loss for the period (EUR '000)
S-Asiakaspalvelu Ltd, Helsinki	100%	1,248	129
FIM Private Equity Funds Ltd, Helsinki	100%	8,531	-210
FIM Asset Management Ltd, Helsinki	100%	14,104	-407
S-Crosskey Ab, Mariehamn	40%	33	1

Note 39 to the financial statements of S-Bank Ltd: Largest shareholders and distribution of ownership

Shareholder	Share of ownership
SOK Corporation	37.50%
LocalTapiola Mutual Insurance Company	10.00%
Helsinki Cooperative Society Elanto, Helsinki	7.50%
LocalTapiola Mutual Life Insurance Company	3.50%
Cooperative Society Hämeenmaa, Lahti	2.90%
Pirkanmaa Cooperative Society, Tampere	2.70%
Cooperative Society Keskimaa, Jyväskylä	2.50%
Cooperative Society Arina, Oulu	2.50%
Turku Cooperative Society, Turku	2.20%
Cooperative Society PeeÄssä, Kuopio	2.20%
Cooperative Society KPO, Kokkola	2.10%
Southern Ostrobothnia Cooperative Society, Seinäjoki	1.80%
Kymi Region Cooperative Society, Kouvola	1.80%
Suur-Seutu Cooperative (SSO), Salo	1.70%
Elo Mutual Pension Insurance Company	1.50%
Suur-Savo Cooperative Society, Mikkeli	1.40%
Northern Karelia Cooperative Society, Joensuu	1.20%
Varuboden-Osla, Vantaa	1.10%
Satakunta Cooperative Society, Pori	1.10%
LähiTapiola Pohjoinen Mutual Insurance Company	1.00%
Southern Karelia Cooperative Society, Lappeenranta	1.00%
LähiTapiola Pääkaupunkiseutu Mutual Insurance Company	0.90%
LähiTapiola Vellamo Mutual Insurance Company	0.80%

Shareholder	Share of ownership
Maakunta Cooperative Society	0.70%
LähiTapiola Etelä-Pohjanmaa Mutual Insurance Company	0.70%
LähiTapiola Varsinais-Suomi Mutual Insurance Company	0.60%
Keula Cooperative Society, Rauma	0.60%
LähiTapiola Itä Mutual Insurance Company	0.60%
LähiTapiola Uusimaa Mutual Insurance Company	0.50%
LähiTapiola Pirkanmaa Mutual Insurance Company	0.50%
LähiTapiola Keski-Suomi Mutual Insurance Company	0.50%
LähiTapiola Lappi Mutual Insurance Company	0.40%
LähiTapiola Lännen Mutual Insurance Company	0.40%
LähiTapiola Kaakkois-Suomi Mutual Insurance Company	0.40%
LähiTapiola Etelä Mutual Insurance Company	0.40%
LähiTapiola Loimi-Häme Mutual Insurance Company	0.40%
LähiTapiola Etelä-Pohjanmaa Mutual Insurance Company	0.40%
LähiTapiola Savo-Karjala Mutual Insurance Company	0.40%
LähiTapiola Savo Mutual Insurance Company	0.30%
LähiTapiola Satakunta Mutual Insurance Company	0.30%
Koillismaa Cooperative Society, Kuusamo	0.30%
LähiTapiola Kainuu-Koillismaa Mutual Insurance Company	0.30%
Jukola Cooperative Society, Nurmes	0.20%
LokalTapiola Sydkusten Ömsesidigt Försäkringsbolag	0.10%
Total	**100.00%**

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