# ANNUAL REPORT

2015

S-Bank


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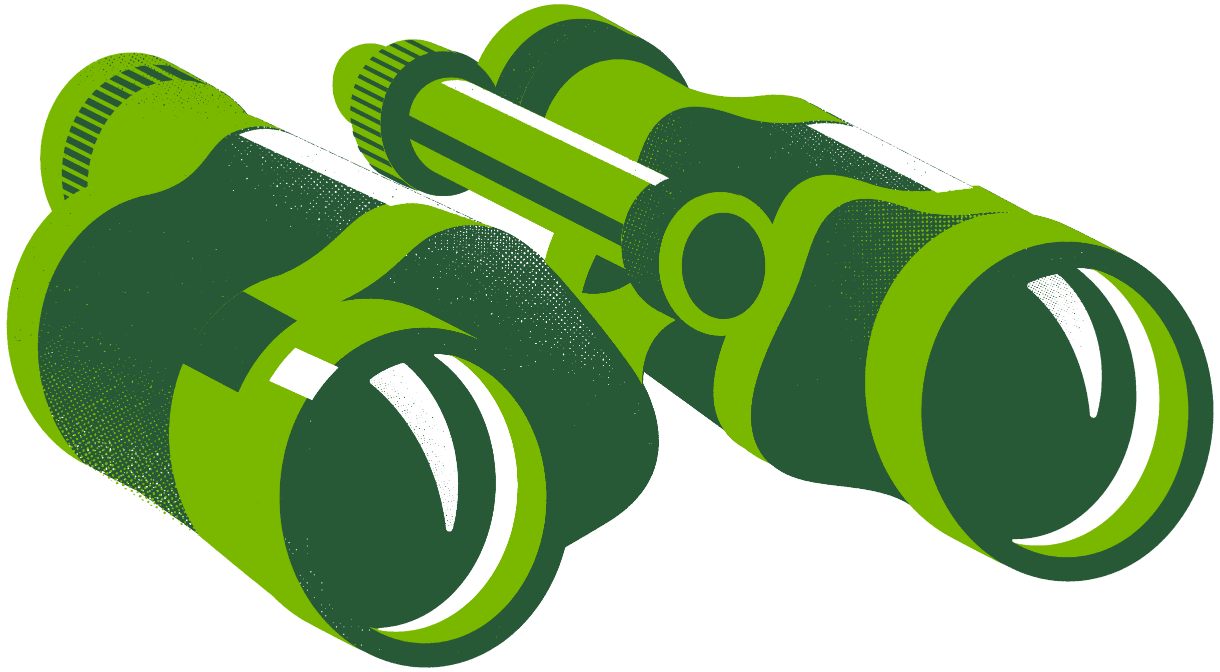
# FINANCIAL STATEMENTS 2015



# S-BANK'S VISION

**Unparalleled convenience and benefits**

# S-BANK – BANKING SERVICES WITH UNPARALLELLED CONVENIENCE AND BENEFITS

S-Bank is a Finnish bank with a mission to make our customers' daily life easier. This is achieved by offering customers convenient and useful solutions in daily banking, saving and the financing of purchases.

S-Bank's operations are based on convenient products, fast and proactive service, transparent pricing, easy access, and cooperation with stores. S-Bank focuses strongly on the development of digital services, and its objective is to deliver the best digital banking service experience in Finland. Spearheading the digital services is the internationally awarded S-mobiili application, which combines store and bank services for customers in an ingenious manner.

Our free basic banking services continue to be the core of S-Bank's range of products and services. A free current account, an international debit card and banking IDs for the electronic services are considerable benefits, which S Group's co-op members receive from their very own bank.

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

S-Bank provides services in more than 700 S Group and LocalTapiola Group outlets throughout the country. The customer service points offer daily banking services at S Group outlets with convenient, long opening hours. Withdrawing and depositing cash is possible at the checkouts of more than 1,000 S Group outlets. Customers' daily banking is also made easier by the convenient online bank, S-mobiili, and S-Bank's friendly telephone service.

S-Bank is owned by S Group (75%), LocalTapiola Group (23.5%) and Elo (1.5%).

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

## S-BANK'S KEY FIGURES AT THE END OF 2015

**2.8 million** customers | **1.8 million** international debit cards

**1.6 million** online banking IDs | EUR **4,112 million** in deposits

EUR **2,831 million** in granted credit | EUR **6,012 million** in managed assets (FIM)

**15.4%** capital adequacy ratio | EUR **16.6 million** operating result


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

# REVIEW BY THE MANAGING DIRECTOR:

Digitisation of services is changing the world with a bang. Many of the tasks that earlier required a visit to a service provider's location can today be conveniently completed with a tap of a smart phone app button. Thus terms like "mobile first" or even "mobile only" have been introduced in the development of services. The primary starting point is to develop mobile services that give customers freedom to choose when and where to use them. This is how banking is changing as well.

What does digitisation in banking services then mean in practice? It may mean, for example, checking one's account balance with a smart phone while doing shopping. It means easy and secure payment transactions through a smart phone app that replaces the traditional debit card. It may also mean smart management of daily transactions: the application monitors purchasing and payment behaviour and gives recommendations on where spending should be curbed and when there is money to spare for fund investments, for example. It means fewer PIN codes to remember without compromising security in banking. One factor is central in both digital and other services provided by S-Bank – it is our goal to provide our customers with banking services that have unparalleled convenience and benefits.

The development of digital services stems from changes in customer behaviour. An example of this is S-Bank's customers switching to S-mobiili: since June 2015, the mobile bank app has been used by S-Bank's customers to managing their banking more often than the traditional online bank.

Does investing in digital services mean that the traditional customer service is coming to an end? At S-Bank, it doesn't. Our customer service points will continue to provide services at all Prisma stores, most Sokos stores and select S-markets from morning until the evening, Saturdays included. Withdrawing and depositing cash is possible at the checkouts of more than 1,000 S Group outlets. Customers are served wherever it is most convenient for them: online, by mobile services, phone, and traditional customer service.

In the past year, we gave a lot of thought to S-Bank's role among the banks in Finland. We provide customers with services to manage their finances, and in that sense we are like all other banks. BUT there is one big difference: S-Bank, together with the other S Group providers, can genuinely make our customers' daily lives easier by combining the purchasing of groceries and consumer goods with the services offered by restaurants, hotels, fuel sales and banking, among others, into a comprehensive selection that offers unparalleled convenience and benefits. After all, these are what everyday life is made of, and our job is to help make it as convenient and comfortable as possible.

PEKKA YLIHURULA
Managing Director, S-Bank Ltd.

# YEAR 2015

At the end of 2015, S-Bank had more than 2.8 million customers, who had approximately 1.8 million S-Bank's international payment cards. About 1.6 million customers had IDs for online and mobile banking. By the end of 2015, S-mobiili had been downloaded to more than 600,000 smart phones or tablets.

S-Bank's deposit portfolio was EUR 4,112.0 million at the end of the year. The lending base totalled EUR 2,831.1 million.

At S-Bank, the key events during the year were linked to the 2014 merger of S-Bank Ltd. and LocalTapiola Bank Plc and the purchase of the majority shareholding in FIM Corporation in 2013, as well as the ensuing need to integrate the existing systems and operating processes. The concrete results of the integration materialised at the end of October 2015, when the accounts, loans, fund investments and electronic services of both private and corporate customers were merged with S-Bank's systems.

S-Bank's objective is to deliver the best digital banking service experience in Finland. Considerable investments were made in digital services in 2015: S-Bank's digital services strategy was specified, a training programme on digital services was organised for the personnel, and the organisational structure was renewed to support the development of digital services and related business.

## Funds and asset management

The funds and asset management services offered by S-Bank are produced by its subsidiary FIM. In 2015, FIM's and S-Bank's service model was renewed. In the new model, S-Bank serves customers whose investable assets are less than EUR 100,000 while FIM focuses on customers whose investable assets are more than EUR 100,000. Customers experienced the new service model in the middle of June 2015 with the launch of FIM's new online services.

The number of FIM's unit holders increased to more than 200,000 by the end of 2015. This increase was accelerated by the possibility to direct the bonus payable on purchases to fund savings. This has been one of S-Bank's most requested services.

At the end of 2015, the assets managed by FIM totalled EUR 6,012.0 million. FIM Asset Management manages FIM and LocalTapiola Funds.

## New products in 2015

S-mobiili is being continuously developed with a keen ear for customers' wishes. In January 2015, S-mobiili was supplemented by the Sijoitukset (Investments) section, where you can transfer your bonus to the S-Savings Fund, make an extra one-time subscription and monitor the development of funds.

In November, S-mobiili was released as an Apple Watch application. The app can be used to monitor the bonus accumulated from purchases made in S Group and to check the balance of S-Bank accounts as well as the value of the investment portfolio.

In November, FIM's customers also got access to mobile services. FIM Mobiili enables customers to monitor their investments easily and in real-time using both a smart phone and Apple Watch.

In October, customer service implemented a chat service as per customers' requests. The service can be used for asking general questions about banking.

The S-Sijoitusobligaatio introduced in October is a good choice for a customer who is seeking a better yield for their money than provided by the regular term deposit but does not want to take risks involved in direct share investing. Capital protection secures the customer's capital until the maturity date, which is when any yield is also paid.

## Recognition in Finland and abroad

In March 2015, customers ranked S-Bank the most responsible bank in Finland in the Sustainable Brand Index, Scandinavia's largest brand study on sustainability. In April, S-mobiili and the contactless payment option of the S-Etukortti Visa card also won the Loyalty category of the international Contactless & Mobile Awards. The customer service of S-Bank's credit control was also selected as the best customer service centre in the country in the Customer's Voice competition in April as well. It also received the award for the best individual customer service agent.

Towards the autumn, it was FIM's services that received accolade. In September, FIM Asset Management was selected as the best asset manager in the annual contest organised by World Finance magazine. Also in September, FIM's funds and fund managers received international recognition when Citywire ranked FIM's Hertta Alava the best in an international comparison of fund managers investing in Africa. FIM Fenno and FIM Real received the acclaimed Lipper Fund award as the best-in-class investment funds in a Nordic comparison. In November, FIM Orient Alpha was selected as the best emerging market fund among European hedge funds.

## Result from banking

S-Bank Group's operating profit amounted to EUR 16.6 million. Profit for the financial period after taxes totalled EUR 12.6 million and the capital adequacy ratio was 15.4 per cent.

# BALANCE BOOK

2015

S-Bank

# EXECUTIVE BOARD REPORT ON OPERATIONS

1.1.–31.12.2015

## EXTERNAL OPERATING ENVIRONMENT

**THE BEGINNING OF 2015** was characterised by expectations of the launch of quantitative revival measures from the European Central Bank. It supported shares and also further decreased long-term interest rates in the core eurozone countries. In the USA, the increase in share prices was modest at the beginning of the year, but the rapid weakening of the euro against the dollar generated return for those investing in the euro.

By the summer, the situation in the share markets stabilised, and the key share markets adjusted downward over the summer, while long-term interest rates increased.

Market uncertainty was caused, above all, by the polarisation of the debt crisis in Greece, as well as the challenges in the Chinese economy and the bursting of the valuation bubble in the stock exchanges of mainland China in the autumn. Later in the autumn, the share markets took an upward turn again, ending up 5–10 per cent positive in Europe and at roughly the beginning of the year level in the USA.

In addition to launching quantitative revival measures, the European Central Bank sank the interest on deposits to an even more negative level in 2015. In December, the interest on deposit was cut by 0.1 percentage points to -0.3 per cent, and at the same time, the ECB announced a set of additional measures to increase lending by the banks in the eurozone and to bring inflation closer to the Central Bank's price stability target of two per cent.

The expectation of measures by the ECB reduced the short-term interest rates in the eurozone even further and in longer maturities into the negative in the latter half of the year. Carried by the Central Bank's purchasing programme, the long-term interest rates of the core eurozone countries declined again towards the end of the year, although economic growth recovered and the threat of deflation decreased in Europe. Overall, the year 2015 was characterised by the monetary policies conducted by the ECB and the FED developing even farther away from each other, which increased expectations that the interest rate differential between the euro area and the U.S. would increase, supported the U.S. dollar and weakened the euro.

For Finland, the year 2015 was the fourth consecutive year that showed weak economic development. During the year, any turn in the economy was postponed even further ahead. Domestic demand was not a significant stimulator for economic growth. The employment situation worsened and households' real income development remained weak. As a result, expectations for the future remained weak. Private investments decreased during 2015 as well, in the same manner as the year before. Although the weakening of euro and the cautious recovery of the eurozone, as a rule, supported the Finnish exports, the turn for the better was meagre. Due to the weak economic development and employment situation, cost pressure was low and inflation non-existent in Finland.

# INTERNAL OPERATING ENVIRONMENT

**THE KEY EVENTS DURING THE YEAR** were linked to the 2014 merger of S-Bank Ltd. and LocalTapiola Bank Plc and the purchase of the majority shareholding in FIM Corporation in 2013, as well as the ensuing realised need to integrate the existing systems and operating processes.

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

In June, FIM's renewed online service was commissioned, providing FIM's customers access to S-Bank's banking services. The service channels for investor customers were reformed at the same time: S-Bank serves customers whose investable assets are less than EUR 100,000 while FIM focuses on customers whose investable assets are more than EUR 100,000.

At the end of October, the accounts, loans and fund investments of and electronic services for former LocalTapiola Bank's private and corporate customers were merged with S-Bank's systems during a service outage that lasted a full weekend. The carefully rehearsed and prepared integration proceeded without issues, and the online bank opened to customers 16 hours ahead of schedule.

The integration will continue in 2016, when the MasterCard payment cards used in LocalTapiola Bank are replaced with Visa cards in May.

S-Bank's objective is to deliver the best digital banking service experience in Finland, and its digital services strategy was specified in 2015. A comprehensive training programme on digital services was organised for the bank's personnel during the year. In addition, S-Bank renewed its entire organisational structure to support the development of digital services and related business in the statutory labour negotiations conducted in November–December.



# FINANCIAL STANDING

## FINANCIAL PERFORMANCE AND PROFITABILITY

The year 2015 was financially good for S-Bank. S-Bank Group's operating result was EUR 16.6 million (14.6). Profit for the financial period after taxes totalled EUR 12.6 million (13.4).

The Group's cost/income ratio remained at the previous year's level and was 0.88 (0.87). Return on equity (ROE) was 3.2 per cent (4.2), while return on assets (ROA) was 0.3 per cent (0.3).

S-Bank Group's capitals strengthened further, whereas the requirement for own funds grew due to the increase in borrowing. At the end of the financial period, the Group's own funds totalled EUR 376.1 million (369.4), whereas the minimum requirement for own funds was EUR 194.9 million (183.5). Capital adequacy weakened from the previous year, standing at 15.4 per cent (16.1). More detailed information on risk management and the development of solvency is available under section Risk management and solvency in the notes.

The reported figures describe S-Bank Group's operations. The acquisition of FIM in August 2013, the related internal reorganisations and the merger with LocalTapiola Bank in 2014 must be considered in the comparison of these figures with the corresponding figures in 2013 and 2014.

| KEY FINANCIAL INDICATORS (EUR MILLION) | 12/2015 | 12/2014 | 12/2013 |
|---|---|---|---|
| Operating result | 16.6 | 14.6 | 27.9 |
| Net income | 153.8 | 147.6 | 106.1 |
| Deposits | 4,112.0 | 4,057.2 | 2,531.8 |
| Lending | 2,831.1 | 2,571.1 | 589.5 |
| Debt securities | 1,594.2 | 1,834.8 | 2,148.6 |
| Cost/income ratio | 0.88 | 0.87 | 0.74 |
| Return on equity (ROE) | 3.2% | 4.2% | 9.1% |
| Return on assets (ROA) | 0.3% | 0.3% | 0.6% |
| Equity ratio | 8.2% | 8.3% | 7.5% |
| Capital adequacy ratio | 15.4% | 16.1% | 14.7% |

### Net income

Net income increased from the previous year by more than EUR 6 million and totalled EUR 153.8 million (147.6). Less than half of the net income was constituted by net interest income, which totalled EUR 72.1 million (70.1). Income in net interest income was mainly generated through the interest income received from credit products, as well as investments in money and capital markets. Interest expenses consisted mainly of interest on deposits paid to customers.

Net fee and commission income also increased significantly, amounting to EUR 53.7 million (44.6). The development of the net fee and commission income was affected by the increase in the volume of operations, as well as the reorganisations carried out in 2014 – the impact of which was reflected in the net fee and commission income throughout the year.

Other income totalled EUR 28.0 million (32.6), consisting of net income from financial assets available for sale, net income from securities trading, other operating income and net income from hedge accounting, as well as net income from investment property, with such indirect entries as all income and expenses from the bank's two real estate subsidiaries. As a result of realising investment activities, net income from financial assets available for sale totalled

EUR 10.7 million (17.9). With derivatives designated at fair value through profit and loss, as well as considering hedge accounting, net income from securities trading amounted to EUR 0.8 million (2.0). Net result from hedge accounting amounted to EUR 0.6 million (0.2). Other operating income totalled EUR 14.7 million (11.3) and net income from investment properties totalled EUR 1.2 million (1.1).

### Expenses

The year 2015 was the first full year to be reported since the merger of S-Bank and LocalTapiola Bank. This should be taken into account when comparing the 2015 expenses with those of the previous year. Operating expenses totalled EUR 137.2 million (133.0) in 2015. The increase in personnel expenses reflected not only the reporting period but also the expenses incurred by the statutory labour negotiations. Personnel expenses totalled EUR 50.7 million (43.1) and other administrative expenses were EUR 66.1 million (67.2) in total.

The integration contributed to the increase in depreciation in the financial period, which totalled EUR 12.6 million (9.3). Other operating expenses were EUR 7.3 million (10.5). Other operating expenses decreased, when the Deposit Guarantee Fund reimbursed the deposit guarantee contribution collected for the Financial Stability Fund and the Financial Stability Fund reimbursed the stability payment, which had replaced the bank tax. In addition to these, other operating income consisted of leases and rents for office premises, machinery and equipment, as well as vehicle expenses.

### Credit and impairment losses

Credit and impairment losses continued at a low level due to our good customer base, as well as our efficient credit control and debt collection activities. Net credit and impairment losses totalled EUR -0.4 million (2.9). Credit losses written back amounted to EUR 7.4 million (3.7).

### Deposits

At year-end, the amount of demand deposits totalled EUR 4,030.4 million (3,817.2), and the amount of fixed-term deposits totalled EUR 81.6 million (240.0). On the closing date, the deposit portfolio totalled EUR 4,112.0 million (4,057.2). The deposit portfolio was increased, in particular, by deposits from corporate customers.

### Lending and investment operations

Lending increased considerably in 2015. The growth consisted of loans to both private and corporate customers. Lending to private customers focused on unsecured credit products, in particular. Growth in mortgages was also stronger than the general market development. In corporate lending, loans to housing companies, in particular, generated growth. Lending totalled EUR 2,831.1 million at the turn of the year (2,571.1). S-Bank Group's capital investments in the money and capital markets totalled EUR 1,594.2 million (1,834.8).

### Equity

At year-end, equity totalled EUR 390.6 million (393.0), of which the minority interest related to FIM Corporation was EUR 12.0 million (13.7). Despite the good development, equity decreased as the fair value fund was depleted faster than the result developed.

As a result of the decreased equity, equity ratio declined to 8.2 per cent (8.3).

### Assets under management

The amount of assets being managed by FIM Asset Management Ltd. was EUR 6,012.0 million (5,504.7) at the turn of the year. Of these managed assets, the share of fund capital was EUR 5,252.5 million (4,810.9), and asset management capital accounted for EUR 759.5 million (693.8). Net subscriptions in the funds totalled EUR 226.4 million (101.0) at the end of the review period. The number of unit holders in the funds was more than 200,000 at the end of December. FIM Asset Management manages FIM and LocalTapiola Funds.



# OPERATIONS OF S-BANK'S SUBSIDIARIES

### FIM GROUP

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

### S-ASIAKASPALVELU OY

S-Asiakaspalvelu Oy is a wholly-owned subsidiary of S-Bank Ltd. Established on 8 August 2007, S-Asiakaspalvelu provides data processing and other services that relate to a credit institution's core operations as a service company in accordance with the Finnish Act on Credit Institutions (610/2014).

S-Asiakaspalvelu's revenue for the review period was EUR 6.5 million (6.1). Of this, EUR 4.8 million was intra-Group revenue (4.0). Other revenue consisted of telephone services for co-op members offered to the cooperative enterprises. Expenses mainly related to personnel, and the company had 96 people on the payroll at the end of the year (112). S-Asiakaspalvelu's operating result was EUR 0.0 million (0.0).

### PROPERTY COMPANIES

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

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

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

# ADMINISTRATION

### GENERAL MEETINGS

The Annual General Meeting was held on 1 April 2015. The Annual General Meeting adopted the 2014 financial statements and discharged the Executive Board and Managing Director from liability. Seven members and three deputy members were appointed to the Executive Board. KPMG Oy Ab, Authorised Public Accountants, was selected as the auditor at the Annual General Meeting.

### EXECUTIVE BOARD

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

The Executive Board shall manage the bank in a professional manner and in compliance with sound and good banking practices. The Board meets at least eight (8) times per year.

In accordance with the merger plan, the following members were elected to the Executive Board of S-Bank Ltd. at the Annual General Meeting: Jari Annala, CFO of SOK; Juha Ahola, Financial Manager of SOK; Matti Niemi, Managing Director of Helsinki Cooperative Society Elanto (HOK-Elanto); Veli-Matti Puutio, Managing Director of Arina

Cooperative Society; Harri Lauslahti, Group Director of the LocalTapiola Group; and Jari Eklund, Group Director of the LocalTapiola Group. In addition, Heli Arantola, Senior Vice President of Strategy and Business Development of the Fazer Group, was appointed to the Executive Board as an independent member. Chairman of the Board is Jari Annala, and vice chairman is Harri Lauslahti.

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

The Executive Board convened 14 times (15) during the financial period, and the average attendance rate of members was 94 per cent (92). Fees paid to Executive Board members totalled EUR 30,000 (20,000).

## MANAGING DIRECTOR

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

Pekka Ylihurula serves as Managing Director of S-Bank Ltd. Marja Pajulahti, head of private customer operations, served as deputy Managing Director until the end of October 2015.

## PERSONNEL

Compared to the previous year, S-Bank Group's number of personnel decreased by slightly less than 20 people. At the end of the year, S-Bank Group employed a total of 696 people (715). Of personnel, 459 (457) worked for S-Bank Ltd., 96 (112) for S-Asiakaspalvelu Oy, and 141 (146) for the FIM Group.

## AGENCY ACTIVITIES

The S-Group's regional cooperative enterprises and the LocalTapiola Group's regional companies operate as S-Bank's agents. The competence of agents is ensured through continuous training. In 2015, training provided to S-Bank's agents focused on implementing the integration and ensuring the quality of competence and customer service, in particular.

## WAGES, SALARIES AND REMUNERATION

In S-Bank Group, financial rewarding consists of a basic salary and any performance-based compensation. The objective of the performance-based compensation is to encourage employees to focus on activities that are key in terms of reaching the strategic and operational goals. The performance-based compensation refers to different company-specific, team-specific, or personal monetary rewarding systems.

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

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

S-Bank Group's performance-based compensation systems are valid for a maximum of one calendar year at a time. The performance-based compensation targets are shared by the entire Group and complemented by unit-level and personal targets. The performance-based compensations are paid in cash.



The salaries and fees paid to personnel at S-Bank Group totalled EUR 41.7 million (35.4) during the year 2015. The recognised salaries and wages at S-Bank totalled EUR 24.8 million (19.2) and fees totalled EUR 2.7 million (2.0). The recognised salaries and wages at S-Asiakaspalvelu totalled EUR 3.2 million (3.2) and remuneration totalled EUR 0.2 million (0.1). The recognised salaries and wages at S-Asiakaspalvelu totalled EUR 8.0 million (9.2) and remuneration totalled EUR 2.8 million (1.8).

The fees paid to S-Bank Ltd.'s Executive Board members totalled EUR 30,000 (20,000). The fees paid to FIM Corporation's Board members totalled EUR 67,500 (90,000), while the fees paid to FIM Asset Management's Board members totalled EUR 900 (0).

In 2015, the persons whose operations essentially affect the credit institution's risk profile were paid EUR 3.6 million (2.5) in salaries and EUR 1.0 million (0.2) in fees. A total of 41 persons (32) received these salaries and remuneration. In accordance with S-Bank's remuneration principles, changeable fees are postponed if the remuneration of the individual in question for an earnings period of one year exceeds EUR 50,000. In 2015, the changeable fees were postponed for two people (0).

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

## SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL PERIOD

Aki Gynther, head of the Tieto ja pääoma unit was nominated as deputy Managing Director as of 8 February 2016.

## OUTLOOK FOR 2016

The European Central Bank's revival policy will keep interest at a very low level in 2016. The moderate economic growth outlook for the eurozone and the inflation remaining clearly under the ECB's target level ensure that the monetary policy of the European Central Bank will continue to give an exceptional boost to revival for a long time. The 2016 economic outlook is also overshadowed by the slowing economic growth in China, which may result in a downward turn in the entire global economy.

Currently, there are no intrinsic factors in the Finnish economy that would help our economy achieve lasting growth. Exports will be the most pronounced factor in terms of the recovery of our economy. The cautious recovery of the eurozone economy, the weakening external value of euro and the decrease in the price of oil that supports growth in the global economy have raised expectations of exports and the Finnish economy recovering this year. However, due to the increased risks in the international economy, there is considerable uncertainty in the forecasts.

The overall economic uncertainty will also impact the economic forecast for S-Bank. Although S-Bank has prepared for prolonged uncertainty by simplifying and streamlining its operating models, the operating result of 2016 is expected to fall slightly short of the 2015 level.

In connection with the purchase of the majority shareholding in FIM Corporation in 2013, it was agreed that S-Bank may purchase the remainder of the share capital in accordance with the mutually agreed terms and conditions, during 2016. This opportunity will be reviewed this year.

## EXECUTIVE BOARD'S PROPOSAL FOR THE DISPOSAL OF DISTRIBUTABLE FUNDS

The Executive Board proposes that parent company S-Bank Ltd.'s profit for the financial period, EUR 8,918,844.28, be entered in the retained earnings account and that no dividend be distributed.

# CALCULATION OF KEY INDICATORS

**Net income:**

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

**Net fee and commission income:**

Fee and commission income – fee and commission expenses

**Debt securities:**

Debt securities eligible for refinancing with central banks + debt securities

**Cost/income ratio:**

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

**Return on equity (ROE), %**

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

**Return on assets (ROA), %**

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

**Equity ratio, %**

$$\frac{\text{Equity and minority interest + accumulated appropriations less deferred tax liability}}{\text{The sum total on the balance sheet}} \times 100$$

**Capital adequacy ratio, %**

$$\frac{\text{Own funds, total}}{\text{Minimum requirement for own funds, total}} \times 8\%$$



# CONSOLIDATED BALANCE SHEET

| ASSETS (EUR thousand) | Appendix | 31 December 2015 | 31 December 2014 |
|---|---|---|---|
| **Cash** | 18, 19, 22 | 207,298 | 173,640 |
| **Debt securities eligible for refinancing with central banks** | | 1,123,559 | 1,464,060 |
| Other | 3, 18, 19, 22 | 1,123,559 | 1,464,060 |
| **Receivables from credit institutions** | 1, 18 | 19,684 | 38,625 |
| Repayable on demand | | 6,850 | 22,869 |
| Other | | 12,834 | 15,757 |
| **Receivables from the public and public sector entities** | 2, 18, 19, 22 | 2,831,137 | 2,571,109 |
| Repayable on demand | | 3,052 | 2,532 |
| Other | | 2,828,085 | 2,568,578 |
| **Leasing objects** | 4 | 0 | 5,343 |
| **Debt securities** | 3, 18, 19, 22 | 470,660 | 370,724 |
| **Shares and participations** | 5, 19, 22 | 31,047 | 40,733 |
| **Shares and participations in associated companies** | 5, 18, 21 | 2 | 1 |
| **Derivative contracts** | 6, 19, 22 | 1,714 | 1,451 |
| **Intangible assets** | 7, 9, 19 | 35,576 | 36,168 |
| **Tangible assets** | 8, 9, 19 | 12,244 | 12,852 |
| **Other assets** | 10 | 2,817 | 6,305 |
| **Accrued income and advances paid** | 11 | 31,669 | 38,108 |
| **Deferred tax assets** | 12 | 987 | 2,926 |
| **ASSETS, TOTAL** | | **4,768,394** | **4,762,046** |

| EQUITY AND LIABILITIES (EUR thousand) | Appendix | 31 December 2015 | 31 December 2014 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Liabilities to credit institutions** | | 11,810 | 68,143 |
| To central banks | 18, 19, 22 | 0 | 50,000 |
| To credit institutions | | 11,810 | 18,143 |
| Repayable on demand | | 10 | 15 |
| Other | | 11,800 | 18,128 |
| **Liabilities to the public and public sector entities** | 18, 19, 22 | 4,146,376 | 4,089,844 |
| Deposits | | 4,112,011 | 4,057,176 |
| Repayable on demand | | 4,030,424 | 3,817,222 |
| Other | | 81,587 | 239,954 |
| Other liabilities | | 34,365 | 32,669 |
| Repayable on demand | | 33,255 | 31,491 |
| Other | | 1,110 | 1,178 |
| **Debt securities issued to the public** | 13 | 44,081 | 57,655 |
| Bonds | | 2,601 | 2,601 |
| Other | | 41,480 | 55,054 |
| **Derivative contracts and other liabilities held for trading** | 6, 14, 19, 22 | 12,073 | 14,608 |
| **Other liabilities** | 15, 19 | 91,818 | 66,907 |
| **Accruals and deferred income** | 16 | 22,274 | 23,324 |
| **Subordinated liabilities** | 16, 18, 22 | 43,000 | 41,020 |
| Capital loans | | 0 | 20 |
| Other | | 43,000 | 41,000 |
| **Deferred tax liabilities** | 12 | 6,342 | 7,554 |
| **LIABILITIES, TOTAL** | | 4,377,774 | 4,369,055 |
| **EQUITY** | | | |
| **Share capital** | 23, 24, 26 | 82,880 | 82,880 |
| Other restricted reserves | 23 | 7,042 | 20,530 |
| On measurement at fair value | | 7,042 | 20,530 |
| Non-restricted reserves | 23 | 243,813 | 243,812 |
| Profit (loss) from previous financial periods | 23 | 32,021 | 23,783 |
| Profit (loss) for the financial period | 23 | 12,837 | 8,237 |
| Minority interest | | 12,027 | 13,750 |
| **EQUITY, TOTAL** | 23 | 390,620 | 392,991 |
| **LIABILITIES, TOTAL** | | **4,768,394** | **4,762,046** |
| **OFF-BALANCE SHEET LIABILITIES** | | | |
| **Commitments given in favour of a customer** | 42 | | |
| Irrevocable | | 258,429 | 196,401 |
| Other | | 986,654 | 849,690 |

# CONSOLIDATED INCOME STATEMENT

| (EUR thousand) | Appendix | 1 Jan–31 Dec 2015 | 1 Jan–31 Dec 2014 |
|---|---|---|---|
| **Interest income** | 24 | 80,687 | 82,718 |
| **Net income from leasing activities** | 25 | 55 | 169 |
| **Interest expenses** | 24 | **-8,642** | **-12,807** |
| **NET INTEREST INCOME** | | 72,100 | 70,081 |
| **Return from equity investments** | 26 | 6 | 351 |
| **Fee and commission income** | 27 | 89,682 | 73,819 |
| **Fee and commission expenses** | 27 | -35,994 | -29,214 |
| **Net income from securities and currency trading** | | | |
| Net income from securities trading | 28 | 674 | 2,123 |
| Net income from currency trading | 28 | 139 | -107 |
| **Net income from available-for-sale financial assets** | 29 | 10,703 | 17,929 |
| **Net income from hedge accounting** | 30 | 595 | 237 |
| **Net income from investment property** | 31 | 1,185 | 1,073 |
| **Other operating income** | 32 | 14,734 | 11,312 |
| **Administrative expenses** | | -116,829 | -110,278 |
| Personnel expenses | | | |
| Wages, salaries and fees | | -41,743 | -35,445 |
| Indirect personnel expenses | | | |
| Pension costs | | -6,656 | -6,104 |
| Other indirect personnel expenses | | -2,303 | -1,579 |
| Other administrative expenses | | -66,126 | -67,151 |
| **Depreciation, amortisation and impairment on tangible and intangible assets** | 34 | -10,549 | -7,256 |
| **Depreciation, amortisation and impairment losses on consolidation goodwill** | | -2,080 | -2,075 |
| **Other operating expenses** | 33 | -7,315 | -10,483 |
| **Impairment losses on loans and other receivables** | 35 | -423 | -2,903 |
| **Share of results of associated companies** | | **1** | **-2** |
| **OPERATING PROFIT (LOSS)** | | **16,630** | **14,607** |
| **Income taxes** | | **-4,050** | **-1,186** |
| **PROFIT (LOSS) FROM ORDINARY ACTIVITIES AFTER TAXES** | | **12,580** | **13,421** |
| **Minority interests** | | **257** | **-265** |
| **PROFIT (LOSS) FOR THE PERIOD** | | **12,837** | **13,157** |

# CONSOLIDATED CASH FLOW STATEMENT

| CONSOLIDATED CASH FLOW STATEMENT (EUR million) | 2015 | 2014 |
|---|---|---|
| **CASH FLOW FROM OPERATIONS** | | |
| Result for the period | 13 | 13 |
| Adjustments of the result for the period | 9 | -4 |
| Increase (–) or decrease (+) in operating assets: | -240 | -105 |
| Receivables from the public and public sector entities | -250 | -115 |
| Other assets | 10 | 10 |
| Increase (+) or decrease (–) in operating liabilities: | 8 | -294 |
| Liabilities to credit institutions | -56 | -294 |
| Liabilities to the public and public sector entities | 57 | -137 |
| Other liabilities | 8 | 138 |
| A. Cash flow from operations, total | -210 | -390 |
| **Cash flow from investment activities** | | |
| Investments in tangible and intangible assets | -11 | -12 |
| Shares and participations in associated companies | 0 | 0 |
| B. Cash flow from investment activities, total | -11 | -12 |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Subordinated liabilities, increase | 2 | -4 |
| Dividends paid and other distribution of profits | -1 | 0 |
| Change in minority interest | -2 | -1 |
| C. Cash flow from financing activities, total | **-1** | **-5** |
| **Net change in liquid assets (A+B+C)** | **-223** | **-407** |
| Liquid assets at the start of the period | 2,090 | 2,497 |
| Liquid assets at the end of the period | 1,867 | 2,090 |
| Interest income | 82 | 83 |
| Interest expenses | -7 | -13 |
| **Profit adjustments for the period** | | |
| Net income from hedge accounting | -1 | 0 |
| Depreciation according to plan | 13 | 2 |
| Share of results of associated companies | 0 | 0 |
| Impairment losses on loans and other receivables | -1 | -8 |
| Items without a payment transactions and other adjustments | -2 | 2 |
| Adjustments, total | 9 | -4 |
| **Liquid assets** | | |
| Cash | 207 | 174 |
| Debt securities | 1,617 | 1,837 |
| Shares and participations | 23 | 41 |
| Receivables from credit institutions | 20 | 39 |
| Total | 1,867 | 2,090 |



# NOTES ON THE GROUP

## ACCOUNTING POLICIES

### Company

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

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

On 8 February 2016, the Executive Board approved the consolidated financial statements for the period of 1 January–31 December 2015 and the parent company's financial statements for 1 January–31 December 2015.

### Accounting policies

The financial statements have been prepared in accordance with the Finnish Accounting Act and, as applicable, with the provisions of the Act on Credit Institutions and the Ministry of Finance Decree on Financial Statements and Consolidated Financial Statements of Credit Institutions and Investment Firms (MFD), as well as the Finnish Financial Supervisory Authority's new regulations concerning accounting, financial statements and annual report of the financing sector operators, effective as of 1 February 2013. In preparing the financial statements, the general instructions issued by the Finnish Accounting Standards Board (KILA) have also been considered, as applicable.

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

### Principles of consolidation

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

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

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

### Comparability

The comparison details of the consolidated financial statements from 2014 include the result of the old S-Bank for the period between 1 January and 30 April 2014, as well as the result of the new S-Bank Ltd., which was established in the combination merger on 1 May 2014, for the period between 1 May and 31 December 2014. The consolidated balance sheet includes the balance sheet items of S-Bank Ltd. and LocalTapiola Bank Plc, which were combined in the merger.

On 1 August 2013, S-Bank Ltd. acquired 51 per cent of the share capital of FIM Corporation. FIM Corporation owns 100% of FIM Asset Management Ltd. and FIM Investment Services Ltd., and 80% of FIM Real Estate Ltd. In these financial statements, the Group, consisting of the above-mentioned companies, is referred to as the FIM sub-Group.

## ITEMS DENOMINATED IN FOREIGN CURRENCY

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

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

## FINANCIAL ASSETS AND LIABILITIES

S-Bank Group applies a settlement-date practice in recognising financial assets and liabilities on the balance sheet, excluding financial assets and liabilities measured at fair value through profit and loss. For financial assets and liabilities designated at fair value through profit and loss, a trading-date practice is applied to recognising the items on the balance sheet. An item included in financial assets or liabilities is initially recognised in the accounts at fair value, including transaction costs. On initial recognition, financial assets and liabilities are classified as financial assets or liabilities designated at fair value through profit and loss, financial assets held to maturity, available-for-sale financial assets, loans and other receivables, and other financial liabilities. Financial assets and liabilities are measured at fair value or amortised cost, using the effective interest method in accordance with their classification.

The fair value of a financial instrument is determined on the basis of prices quoted in active markets, or by using measurement methods that are generally applied in the markets. The fair values of certificates of deposit, commercial papers or derivatives (excluding futures) are determined by discounting future cash flows to the present value, applying market interest rates on the closing date. Bonds, investment funds units and futures are measured at market prices. Financial assets at fair value are measured using the bid price, while financial liabilities at fair value are measured using the asked rate.

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

Financial assets or liabilities 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. Derivative contracts to which hedge accounting has not been applied are also included.

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

Held-to-maturity investments include bonds and notes and other non-derivative investments that are connected to fixed or determinable payments, mature on a certain date or are held to maturity. Held-to-maturity investments are measured at amortised acquisition cost using the effective interest method. The Group does not have other held-to-maturity investments.

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

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

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

### Hedge accounting

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

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

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

## EMBEDDED DERIVATIVE

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

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

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

## PRINCIPLES OF INCOME RECOGNITION

### Interest income and expenses

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

### Fee and commission income and expenses

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

## INTANGIBLE ASSETS

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

Amortisation periods for intangible assets
IT systems and licensing fees: 5 years
Connection charges: 5 years
Goodwill: 5 years
Intangible assets / FIM sub-Group
Renovations of rented premises: 5 years
WWW project: 3 years

## TANGIBLE ASSETS

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

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

## IMPAIRMENT LOSSES

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

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

### Investment property

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

## INCOME TAXES

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

## RISK MANAGEMENT AND SOLVENCY

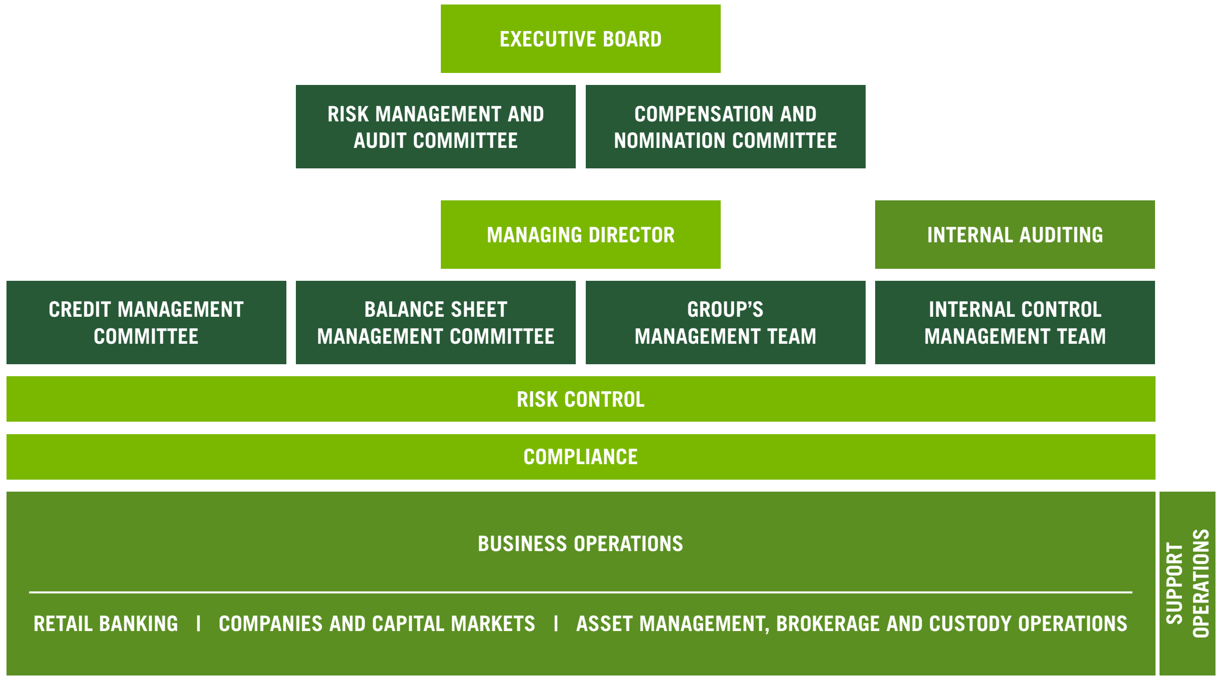
### General description and goals for risk management

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

S-Bank Group follows an overall risk strategy confirmed by the parent company's Executive Board. It describes the Group's risk-bearing capability and risk-taking willingness, specifies its key risks and general principles that help the bank secure its capital adequacy and continuity of operations. Risks are measured and reported in a manner that gives the Executive Board and line management sufficient and relevant information on operational risks and their management. Details of the overall risk strategy are specified in various documents, such as risk management principles and procedures, continuity plans, product descriptions and action plans.

### Risk management arrangements at S-Bank Group

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




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

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

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

The directors of S-Bank Group's business and support functions are primarily responsible for risks in their respective business areas, and they must ensure that business operations are carried out in accordance with S-Bank Group's guidelines and principles. In addition, the business and support functions are responsible for risks in their respective business areas within the provided limits.

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

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

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

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

The task of the compliance function is to ensure that S-Bank Group has adequate and appropriate operating principles and procedures for ensuring compliance with regulations. The function monitors and assesses the adequacy and efficiency of actions taken to correct failures that have occurred in the compliance of regulations.

The task of the legal affairs function is to support business and support operations in legal issues. The function ensures that legal issues related to agreements, individual products and service processes are handled in an excellent and business-driven manner, within the limits set by regulation.

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

## INTERNAL ASSESSMENT OF CAPITAL ADEQUACY AND RISK-BASED CAPITAL TARGET

### Background

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

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

### Internal assessment of capital adequacy

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

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

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

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

### Risk-taking willingness and risk-bearing capability

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

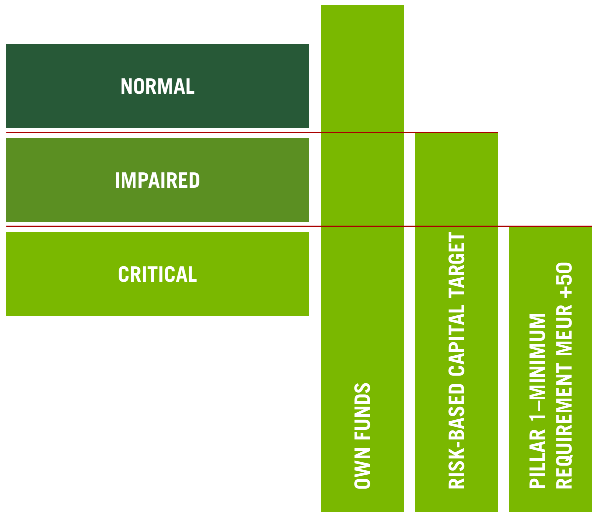
### Risk-based capital goal and restricting actions for solvency management

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

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

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

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




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

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

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

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

The new laws concerning the bank's crisis resolution, which entered into force in 2015, obligate credit institutions to take early proactive measures to prevent crises. Credit institutions and investment firms are obligated to draw up recovery plans pursuant to the Act on Credit Institutions and Ministry of Finance decrees. The renewed law defines procedures to apply when solving the situation of a bank in financial difficulties. If the limits set for the bank's capital adequacy and liquidity position are exceeded, the measures defined in the recovery plan will be launched. The recovery plan approved by S-Bank's Executive Board has been submitted to the Financial Supervisory Authority for approval.

## Disclosure of solvency information

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

## Own funds and solvency

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

Common equity consists of restricted and unrestricted equity items, minority interest and retained earnings. Share capital represents restricted equity. The unamortised portion of the acquisition costs of intangible assets is deducted from common equity. A negative fair value reserve is deducted from common equity, according to the EU capital requirements regulation (CRR, EU 575/2013), which took effect on 1 January 2014. In addition, since the beginning of 2015, a positive fair value reserve has been included in the common equity, less deferred taxes in accordance with the corporate tax rate. The comparison figures have been calculated in accordance with the new definition. Retained earnings for the current 2015 period are included in common equity as a result of the permit granted by the Finnish Financial Supervisory Authority in accordance with Article 26 of the EU capital requirements regulation.

Common equity also includes minority interest. Transition regulations must be considered in its calculation. The capital requirements regulation (CRR4) specifies the range of variation for the coefficients of minority interest. They are specified by the Finnish Financial Supervisory Authority.

FIM Corporation's minority interest is calculated in accordance with the transition regulations. A minority interest deduction item is deducted from the minority interest on the balance sheet.

Tier 1 own funds are freely and immediately available for covering unexpected losses. S-Bank Group's Tier 1 own funds are categorised as non-restricted own funds in full. In other words, S-Bank Group has full power of decision over the repayment of the funds and over the dividends to be distributed on them. The Tier 2 own funds consist of four loans on debenture terms in the Group. S-Bank repurchased one debenture in June 2015 and also issued a new, EUR 16 million debenture in December 2015. More detailed features of the debentures are provided in the notes to the balance sheet items (consolidated note 17 and the bank's note 17). S-Bank Group does not have items categorised as deductible from Tier 2 own funds, or jointly from Tier 1 and Tier 2 own funds.

Own funds and capital adequacy are presented in accordance with the EU capital requirements regulation (CRR, EU 575/2013).

At the end of the financial period, the Group's own funds totalled EUR 376.1 million (369.4), whereas the minimum requirement for own funds was EUR 194.9 million (183.5).

S-Bank Group's solvency ratio was 15.4 per cent (16.1).

| OWN FUNDS (EUR million) | 12/2015 | 12/2014 |
|---|---|---|
| **Common equity before deductions** | **391.2** | **391.4** |
| Share capital | 82.9 | 82.9 |
| Share premium reserve | 0.0 | 0.0 |
| Reserve for invested non-restricted equity | 243.8 | 243.8 |
| Voluntary provisions | | |
| Minority interest | 9.2 | 11.9 |
| Retained earnings | 44.9 | 32.0 |
| Profit/loss from previous financial periods | 32.0 | 23.8 |
| Profit/loss for the financial period | 12.8 | 8.2 |
| Fair value reserve | 10.4 | 20.8 |
| **Deductions from common equity** | **41.5** | **42.3** |
| Intangible assets | 35.6 | 36.2 |
| Deferred tax assets | 1.0 | 2.9 |
| Fair value reserve, negative valuation | 3.4 | 0.3 |
| Dividend distribution planned | 1.5 | 3.0 |
| **Common equity (CET1)** | **349.8** | **349.1** |
| **Tier 1 capital before deductions** | **0.0** | **0.0** |
| **Deductions from Tier 1 capital** | | |
| **Tier 1 capital (AT1)** | **0.0** | **0.0** |
| **Tier 1 capital** | **349.8** | **349.1** |

| OWN FUNDS (EUR million) | 12/2015 | 12/2014 |
|---|---|---|
| **Tier 2 capital before deductions** | **26.3** | **20.3** |
| Debentures | 26.3 | 20.3 |
| **Deductions form Tier 2 capital** | | |
| **Tier 2 capital (T2)** | **26.3** | **20.3** |
| **Own funds, total** | **376.1** | **369.4** |
| Own funds, total | 376.1 | 369.4 |
| Minimum requirement for own funds | 194.9 | 183.5 |
| **Capital adequacy ratio** | **15.4%** | **16.1%** |
| Tier 1 own funds | 349.8 | 349.1 |
| Minimum amount of own funds | 194.9 | 183.5 |
| **Solvency ratio of Tier 1 own funds** | **14.4%** | **15.2%** |
| **Risk-weighted items, total** | **2,436.0** | **2,293.6** |
| of which the credit risk represents | 2,133.0 | 1,999.9 |
| of which the market risk represents | 0.9 | 1.5 |
| of which the operational risk represents | 299.3 | 292.3 |
| of which credit valuation adjustment represents | 2.9 | |
| **Common equity in relation to risk-weighted items (%)** | **14.4%** | **15.2%** |
| **Tier 1 capital in relation to risk-weighted items (%)** | **14.4%** | **15.2%** |
| **Total capital in relation to risk-weighted items (%)** | **15.4%** | **16.1%** |

The Group's own funds were most significantly tied by the credit risk capital adequacy requirement and the included items "Receivables with real estate securities", which totalled EUR 1,836.7 million (1,719.3), "Receivables from credit institutions and investment service companies", which totalled EUR 1,020.6 million (1,294.7), and "Retail receivables", which totalled EUR 657.8 million (575.8). The table below specifies the responsibilities of various groups and their impact on the Group's own funds.

| MINIMUM AMOUNT OF OWN FUNDS (EUR million) | 12/2015 | | 12/2014 | |
|---|---|---|---|---|
| Minimum capital adequacy requirement for credit risk | **Exposure value** | **Own funds** | **Exposure value** | **Own funds** |
| Claims or contingent claims on central governments or central banks | 329.8 | 0.0 | 341.9 | 0.2 |
| Claims or contingent claims on regional governments or local authorities | 56.1 | 0.0 | 35.4 | 0.0 |
| Claims or contingent claims on administrative bodies and non-commercial undertakings | 20.0 | 0.3 | 0.0 | 0.0 |
| Claims or contingent claims on multilateral development banks | 5.1 | 0.0 | 24.1 | 0.0 |
| Claims or contingent claims on institutions* | 1,020.6 | 28.6 | 1,294.7 | 41.7 |
| Claims or contingent claims on corporates | 483.1 | 37.2 | 279.5 | 22.2 |
| Retail claims or contingent retail claims | 657.8 | 39.5 | 575.8 | 34.5 |
| Claims or contingent claims secured on real estate property | 1,836.7 | 51.4 | 1,719.3 | 48.1 |
| Past due items | 18.4 | 2.0 | 8.8 | 0.9 |
| Claims in the form of covered bonds | 234.0 | 1.9 | 352.1 | 2.8 |
| Claims in the form of collective investment undertakings | 30.6 | 2.4 | 35.4 | 2.8 |
| Other items | 42.9 | 2.7 | 56.5 | 2.6 |
| Off-balance sheet liabilities | 1,245.1 | 4.5 | 1,046.1 | 4.0 |
| **Total** | **5,980.1** | **170.6** | **5,769.5** | **160.0** |
| **Minimum capital adequacy requirement for credit risk, total** | | **170.6** | | **160.0** |
| **Minimum capital adequacy requirement for market risk** | | **0.07** | | **0.12** |
| **Minimum capital adequacy requirement for operational risks** | | **23.94** | | **23.4** |
| **Minimum capital adequacy requirement for credit valuation adjustment** | | **0.23** | | |
| **Minimum amount of own funds, total** | | **194.9** | | **183.5** |

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

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

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

| EXPOSURES BY RISK WEIGHTING (EUR million) | Exposure value | |
|---|---|---|
| Risk weighting, % | 2015 | 2014 |
| 0% | 1,397.1 | 1,279.2 |
| 10% | 235.2 | 356.0 |
| 20% | 678.9 | 494.4 |
| 35% | 1,837.1 | 1,721.5 |
| 50% | 617.4 | 935.2 |
| 75% | 659.8 | 577.7 |
| 100% | 540.2 | 397.2 |
| 150% | 14.3 | 8.2 |
| | **5,980.1** | **5,769.5** |

| PAST DUE ITEMS (EUR million) FOR 2015 | 30–90 days | More than 90 days | Impairment losses | Total |
|---|---|---|---|---|
| Balance sheet item | | | | |
| Receivables from the public and public sector entities | 1.3 | 14.9 | -2.9 | **13.3** |

| PAST DUE ITEMS (EUR million) FOR 2014 | 30–90 days | More than 90 days | Impairment losses | Total |
|---|---|---|---|---|
| Balance sheet item | | | | |
| Receivables from the public and public sector entities | 6.5 | 9.2 | -3.7 | **12.0** |

| EXPOSURES (EUR million) | TOTAL AMOUNT OF EXPOSURES | | AVERAGE VALUE OF EXPOSURES IN THE FINANCIAL PERIOD | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Claims or contingent claims on central governments or central banks | 329.8 | 341.9 | 253.5 | 257.3 |
| Claims or contingent claims on regional governments | 56.1 | 35.4 | 50.0 | 28.4 |
| Claims or contingent claims on administrative bodies and non-commercial undertakings | 20.0 | 0.0 | 15.0 | 0.0 |
| Claims or contingent claims on multilateral development banks and international organisations | 5.1 | 24.1 | 8.0 | 10.0 |
| Claims or contingent claims on institutions | 1,020.6 | 1,294.7 | 1,112.2 | 1,577.5 |
| Claims or contingent claims on corporates | 483.1 | 279.5 | 510.8 | 345.0 |
| Retail claims or contingent retail claims | 657.8 | 575.8 | 631.3 | 535.5 |
| Claims or contingent claims secured on real estate property | 1,836.7 | 1,719.3 | 1,796.5 | 1,232.7 |
| Past due items | 18.4 | 8.7 | 12.4 | 10.0 |
| Claims in the form of covered bonds | 234.0 | 352.1 | 217.0 | 338.9 |
| Claims in the form of collective investment undertakings | 30.6 | 35.4 | 33.1 | 47.9 |
| Other items | 42.9 | 56.5 | 48.7 | 58.9 |
| Off-balance sheet items | 1,245.1 | 1,046.1 | 1,162.9 | 929.0 |
| **Total** | **5,980.1** | **5,769.5** | **5,851.3** | **5,371.1** |

| GEOGRAPHIC DISTRIBUTION OF EXPOSURES (EUR million) IN 2015 | Finland | Nordic countries | Other EU member states | Other countries |
|---|---|---|---|---|
| Claims or contingent claims on central governments or central banks | 299.2 | 27.5 | 3.0 | 0.0 |
| Claims or contingent claims on regional governments | 45.0 | 11.0 | 0.0 | 0.0 |
| Claims or contingent claims on multilateral development banks and international organisations | 0.0 | 0.0 | 5.1 | 0.0 |
| Claims or contingent claims on institutions | 417.6 | 259.0 | 194.3 | 149.7 |
| Claims or contingent claims on corporates | 465.4 | 17.7 | 0.0 | 0.0 |
| Retail claims or contingent retail claims | 656.2 | 0.0 | 1.6 | 0.0 |
| Claims or contingent claims secured on real estate property | 1,836.7 | 0.0 | 0.0 | 0.0 |
| Past due items | 18.3 | 0.1 | 0.0 | 0.0 |
| Claims in the form of covered bonds | 67.9 | 144.1 | 8.0 | 14.0 |
| Claims in the form of collective investment undertakings | 30.6 | 0.0 | 0.0 | 0.0 |
| Other items | 34.4 | 5.2 | 2.3 | 1.0 |
| Off-balance sheet items | 1,244.7 | 0.0 | 0.4 | 0.0 |
| **TOTAL** | **5,136.0** | **464.7** | **214.6** | **164.8** |

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

| BREAKDOWN OF EXPOSURES BY BRANCH OF BUSINESS (EUR million) | 2015 | 2014 |
|---|---|---|
| Financial and insurance activities | 1,559.5 | 1,896.0 |
| Wholesale and retail trade | 461.3 | 362.5 |
| Real estate activities | 267.8 | 308.5 |
| Electricity, gas and water supply, cooling business | 35.4 | 89.5 |
| Industry | 100.8 | 48.5 |
| Mining and quarrying | 6.3 | 4.6 |
| Construction | 77.7 | 4.5 |
| Information and communication | 17.2 | 12.8 |
| Public administration and defence; compulsory social security | 99.3 | 0.1 |
| Other | 84.3 | 240.6 |
| No branch category* | 3,270.5 | 2,801.8 |
| **Total** | **5,980.1** | **5,769.5** |

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

| NOMINAL VALUES OF DERIVATIVES IN ACCORDANCE WITH THE REMAINING MATURITY DISTRIBUTION (EUR million), 31 DEC 2015 | Less than 1 year | 1–5 years | More than 5 years |
|---|---|---|---|
| **Interest rate derivatives** | | | |
| Forward contracts | | | |
| Interest rate swaps | 221.0 | 342.0 | 46.2 |
| Options, bought | 20.0 | 200.0 | |
| Options, written | 45.0 | 150.0 | 50.0 |
| **Equity derivatives** | | | |
| Forward contracts | | | |
| Options, bought | 20.9 | | |
| Options, written | 20.9 | | |
| **Foreign exchange derivatives** | | | |
| Forward contracts | | | |
| Interest rate swaps and currency swaps | | | |

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

| DERIVATIVE CONTRACTS 31 DEC 2015 MADE FOR HEDGING PURPOSES (EUR million) | Nominal value | Positive fair value | Negative fair value |
|---|---|---|---|
| **Interest rate derivatives** | | | |
| Interest rate swaps | 589.0 | 0.0 | -9.2 |

| NOT MADE FOR HEDGING PURPOSES (EUR million) | Nominal value | Positive fair value | Negative fair value |
|---|---|---|---|
| **Interest rate derivatives** | | | |
| Forward contracts | | | |
| Interest rate swaps | 20.2 | | -0.3 |
| Options, bought | 220.0 | 0.8 | |
| Options, written | 245.0 | | -1.4 |
| **Equity derivatives** | | | |
| Forward contracts | | | |
| Options, bought | 20.9 | 1.1 | |
| Options, written | 20.9 | | -1.0 |
| **Foreign exchange derivatives** | | | |
| Forward contracts | | | |
| Interest rate swaps and currency swaps | | | |

| DERIVATIVES, 31 DEC 2014 MADE FOR HEDGING PURPOSES (EUR million) | Nominal value | Positive fair value | Negative fair value |
|---|---|---|---|
| **Interest rate derivatives** | | | |
| Interest rate swaps | 693.5 | | -11.1 |

| NOT MADE FOR HEDGING PURPOSES (EUR million) | Nominal value | Positive fair value | Negative fair value |
|---|---|---|---|
| **Interest rate derivatives** | | | |
| Forward contracts | 0 | 0.0 | 0.0 |
| Interest rate swaps | 29.0 | 0.0 | -1.5 |
| Options, bought | 30.0 | 0.0 | 0.0 |
| Options, written | 95.0 | 0.0 | -0.4 |
| **Equity derivatives** | | | |
| Forward contracts | 4.7 | 0.0 | 0.0 |
| Options, bought | 34.6 | 0.8 | |
| Options, written | 34.6 | | -0.7 |
| **Foreign exchange derivatives** | | | |
| Forward contracts | | | |
| Interest rate swaps and currency swaps | 16.3 | 0.6 | -0.5 |

**BREAKDOWN OF FINANCIAL ASSETS AND LIABILITIES BY INTEREST RATE MATURITIES (EUR million), 2015**

| Balance sheet item / next interest rate fixing date | 0–1 months | 1–3 months | 3–6 months | 6–9 months | 9–12 months | 1–2 years | 2–5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cash | 207.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 207.3 |
| Receivables from credit institutions | 19.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 19.7 |
| Receivables from the public and public sector entities | 923.8 | 539.1 | 543.1 | 307.8 | 323.2 | 72.4 | 108.6 | 13.1 | 2,831.1 |
| Debt securities | 259.5 | 373.3 | 164.3 | 19.7 | 67.7 | 186.0 | 459.0 | 64.8 | 1,594.2 |
| **Receivables, total** | **1,410.3** | **912.3** | **707.4** | **327.5** | **390.9** | **258.4** | **567.6** | **77.9** | **4,652.3** |
| Liabilities to credit institutions | 0.0 | 0.0 | -10.0 | -1.8 | 0.0 | 0.0 | 0.0 | 0.0 | -11.8 |
| Liabilities to the public and public sector entities | -4,087.3 | -16.5 | -12.3 | -13.2 | -15.2 | -1.5 | -0.3 | 0.0 | -4,146.4 |
| Bonds issued to the public | 0.0 | -16.5 | -9.6 | -16.0 | -2.0 | 0.0 | 0.0 | 0.0 | -44.1 |
| Subordinated liabilities | -24.0 | -3.0 | 0.0 | 0.0 | -16.0 | 0.0 | 0.0 | 0.0 | -43.0 |
| **Liabilities, total** | **-4,111.3** | **-36.0** | **-31.9** | **-30.9** | **-33.2** | **-1.5** | **-0.3** | **0.0** | **-4,245.3** |
| **Receivables and liabilities, total** | **-2,701.0** | **876.3** | **675.5** | **296.5** | **357.7** | **256.9** | **567.3** | **77.9** | **407.1** |

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

| Balance sheet item / next interest rate fixing date | 0–1 months | 1–3 months | 3–6 months | 6–9 months | 9–12 months | 1–2 years | 2–5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cash | 173.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 173.6 |
| Receivables from credit institutions | 38.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 38.6 |
| Receivables from the public and public sector entities | 623.5 | 766.5 | 511.6 | 254.2 | 272.3 | 31.3 | 97.3 | 14.4 | 2,571.1 |
| Debt securities | 209.0 | 502.8 | 134.8 | 62.7 | 37.2 | 447.6 | 416.0 | 24.8 | 1,834.8 |
| **Receivables, total** | **1,044.8** | **1,269.3** | **646.4** | **316.9** | **309.5** | **478.8** | **513.3** | **39.2** | **4,618.2** |
| Liabilities to credit institutions | -68.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -68.1 |
| Liabilities to the public and public sector entities | -3,903.9 | -52.7 | -37.3 | -30.2 | -26.5 | -31.2 | -8.1 | 0.0 | -4,089.8 |
| Bonds issued to the public | -2.5 | 0.0 | -34.1 | -6.5 | -12.0 | -2.6 | 0.0 | 0.0 | -57.7 |
| Subordinated liabilities | -12.0 | -4.0 | -25.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -41.0 |
| **Liabilities, total** | **-3,986.5** | **-56.7** | **-96.4** | **-36.7** | **-38.5** | **-33.8** | **-8.1** | **0.0** | **-4,256.6** |
| **Receivables and liabilities, total** | **-2,941.7** | **1,212.6** | **550.0** | **280.2** | **271.0** | **445.1** | **505.2** | **39.2** | **361.5** |

# S-BANK GROUP'S RISKS

## GENERAL

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

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


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

## CREDIT RISKS

### Definition and management for credit risk

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

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

## Lending

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

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

## Reducing the credit risk

Collateral and guarantees are used as a method for reducing credit risks and impact granting and pricing of secured credit. S-Bank's Executive Board approves collateral types, as well as the measurement and management principles of collateral types. Collateral and guarantee are used in the risk management of various credit types, in accordance with methods described in the product description and credit granting guidelines. The product description and guidelines are used to ensure that collateral is binding, extensive enough and realisable.

The principle is that credits are only granted to customers, whose repayment capability is adequate, independent of the value of potential collateral. Collateral details are maintained to identify and manage potential risk concentrations. Values of collateral in the investment limits/loans that support banking business operations are monitored on a regular basis. Adequacy of collateral values of securities is monitored on a daily basis. Moreover, the risk report of the management is prepared on a monthly basis to report on the amount of collateral and guarantees. When using guarantees, the customer risk is transferred from the counterparty to the guarantor.

Real estate securities and guarantee-like credit protection instruments, such as government guarantees, as well as credit protection instruments against payment, such as liabilities funding in securities issued by institutes, are used as reducing factors in the calculation of capital adequacy requirement for credit risk. The table below describes the distribution of collateral and guarantees in accordance with solvency reporting: The greatest change has taken place in exposures with real estate securities as the mortgage portfolio and corporate business have increased:

| COLLATERAL AND GUARANTEES USED FOR SOLVENCY | Exposure value (EUR million) | |
|---|---|---|
| | 2015 | 2014 |
| Claims or contingent claims on central governments or central banks | 93.7 | 97.3 |
| Claims or contingent claims on regional governments or local authorities | 7.5 | 18.2 |
| Claims or contingent claims on institutions | 27.5 | 44.4 |
| Claims or contingent claims on corporates | 0.0 | 0.0 |
| Secured on real estate property | 1,836.7 | 1,719.3 |

In investment business operations, S-Bank Group makes such agreements as ISDA (International Swaps and Derivatives Association) and CSA (Credit Support Annex) with its counterparties that have derivative contracts. These agreements reduce the counterparty default risk. The agreements specify the general terms and conditions related to derivatives, as well as the collateral application methods between the counterparties.

## Major customer risks and concentration risks

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

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

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

## Impairment losses

At the end of each financial period, the Group assesses whether there is any objective evidence that the value of an item, other than those classified as financial assets designated at fair value through profit and loss, is impaired. Impairment refers to a situation in which it has been estimated on the basis of objective criteria that the bank will not receive receivables back in full. Objective evidence is, for example, a customer's delay in payment, insolvency or bankruptcy, reorganisation or rearrangement of debts, or a major change in the credit rating. The amount of recognised impairment loss is the best estimate of the amount of expected credit losses, after taking into account all relevant information about the situation on the reporting date. The impairment loss is recognised in the balance sheet and result through the review of impairment. The assessment is carried out at least four times per year, and the Credit Management Committee approves the proposal on both individually significant and group-specific impairments.

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

The impaired receivables totalled EUR 2.9 million (3.7) in the financial statements. The impairments primarily result from the credit portfolio of private customers, whereas impairment recognition of corporate customers is very minor. The largest impairment item, both in terms of percentages and euro amounts, is unsecured card and consumer credit. Credit losses from retail banking have been smaller than expected and the impairment volume could be decreased compared to 2014.

Debt securities and other domestic and foreign securities, not recorded in financial assets designated at fair value through profit and loss, investments held to maturity, or loans and other receivables, are recorded in available-for-sale financial assets. Should there be objective evidence of the impairment of debt securities or shares included in available-for-sale financial assets, the cumulative loss directly recognised in equity is removed from equity and recognised in the income statement as an impairment loss. The impairment loss of a share that is not publicly quoted is determined as being the difference between the carrying amount and the present value of estimated future cash flows discounted at the market yield of a similar item on the reporting date. If the fair value of notes or bonds classified as available-for-sale later increases and the increase can be objectively related to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised through profit and loss. If the fair value of a share subsequently increases, the increase in value is recognised in equity. No impairment losses were made in available-for-sale financial assets for 2015.

### Investment operations – counterparties

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

### Credit risk control and reporting

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

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

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

### Risk-based capital target for credit risk

The capital goals of unsecured card and consumer credits of private customers are analysed, for example, with an estimate of the likelihood of insolvency and credit loss returns. For credits with real estate securities, sufficiency of the collateral coverage and the amount of realised credit losses are reviewed. These assessments make it possible to expect that the risk weightings in accordance with the standard method will cover the risk-based capital target. To sum up, the risk-based capital target is comprised of the capital requirements under Pillar 1 and the concentration risk calculated for major companies. Unlike the Pillar 1 capital requirement, the credit risk of the treasury's investment operations is handled as the spread risk under Pillar 2, and, thus, as part of the market risk.

## MARKET RISKS

### Definition, management and measurement of market risks

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

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

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

### Interest rate risks

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

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

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

In accordance with S-Bank Group's overall risk strategy, the interest rate risk in banking is monitored on a monthly basis by means of interest rate gap analysis, in which liabilities and receivables are grouped into time periods on the basis of their interest rate tying. The effects of changes in parallel interest rate curves on the bank's interest rate risk exposure are monitored daily with the net present value method, and monthly with the income risk method. The effect of changes in the interest rate on the market value of balance sheet items is also monitored. Internal transfer pricing is used to support the management of the interest rate risk in the banking book.

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

On 31 December 2015, S-Bank's interest rate risk in financing activities was EUR -29.2 million (-25.0) as the interest rates increased by one percentage point.

### Credit premium risks (spread risks)

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

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

### Equity risks

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

### Property risks

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

### Currency risks

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

### Risk-based capital target for market risk

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

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

With regard to interest rate risks, the dimensioning of the capital need is based on the parallel interest rate fluctuation in all reference rates and currencies, in accordance with the market risk model, as well as the resulting, partly theoretical, change in the value of positions, which is based on the present value. With regard to the equity risks, the risk-based capital target is based on a stress test in accordance with the market risk model, which is 51 per cent of the open net positions. The capital goal of real estate investments is specified as part of the market risk model. According to the model, the amount of the bank's reservation for its own accounts for 23 per cent of the market value of real estate.

## LIQUIDITY RISK

### Definition of liquidity risk and risk management arrangements

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

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

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

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

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

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

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

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

### S-Bank Group's fund-raising operations

S-Bank's fund-raising operations are primarily based on the deposit portfolio. The bank's customer business is showing a favourable surplus in deposits. S-Bank Group's main fund-raising source includes demand-deposit current accounts and savings accounts of its retail banking business. In S-Bank Group's business model, a key indicator of sufficient funding is the ratio between lending and borrowing. On 31 December 2015, it was 69 per cent (64).

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

### Measuring and monitoring the liquidity risk

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

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

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

### Securing the continuity of liquidity

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

### Key indicators for liquidity risk:

The quantitative CRD IV/CRR liquidity regulations took effect on 1 October 2015. The bank's ratio on 31 December 2015 was 123 per cent (124), and the minimum requirement was 60 per cent. The minimum requirement will gradually increase to 100 percent by 2018, and the limit will increase to 70 per cent by 1 January 2016. The requirement as a factor guiding the bank's investment activities will increase in importance as the minimum requirement becomes stricter. The table below shows the key indicators describing S-Bank Group's liquidity position for 30 days. The figure include impairment losses that have been applied to balance sheet items (i.e. 'hair cuts').

| LIQUIDITY (LCR), 31 DEC 2015 BALANCE SHEET ITEM (EUR million) | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|
| Liquid assets, 1 | 437 | 440 |
| Liquid assets, 2a | 17 | 11 |
| Liquid assets, 2b | 25 | 2 |
| **Liquid assets, total** | **479** | **452** |
| **Liquidity outflow, total** | **458** | **410** |
| **Liquidity inflow, total** | **68** | **45** |
| **Liquidity requirement (%)** | **123%** | **124%** |

**BREAKDOWN OF FINANCIAL ASSETS AND LIABILITIES BY MATURITY (EUR million), 2015**

| Balance sheet item | 0–1 months | 1–3 months | 3–6 months | 6–9 months | 9–12 months | 1–2 years | 2–5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cash | 207.3 | | | | | | | | 207.3 |
| Receivables from credit institutions | 19.7 | | | | | | | | 19.7 |
| Claims or contingent claims on administrative bodies and non-commercial undertakings* | 60.7 | 105.2 | 96.0 | 77.2 | 74.6 | 273.2 | 698.0 | 1,446.2 | 2,831.1 |
| Debt securities | 48.9 | 66.4 | 121.6 | 21.2 | 106.6 | 300.1 | 859.4 | 69.8 | 1,594.2 |
| **Receivables, total** | **336.6** | **171.6** | **217.6** | **98.4** | **181.2** | **573.4** | **1,557.5** | **1,516.1** | **4,652.3** |
| Liabilities to credit institutions | 0.0 | | -10.0 | -1.8 | | | | | -11.8 |
| Liabilities to the public and public sector entities** | -4,074.1 | -26.9 | -11.6 | -12.3 | -11.4 | -8.2 | -1.8 | | -4,146.4 |
| Debt securities issued to the public | | -16.5 | -9.6 | -16.0 | -2.0 | | | | -44.1 |
| Subordinated liabilities | -3.0 | | -15.0 | -1.0 | | -4.0 | -4.0 | -16.0 | -43.0 |
| **Liabilities, total** | **-4,077.2** | **-43.4** | **-46.2** | **-31.1** | **-13.4** | **-12.2** | **-5.8** | **-16.0** | **-4,245.3** |
| **Receivables and liabilities, total** | **-3,740.5** | **128.2** | **171.4** | **67.3** | **167.7** | **561.2** | **1,551.7** | **1,500.1** | **407.1** |

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

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

| Balance sheet item | 0–1 months | 1–3 months | 3–6 months | 6–9 months | 9–12 months | 1–2 years | 2–5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cash | 173.6 | | | | | | | | 173.6 |
| Receivables from credit institutions | 38.6 | | | | | | | | 38.6 |
| Claims or contingent claims on administrative bodies and non-commercial undertakings* | 147.2 | 36.4 | 49.3 | 62.6 | 60.5 | 225.4 | 719.0 | 1,270.7 | 2,571.1 |
| Debt securities | | 45.8 | 145.1 | 61.9 | 68.3 | 737.9 | 744.1 | 31.8 | 1,834.8 |
| **Receivables, total** | **359.4** | **82.2** | **194.3** | **124.5** | **128.8** | **963.3** | **1,463.1** | **1,302.5** | **4,618.2** |
| Liabilities to credit institutions | -2.1 | -50.0 | -5.2 | -10.8 | | | | | -68.1 |
| Liabilities to the public and public sector entities** | -3,903.9 | -52.7 | -37.3 | -30.2 | -26.5 | -31.2 | -8.1 | | -4,089.8 |
| Debt securities issued to the public | -2.5 | | -34.1 | -6.5 | -12.0 | -2.6 | | | -57.7 |
| Subordinated liabilities | | | | | | -25.0 | -16.0 | 0.0 | -41.0 |
| **Liabilities, total** | **-3,908.5** | **-102.7** | **-76.6** | **-47.5** | **-38.5** | **-58.8** | **-24.1** | **0.0** | **-4,256.7** |
| **Receivables and liabilities, total** | **-3,549.1** | **-20.5** | **117.7** | **77.0** | **90.3** | **904.6** | **1,439.1** | **1,302.5** | **361.5** |

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

### Capital goal for liquidity risk

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

## OPERATIONAL RISKS, INCLUDING REPUTATIONAL RISK

### General

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

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

### Operational risk management and measurement

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

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

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

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

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

## Monitoring and reporting on operational risks

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

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

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

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

## Capital goal for operational risks

The assessment of capital needs is mainly based on risk assessments related to the Group's operations, and actual damage that has resulted in losses. The risk assessment is based on risk mappings carried out by business operations, and, as applicable, events in the external operating environment. The capital requirement to be calculated with the Pillar 1 basic method is substantial, in relation to the risk-based capital requirement for the operational risk. Consequently, the Pillar 1 capital requirement is assumed to be more than adequate to cover the bank's operational losses.

## Strategic risks, business risks and risks caused by external environment

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

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

## Integration risks

The integration of the operations of S-Bank Group was one of the most significant risks in 2015. The majority of the integration was completed by the end of 2015, and no losses or risks causing reputation damage were realised relating to it. The integration of the operations will continue in 2016, involving risks with short-term impact. Integration risks are, in nature, operational and business risks, and therefore presented separately in capital goal calculations. The following types of key risks have been identified in the risk surveys for the integration plan:

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

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

## S-Bank Group's risk-based capital target

The summary below describes the relation of the Pillar 1 capital requirement and Pillar 2 risk-based capital target to S-Bank Group's own funds for the above-mentioned risks. The capital buffer, in relation to the Pillar 1 capital requirement, totals EUR 181.2 million. It totals EUR 80.4 million, in relation to the Pillar 2 capital goal. The chart provides a summary of the bank's overall risks profile, which is confirmed by the Executive Board when it approves the financial statements.

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

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

| YEAR 2015 (EUR million) | 31 December 2015 |
|---|---|
| **Pillar 1 capital requirement, total** | **194.9** |
| Credit risk | 170.6 |
| Market risk | 0.1 |
| Operational risk | 23.9 |
| Risk related to the credit valuation adjustment | 0.2 |
| **Pillar 2 capital goal, total** | **295.7** |
| Credit risk | 149.5 |
| Spread risk | 82.3 |
| Other market risk | 22.8 |
| Operational risk | 23.9 |
| Strategic risk | 8.3 |
| Integration risks | 8.9 |
| **Own funds** | **376.1** |
| **Capital buffers** | |
| **for Pillar 1 capital requirement** | **181.2** |
| **for Pillar 2 capital goal** | **80.4** |

# NOTES TO CONSOLIDATED BALANCE SHEET ITEMS, EUR THOUSAND

| 1. Receivables from credit institutions | 31 December 2015<br>Repayable on demand | Other than repayable on demand | Total |
|---|---|---|---|
| From the Central Bank | 207,298 | 0 | 207,298 |
| From Finnish credit institutions | 2,779 | 10,681 | 13,460 |
| From foreign credit institutions | 4,071 | 2,153 | 6,224 |
| **Receivables from credit institutions, total** | **214,148** | **12,834** | **226,982** |

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

| 2. Receivables from the public and public sector entities | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Companies and housing associations | 378,812 | 253,275 |
| Finance and insurance institutions | 34,220 | 46,858 |
| Public sector entities | 0 | 65 |
| Households | 2,408,534 | 2,248,591 |
| Non-profit organisations serving households | 2,811 | 2,921 |
| Foreign entities | 6,759 | 19,399 |
| **Total** | **2,831,137** | **2,571,109** |
| **Impairment losses at beginning of year** | **3,676** | **9,336** |
| Receivable-specific impairment losses recorded in the period | 100 | 100 |
| Group-specific impairment losses recorded in the period | 2,812 | 3,576 |
| Receivable-specific impairment losses reversed in the period | 0 | -191 |
| Group-specific impairment losses reversed in the period | -3,676 | -9,146 |
| **Impairment losses at year-end** | **2,912** | **3,676** |

| 3. Debt securities | 31 December 2015<br>Other than publicly quoted | Total | 31 December 2014<br>Other than publicly quoted | Total |
|---|---|---|---|---|
| **Issued by public-sector entities** | | | | |
| **Available for sale** | | | | |
| Treasury bonds and notes | 28,600 | 28,600 | 74,182 | 74,182 |
| Other bonds issued by public-sector entities | 73,567 | 73,567 | 87,971 | 87,971 |
| Other debt securities | 20,015 | | | |
| **Debt securities issued by public-sector entities, total** | **102,167** | **102,167** | **162,153** | **162,153** |
| **Debt securities not issued by public-sector entities** | | | | |
| **Held to maturity** | | | | |
| Bonds issued by banks | 0 | 0 | 1,020 | 1,020 |
| **Held for trading** | | | | |
| Bonds issued by banks | 3,034 | 3,034 | 1,912 | 1,912 |
| **Available for sale** | | | | |
| Certificates of deposit issued by banks | 0 | 0 | 46,687 | 46,687 |
| Commercial papers | 12,003 | 12,003 | 1,500 | 1,500 |
| Bonds issued by banks | 1,122,560 | 1,122,560 | 1,488,026 | 1,488,026 |
| Other debt securities | 334,441 | 334,441 | 134,506 | 134,506 |
| **Debt securities not issued by public-sector entities, total** | **1,472,038** | **1,472,038** | **1,673,650** | **1,673,650** |
| **Total debt securities** | **1,574,205** | **1,574,205** | **1,835,804** | **1,835,804** |
| - of which eligible for refinancing with central banks | 1,123,559 | 1,123,559 | 1,464,060 | 1,464,060 |

| 4. Assets leased under finance leases | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Machinery and equipment | 0 | 5,343 |
| **Total** | **0** | **5,343** |

Finance lease operations were discontinued in 2015

| 5. Shares and participations | 31 December 2015 | | |
|---|---|---|---|
| Shares and participations | Publicly quoted | Other | Total |
| Held for trading | 446 | 0 | 446 |
| Available for sale | 30,396 | 202 | 30,599 |
| **Shares and participations in associated companies** | 0 | 2 | 2 |
| **Total** | **30,842** | **205** | **31,047** |
| - of which in credit institutions | 0 | 0 | 0 |

| | 31 December 2014 | | |
|---|---|---|---|
| Shares and participations | Publicly quoted | Other | Total |
| Held for trading | 5,327 | 8 | 5,336 |
| Available for sale | 35,236 | 161 | 35,398 |
| **Shares and participations in associated companies** | 0 | 1 | 1 |
| **Total** | **40,564** | **171** | **40,735** |
| - of which in credit institutions | 8,735 | 0 | 8,735 |

| | 31 December 2015 | | |
|---|---|---|---|
| 6. Derivative contracts | Nominal value | Positive fair value | Negative fair value |
| **For hedging purposes** | | | |
| **Interest rate derivatives** | | | |
| Interest rate swaps | 589,000 | 8 | -9,158 |
| **Of the nominal value of derivative exposures in hedge accounting,** | | | |
| EUR thousand in less than one year, | 208,000 | | |
| EUR thousand in 1–5 years and | 342,000 | | |
| EUR thousand in more than five years. | 39,000 | | |

| | 31 December 2015 | | |
|---|---|---|---|
| For non-hedging purposes | Nominal value | Positive fair value | Negative fair value |
| **Interest rate derivatives** | | | |
| Options, bought | 220,000 | 768 | 0 |
| Options, written | 245,000 | 0 | -1,440 |
| Interest rate swaps | 20,200 | 0 | -325 |
| **Equity derivatives** | | | |
| Options, bought | 20,942 | 1,050 | 0 |
| Options, written | 20,942 | 0 | -995 |
| **Of the nominal value of derivative exposures other than those in hedge accounting** | | | |
| EUR thousand in less than one year, | 98,942 | | |
| EUR thousand in 1–5 years and | 350,000 | | |
| EUR thousand in more than five years. | 57,200 | | |

The total amount of derivatives with a company belonging to the same group as the counterparty is EUR 5,000 thousand.

| | 31 December 2014 | | |
|---|---|---|---|
| **For hedging purposes** | **Nominal value** | **Positive fair value** | **Negative fair value** |
| **Interest rate derivatives** | | | |
| Interest rate swaps | 693,500 | 0 | -11,075 |
| Of the nominal value of derivative exposures in hedge accounting, | | | |
| EUR thousand in less than one year, | 0 | | |
| EUR thousand in 1–5 years and | 183,000 | | |
| EUR thousand in more than five years. | 510,500 | | |
| **For non-hedging purposes** | | | |
| **Interest rate derivatives** | | | |
| Options, bought | 30,000 | 1 | 0 |
| Options, written | 95,000 | 0 | -370 |
| Interest rate swaps | 29,000 | 0 | -1,471 |
| **Foreign exchange derivatives** | | | |
| Interest rate swaps and currency swaps | 16,275 | 597 | -462 |
| **Equity derivatives** | | | |
| Forward contracts | 4,689 | 17 | -20 |
| Options, bought | 34,594 | 815 | 0 |
| Options, written | 34,594 | 0 | -705 |
| Of the nominal value of derivative exposures other than those in hedge accounting | | | |
| EUR thousand in less than one year, | 81,732 | | |
| EUR thousand in 1–5 years and | 100,531 | | |
| EUR thousand in more than five years. | 27,294 | | |

| **7. Intangible assets** | **31 December 2015** | **31 December 2014** |
|---|---|---|
| Software and licences | 30,221 | 28,734 |
| Consolidation goodwill | 5,354 | 7,434 |
| **Total** | **35,576** | **36,168** |

| **8. Tangible assets** | **31 December 2015** | **31 December 2014** |
|---|---|---|
| **Investment properties, held for investment purposes** | | |
| Land and water areas | 792 | 792 |
| Buildings | 10,850 | 11,522 |
| Other tangible assets | 603 | 538 |
| **Total** | **12,244** | **12,852** |

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

| **9. Changes in intangible and tangible assets during the financial period** | **31 December 2015** | **31 December 2014** |
|---|---|---|
| **Advances for intangible assets** | | |
| Acquisition cost 1 Jan | 10,195 | 2,836 |
| Increase | 152 | 10,684 |
| Deductions | -364 | 0 |
| Transfers between items | -9,471 | -3,325 |
| Acquisition cost 31 Dec | 512 | 10,195 |
| Carrying amount 31 Dec | 512 | 10,195 |
| **Intangible assets** | | |
| IT expenses | | |
| Acquisition cost 1 Jan | 63,218 | 50,100 |
| Increase | 11,135 | 7,742 |
| Deductions | -5,778 | -78 |
| Transfers between items | 9,471 | 5,454 |
| Acquisition cost 31 Dec | 78,045 | 63,218 |
| Accumulated depreciation, amortisation and impairment; 1 Jan | -44,679 | -38,145 |
| Depreciation for the period | -3,657 | -6,534 |
| Accumulated depreciation and amortisation 31 Dec | -48,336 | -44,679 |
| Carrying amount 31 Dec | 29,709 | 18,539 |

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **Consolidation goodwill** | | |
| Acquisition cost; 1 Jan | 10,373 | 10,373 |
| Increase | 0 | 0 |
| Transfers between items | 0 | 0 |
| Acquisition cost 31 Dec | 10,373 | 10,373 |
| Accumulated depreciation, amortisation and impairment; 1 Jan | -2,939 | -864 |
| Depreciation for the period | -2,080 | -2,075 |
| Accumulated depreciation and amortisation 31 Dec | -5,018 | -2,939 |
| Carrying amount 31 Dec | 5,354 | 7,434 |
| **Intangible assets, total, 31 Dec** | **35,576** | **36,168** |
| **Other tangible assets** | | |
| Land and water areas | 792 | 792 |
| Buildings | | |
| Acquisition cost 1 Jan | 13,977 | 13,977 |
| Increase | 0 | 0 |
| Transfers between items | 0 | 0 |
| Acquisition cost 31 Dec | 13,977 | 13,977 |
| Accumulated depreciation, amortisation and impairment; 1 Jan | -2,455 | -1,919 |
| Depreciation for the period | -672 | -536 |
| Accumulated depreciation and amortisation 31 Dec | -3,128 | -2,455 |
| Carrying amount 31 Dec | 10,850 | 11,522 |
| **Other tangible assets** | | |
| Acquisition cost 1 Jan | 14,520 | 14,241 |
| Increase | 381 | 279 |
| Deductions | -322 | 0 |
| Acquisition cost 31 Dec | 14,869 | 14,520 |
| Accumulated depreciation, amortisation and impairment; 1 Jan | -13,982 | -13,794 |
| Depreciation for the period | -284 | -188 |
| Accumulated depreciation and amortisation 31 Dec | -14,266 | -13,982 |
| Carrying amount 31 Dec | 603 | 538 |
| **Tangible assets, total, 31 Dec** | **12,244** | **12,852** |

In terms of tangible and intangible assets, additional depreciation was made for 2015, when LocalTapiola Bank's accounts, credit and fund investments were combined with S-Bank's systems. The amount of additional depreciation on intangible assets was EUR 5,778 thousand and EUR 32 thousand on tangible assets.

| 10. Other assets | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Receivables from payment transactions | 0 | 94 |
| Other | 2,817 | 6,210 |
| **Total** | **2,817** | **6,305** |

| 11. Accrued income and advances paid | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Interest receivables | 20,812 | 24,953 |
| Other accrued income and advances paid | 10,858 | 13,155 |
| **Total** | **31,670** | **38,108** |

| 12. Deferred tax receivables and liabilities | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Deferred tax assets attributable to losses | 988 | 2,926 |
| Deferred tax assets / liabilities arising from the fair value reserve | 1,761 | 5,133 |
| Deferred tax liability from appropriations | 4,107 | 1,927 |
| Deferred tax liability from consolidation measures | 474 | 495 |

| 13. Debt securities issued to the public by the credit institution | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | Carrying amount | Nominal value | Carrying amount | Nominal value |
| Certificates of deposit | 41,480 | 41,443 | 55,054 | 55,150 |
| Bonds | 2,601 | 2,601 | 2,601 | 2,601 |
| **Total** | **44,081** | **44,044** | **57,655** | **57,751** |

| 14. Other liabilities held for trading | 31 December 2015 | 31 December 2014 |
|---|---|---|
| From short-selling of shares | 266 | 488 |
| **Other liabilities held for trading, total** | **266** | **488** |

| 15. Other liabilities | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Payables arising from payment transactions | 79,338 | 51,985 |
| Payables from securities | 2,400 | 1,954 |
| Other | 10,079 | 12,968 |
| **Other liabilities, total** | **91,818** | **66,907** |

| 16. Accruals and deferred income | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Interest expenses | 1,076 | 3,128 |
| Other accrued expenses and advances received | 21,197 | 20,196 |
| **Total** | **22,274** | **23,324** |

| | 31 December 2015 | | | |
|---|---|---|---|---|
| **17. Subordinated liabilities** | **Carrying amount *** | **Nominal value** | **Interest rate** | **Due date** |
| Loan on debenture terms I/2008 | 9,009 | 9,000 | Euribor 3 month + 0.5% | 15.1.2018 |
| Loan on debenture terms II/2008 | 3,001 | 3,000 | Euribor 3 month + 0.75% | 15.9.2018 |
| Tapiola Bank's debenture loan 1/2011 | 15,116 | 15,000 | Euribor 12 month + 1.35% | 30.6.2016 |
| Debenture I/2015 | 16,021 | 16,000 | Euribor 12 month + 1.5% | 1.12.2025 |

*) includes transferred interests

Terms of loans on debenture terms: The issuer reserves the right to repurchase the loan before the maturity date. The issuer, or an affiliated company, may only repurchase the loan, to a minor extent, before the end of the loan period, without the approval of the Finnish Financial Supervisory Authority. Repurchasing requires that the loans can be resold to a new investor within a short period of time. The note-holder does not have the right to require that the loan be repaid prematurely. The loans on debenture terms are subordinated to the bank's other debt obligations. In solvency calculation, loans on debenture terms are grouped to the Tier 2 capital in accordance with the CRR regulation. Capital loans are subject to the provisions of Chapter 12 of the Finnish Limited Liability Companies Act.

| Model of the key properties of equity instruments | Loan on debenture terms I/2008 | Loan on debenture terms II/2008 | Tapiola Bank's debenture loan 1/2011 | Debenture I/2015 |
|---|---|---|---|---|
| Issuer | S-Bank Ltd. | S-Bank Ltd. | S-Bank Ltd. | S-Bank Ltd. |
| Unique ID | S BANK DEBENTURE 15 January 2018 | S BANK DEBENTURE 15 September 2018 | FI4000026596 | FI4000185418 |
| Governing law(s) applied to the instrument | Finnish | Finnish | Finnish | Finnish |
| **Regulation** | | | | |
| Transitional CRR rules | Tier 2 capital (T2) | Tier 2 capital (T2) | Tier 2 capital (T2) | Tier 2 capital (T2) |
| Post-transitional CRR rules | Tier 2 capital (T2) | Tier 2 capital (T2) | Tier 2 capital (T2) | Tier 2 capital (T2) |
| Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated | Solo & consolidated | Solo & consolidated | Solo & consolidated | Solo & consolidated |
| Instrument type | | | | |
| Amount recognised in regulatory capital EUR Million (on the last reporting date) | 9 | 3 | 15 | 16 |
| Nominal amount of the instrument EUR Million | 15 | 5 | 15 | 16 |
| Issue price | 100 % | 100 % | 100 % | 100 % |
| Redemption price | 100 % | 100 % | 100 % | 100 % |
| Accounting classification | Liability amortised cost | Liability amortised cost | Liability amortised cost | Liability amortised cost |
| Original date of issuance | 30 January 2008 | 15 September 2008 | 30 June 2011 | 1 December 2015 |
| Perpetual or dated | Dated | Dated | Dated | Dated |
| Original maturity date | 15 January 2018 | 15 September 2018 | 30 June 2016 | 1 December 2025 |
| Issuer call subject to prior supervisory approval | yes | yes | yes | yes |

| | Loan on debenture terms I/2008 | Loan on debenture terms II/2008 | Tapiola Bank's debenture loan 1/2011 | Debenture I/2015 |
|---|---|---|---|---|
| Optional call date, contingent call dates, and redemption amount | The debenture will be repaid based on its nominal value in equal instalments annually on 15 January, with 15 January 2014 as the first instalment and 15 January 2018 as the last instalment. The issuer reserves the right to repay the debenture before the maturity date. Repurchasing requires that the loans can be resold to a new investor within a short period of time. The repurchase can be performed in accordance with the issuer's general loan terms and conditions. | The debenture will be repaid based on its nominal value in equal instalments annually on 15 September, with 15 September 2014 as the first instalment and 15 September 2018 as the last instalment. The issuer reserves the right to repay the debenture before the maturity date. Repurchasing requires that the loans can be resold to a new investor within a short period of time. The repurchase can be performed in accordance with the issuer's general loan terms and conditions. | The debenture will be repaid in full in one instalment on the repayment date of 30 June 2016 or on the date in accordance with the issuer's general loan terms and conditions. The amount to be repaid is the nominal value. | The debenture will be repaid based on its nominal value in equal instalments annually on 1 December, with 1 December 2021 as the first instalment and 1 December 2025 as the last instalment. The issuer reserves the right to repay the debenture before the maturity date. The repayment can take place no earlier than five (5) years after the issuance of the loan, unless the Financial Supervision Authority grants a permission to a repayment earlier than in five (5) years. |
| Subsequent call dates, if applicable | See above | See above | See above | See above |
| **Coupons/Dividends** | | | | |
| Fixed or floating dividend/coupon | Floating coupon | Floating coupon | Floating coupon | Floating coupon |
| Coupon rate and any related indices | Euribor 3 months + 0.5% per annum | Euribor 3 months + 0.75% per annum | Euribor 12 months + 1.35% per annum | Euribor 12 months + 1.5% per annum |
| Existence of a dividend stopper | no | no | no | no |
| Fully discretionary, partly discretionary or mandatory (in terms of timing) | mandatory | mandatory | mandatory | mandatory |
| Fully discretionary, partly discretionary or mandatory (in terms of quantity) | mandatory | mandatory | mandatory | mandatory |
| Existence of step up or other incentive to redeem | no | no | no | no |
| Non-cumulative and cumulative | non-cumulative | non-cumulative | non-cumulative | non-cumulative |
| Convertible or non-convertible | non-convertible | non-convertible | non-convertible | non-convertible |
| If convertible, what are the conversion trigger(s)? | Not applicable | Not applicable | Not applicable | Not applicable |
| If convertible, is it fully or partially convertible? | Not applicable | Not applicable | Not applicable | Not applicable |
| If convertible, what is the conversion rate? | Not applicable | Not applicable | Not applicable | Not applicable |
| If convertible, what is the conversion rate? | Not applicable | Not applicable | Not applicable | Not applicable |



| | Loan on debenture terms I/2008 | Loan on debenture terms II/2008 | Tapiola Bank's debenture loan 1/2011 | Debenture I/2015 |
|---|---|---|---|---|
| If convertible, is the conversion mandatory or optional? | Not applicable | Not applicable | Not applicable | Not applicable |
| If convertible, specify the instrument type it is convertible into. | Not applicable | Not applicable | Not applicable | Not applicable |
| If convertible, specify the issuer of instrument it converts. | Not applicable | Not applicable | Not applicable | Not applicable |
| Write-down features | Not applicable | Not applicable | Not applicable | Not applicable |
| If write-down is possible, what are the write-down trigger(s)? | Not applicable | Not applicable | Not applicable | Not applicable |
| If write-down is possible, is it full or partial? | Not applicable | Not applicable | Not applicable | Not applicable |
| If write-down is possible, is it permanent or temporary? | Not applicable | Not applicable | Not applicable | Not applicable |
| If a temporary write-down, description of the write-up mechanism. | Not applicable | Not applicable | Not applicable | Not applicable |
| Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Debentures are subordinated debt instruments, which belong to the T2 instruments referred to in Article 63 of the European Parliament and the Council regulation (EU) No. 575/2013, if 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, which belong to the T2 instruments referred to in Article 63 of the European Parliament and the Council regulation (EU) No. 575/2013, if 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, which belong to the T2 instruments referred to in Article 63 of the European Parliament and the Council regulation (EU) No. 575/2013, if 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, which belong to the T2 instruments referred to in Article 63 of the European Parliament and the Council regulation (EU) No. 575/2013, if 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 | no |
| If yes, specify non-compliant features | Not applicable | Not applicable | Not applicable | Not applicable |

| 18. Distribution of maturity of financial assets and liabilities | 31 December 2015 | | | | | |
|---|---|---|---|---|---|---|
| | 0–3 months | 3–12 months | 1–5 years | 5–10 years | More than 10 years | Total |
| Debt securities eligible for refinancing with central banks | 85,569 | 160,178 | 821,920 | 55,893 | 0 | 1,123,559 |
| Receivables from credit institutions | 19,684 | 0 | 0 | 0 | 0 | 19,684 |
| Receivables from the public and public sector entities | 165,915 | 247,726 | 971,245 | 595,539 | 850,710 | 2,831,137 |
| Debt securities | 29,790 | 89,282 | 337,659 | 13,929 | 0 | 470,660 |
| **Financial assets, total** | **300,958** | **497,186** | **2,130,824** | **665,361** | **850,710** | **4,445,040** |
| Liabilities to credit institutions | 10 | 11,800 | 0 | 0 | 0 | 11,810 |
| Liabilities to the public and public sector entities | 4,101,045 | 35,317 | 10,015 | 0 | 0 | 4,146,376 |
| Debt securities issued to the public | 16,495 | 27,585 | 0 | 0 | 0 | 44,081 |
| Subordinated liabilities | 3,000 | 16,000 | 8,000 | 16,000 | 0 | 43,000 |
| **Financial liabilities, total** | **4,120,550** | **90,702** | **18,015** | **16,000** | **0** | **4,245,267** |

| | 31 December 2014 | | | | | |
|---|---|---|---|---|---|---|
| | 0–3 months | 3–12 months | 1–5 years | 5–10 years | More than 10 years | Total |
| Debt securities eligible for refinancing with central banks | 34,852 | 216,412 | 1,187,989 | 24,835 | 0 | 1,464,060 |
| Receivables from credit institutions | 38,625 | 0 | 0 | 0 | 0 | 38,625 |
| Receivables from the public and public sector entities | 124,163 | 176,297 | 965,026 | 799,725 | 505,898 | 2,571,109 |
| Debt securities | 10,930 | 58,811 | 294,012 | 6,971 | 0 | 370,724 |
| **Financial assets, total** | **208,542** | **451,520** | **2,447,026,** | **831,532** | **505,898** | **4,444,518** |
| Liabilities to credit institutions | 52,143 | 16,000 | 0 | 0 | 0 | 68,143 |
| Liabilities to the public and public sector entities | 3,956,594 | 94,012 | 39,238 | 0 | 0 | 4,089,844 |
| Debt securities issued to the public | 2,499 | 52,555 | 2,601 | 0 | 0 | 57,655 |
| Subordinated liabilities | 20 | 0 | 41,000 | 0 | 0 | 41,020 |
| **Financial liabilities, total** | **4,011,256** | **162,567** | **82,839** | **0** | **0** | **4,256,662** |

| 19. Breakdown of balance sheet items into domestic and foreign amounts and from Group entities | 31 December 2015 | | | |
|---|---|---|---|---|
| | Finnish currency | Foreign currency | Total | From Group entities |
| **Balance sheet item** | | | | |
| Receivables from credit institutions | 18,570 | 1,114 | 19,684 | 42,088 |
| Receivables from the public and public sector entities | 2,831,137 | 0 | 2,831,137 | 29,775 |
| Debt securities | 1,594,220 | 0 | 1,594,220 | 0 |
| Derivative contracts | 1,714 | 0 | 1,714 | 0 |
| Shares and participations | 31,047 | 0 | 31,047 | 30,310 |
| Intangible assets | 35,576 | 0 | 35,576 | 0 |
| Tangible assets | 12,244 | 0 | 12,244 | 0 |
| Other assets | 242,521 | 252 | 242,773 | 272 |
| **Total** | **4,767,028** | **1,366** | **4,768,394** | **102,446** |
| Liabilities to credit institutions | 11,810 | 0 | 11,810 | 23,450 |
| Liabilities to the public and public sector entities | 4,146,376 | 0 | 4,146,376 | 49,814 |
| Debt securities issued to the public | 44,081 | 0 | 44,081 | 0 |
| Derivative contracts | 12,073 | 0 | 12,073 | 0 |
| Other liabilities | 120,434 | 0 | 120,434 | 277 |
| Subordinated liabilities | 43,000 | 0 | 43,000 | 41,020 |
| **Total** | **4,377,774** | **0** | **4,377,774** | **73,541** |

| | 31 December 2014 | | | |
|---|---|---|---|---|
| | Finnish currency | Foreign currency | Total | From Group entities |
| **Balance sheet item** | | | | |
| Receivables from credit institutions | 24,006 | 14,619 | 38,625 | 45,463 |
| Receivables from the public and public sector entities | 2,571,109 | 0 | 2,571,109 | 27,080 |
| Debt securities | 1,818,418 | 16,366 | 1,834,784 | 0 |
| Derivative contracts | 854 | 597 | 1,451 | 0 |
| Shares and participations | 40,735 | 0 | 40,735 | 30,605 |
| Intangible assets | 36,168 | 0 | 36,168 | 3,967 |
| Tangible assets | 12,852 | 0 | 12,852 | 3,029 |
| Other assets | 226,322 | 0 | 226,322 | 6,190 |
| **Total** | **4,730,465** | **31,582** | **4,762,046** | **116,334** |
| Liabilities to credit institutions | 68,143 | 0 | 68,143 | 23,601 |
| Liabilities to the public and public sector entities | 4,075,789 | 14,055 | 4,089,844 | 55,949 |
| Debt securities issued to the public | 57,655 | | 57,655 | |
| Derivative contracts | 14,146 | 462 | 14,608 | 0 |
| Other liabilities | 97,785 | 0 | 97,785 | 8,262 |
| Subordinated liabilities | 41,020 | | 41,020 | |
| **Total** | **4,354,538** | **14,517** | **4,369,055** | **87,812** |

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| **20. Securities lending** | Carrying amount | Nominal value | Carrying amount | Nominal value |
| **Borrowed financial assets** | | | | |
| Available for sale | | | | |
| Treasury bonds and notes | 10,294 | 10,000 | 13,567 | 13,000 |
| Bonds issued by banks | 0 | 0 | 6,321 | 6,000 |
| **Of those held for trading** | | | | |
| **Of those held to maturity** | | | | |
| **Total** | **10,294** | **10,000** | **19,888** | **19,000** |

**21. Securities repurchase agreements**

Nothing to report

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| **22. Fair values and carrying amounts of financial assets and liabilities, and the hierarchy of fair values** | Carrying amount | Fair value | Carrying amount | Fair value |
| **Financial assets** | | | | |
| Cash | 207,298 | 207,298 | 173,640 | 173,640 |
| Receivables from credit institutions | 19,684 | 19,684 | 38,625 | 38,625 |
| Receivables from the public and public sector entities | 2,831,137 | 2,846,093 | 2,571,109 | 2,585,429 |
| Debt securities* | 1,594,220 | 1,610,536 | 1,834,784 | 1,855,101 |
| Shares and participations | 31,044 | 30,964 | 40,733 | 67,574 |
| Shares and participations in associated companies | 2 | 2 | 1 | 1 |
| Derivative contracts | 1,714 | 1,714 | 1,451 | 1,451 |
| **Financial liabilities** | | | | |
| Liabilities to credit institutions | 11,810 | 11,819 | 68,143 | 68,023 |
| Liabilities to the public and public sector entities | 4,146,376 | 4,146,376 | 4,089,844 | 4,089,846 |
| Debt securities issued to the public | 44,081 | 44,111 | 57,655 | 57,693 |
| Derivative contracts and other liabilities held for trading | 12,073 | 12,073 | 14,608 | 14,608 |
| Subordinated liabilities | 43,000 | 43,140 | 41,000 | 41,163 |

S-Bank Group applies a settlement-date practice in recognising financial assets and liabilities on the balance sheet, excluding financial assets and liabilities designated at fair value through profit and loss. For financial assets and liabilities designated at fair value through profit and loss, a trading-date practice is applied to recognising the items on the balance sheet. An item included in financial assets or liabilities is initially recognised in the accounts at fair value, including transaction costs.

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

The fair value of a financial instrument is determined on the basis of prices quoted in active markets, or by using measurement methods that are generally applied in the markets. The fair values of certificates of deposit, commercial papers or derivatives (excluding futures) are determined by discounting future cash flows to the present value, applying market interest rates on the closing date. Bonds, investment funds units and futures are measured at market prices. Financial assets at fair value are measured using the bid price, while financial liabilities at fair value are measured using the asked rate.

| | 31 December 2015 | | | |
|---|---|---|---|---|
| **Financial instruments measured at fair value** | Level 1 | Level 2 | Level 3 | Total |
| Financial assets and liabilities held for trading purposes | 3,742 | | | 3,742 |
| Available-for-sale financial assets | 1,397,689 | 240,133 | | 1,637,822 |
| Derivative receivables | | 1,714 | | 1,714 |
| Derivatives liabilities | | 12,073 | | 12,073 |

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

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

| 23. Equity items | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Share capital; 1 Jan | 82,880 | 33,540 |
| Increase (+)/decrease(-), merger | 0 | 49,340 |
| **Share capital 31 Dec** | **82,880** | **82,880** |
| Share premium reserve; 1 Jan | 0 | 21,180 |
| Increase (+)/decrease(-), merger | 0 | -21,180 |
| **Share premium reserve; 31 Dec** | **0** | **0** |
| Fair value reserve; 1 Jan | 20,530 | 31,664 |
| Increase (+)/decrease(-), merger | 0 | 645 |
| Increase (+)/decrease(-) | -13,488 | -11,779 |
| **Fair value reserve, 31 Dec** | **7,042** | **20,530** |
| Invested non-restricted equity reserve; 1 Jan | 243,812 | 104,448 |
| Increase (+)/decrease(-), merger | 0 | 70,104 |
| Increase (+)/decrease(-) | 0 | 69,260 |
| **Invested non-restricted equity reserve; 31 Dec** | **243,812** | **243,812** |
| Loss from previous periods; 1 Jan | 32,021 | 34,459 |
| Resulting from the merger | 0 | -10,677 |
| **Loss from previous periods; 31 Dec** | **32,021** | **23,783** |
| Profit/loss for the financial period | 12,837 | 8,237 |
| **Minority interest** | **12,027** | **13,750** |
| **Equity, total** | **390,620** | **392,991** |

# NOTES TO CONSOLIDATED INCOME STATEMENT ITEMS, EUR thousand

| 24. Interest income and expenses | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Interest income** | | |
| Receivables from credit institutions | 119 | 166 |
| Receivables from the public and public sector entities | 60,549 | 51,076 |
| Debt securities | 19,851 | 30,371 |
| Derivative contracts | 168 | 1,106 |
| Other interest income | 0 | 0 |
| **Total** | **80,687** | **82,718** |
| Intra-Group interest income | -333 | -308 |
| Interest income from impaired receivables and other receivables | 2,367 | 2,851 |
| **Interest expenses** | | |
| Liabilities to credit institutions | 2 | 572 |
| Liabilities to the public and public sector entities | 4,596 | 6,789 |
| Derivatives and other liabilities held for trading | 3,610 | 5,012 |
| Subordinated liabilities | 425 | 426 |
| Other interest expenses | 9 | 8 |
| **Total** | **8,642** | **12,807** |
| Intra-Group interest expenses | -333 | 308 |

| 25. Net income from leasing activities | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Rental income | 61 | 134 |
| Depreciation of leasing assets according to plan | -3,949 | -4,893 |
| Gains and losses of leasing assets (net) | 3,931 | 4,910 |
| Other income | 12 | 17 |
| | **55** | **169** |

| 26. Return from equity investments | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Dividend income from investments classified as available-for-sale financial assets. | 0 | 12 |
| Dividend income from investments classified as financial assets held for trading | 6 | 255 |
| Dividend income received from companies included in the same Group and dividend income received from associated companies | 0 | 84 |
| | **6** | **351** |

| 27. Fee and commission income and expenses | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Fee and commission income** | | |
| from lending | 15,432 | 10,701 |
| from borrowing | 3,590 | 2,858 |
| from payment transactions | 6,481 | 5,679 |
| from funds | 45,609 | 37,496 |
| from asset management | 2,597 | 2,627 |
| from legal duties | 380 | 88 |
| from stock brokerage | 10,944 | 10,773 |
| from insurance brokerage | 453 | 312 |
| from issuing of guarantees | 165 | 97 |
| from other activities | 4,032 | 3,187 |
| | **89,682** | **73,819** |
| of which intra-Group items | 117 | 0 |
| **Fee and commission expenses** | | |
| from paid commission fees | 20 | 13 |
| from other sources | 35,975 | 29,201 |

| | 31 December 2015 | | | |
|---|---|---|---|---|
| 28. Net income from securities trading | Sales gains and losses (net) | Changes in fair value (net) | Other items | Total |
| From debt securities | 0 | -1,037 | 0 | -1,037 |
| From derivative contracts | -2,025 | 3,736 | 0 | 1,711 |
| **Net income from securities trading, total** | **-2,025** | **2,699** | **0** | **674** |
| Net income from currency trading | -17 | 156 | 0 | 139 |
| **Income statement item, total** | **-2,042** | **2,855** | **0** | **814** |

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

| 29. Net income from available-for-sale financial assets | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Net income from disposal of financial assets | 10,741 | 17,893 |
| Other income/expenses from available-for-sale financial assets | -39 | 36 |

| 30. Net income from hedge accounting | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Net result from hedging instruments | -875 | -6,400 |
| Net result from hedged items | 1,471 | 6,637 |

| 31. Net income from investment properties | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Rental income | 1,857 | 1,745 |
| Depreciation according to plan | -672 | -672 |
| | **1,185** | **1,073** |

| 32. Other operating income | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Other income | 14,734 | 11,312 |

| 33. Other operating expenses | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Rental expenses | 5,558 | 4,709 |
| Other expenses | 1,757 | 5,774 |
| **Total** | **7,315** | **10,483** |
| Financial Stability Authority contributions | | |
| Stability contribution | 271 | |
| Deposit guarantee contribution | 2,705 | |
| Administrative fee | 25 | |
| **Total** | **3,001** | |

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

| 34. Depreciation, amortisation and impairment on tangible and intangible assets | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Intangible assets | 12,584 | 9,258 |
| Tangible assets | 46 | 73 |

| 35. Impairment losses on loans and other commitments and other financial assets | 31 December 2015 | | | | |
|---|---|---|---|---|---|
| | Contract-specific impairment losses, gross | Contract-specific impairment losses, gross | Group-specific impairment losses, gross | Deductions | Recognised in the income statement |
| Receivables from the public and public sector entities | 8,602 | 100 | 2,812 | 11,091 | 423 |
| **Impairment losses on loans and other commitments, total** | 8,602 | | 2,812 | 11,091 | 423 |
| **Impairment losses, total** | 8,602 | | 2,812 | 11,091 | 423 |

| | 31 December 2014 | | | | |
|---|---|---|---|---|---|
| | Contract-specific impairment losses, gross | Contract-specific impairment losses, gross | Group-specific impairment losses, gross | Deductions | Recognised in the income statement |
| Receivables from the public and public sector entities | 15,442 | 100 | 3,576 | 16,215 | 2,903 |

**36. Income and expenses from other than ordinary activities**

Nothing to report

**37. Information on business areas and geographical market areas**

Nothing to report

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

| | Other collateral | |
|---|---|---|
| **38. Collateral provided** | **31 December 2015** | **31 December 2014** |
| **Collateral provided on own debt, balance sheet item:** | | |
| Liabilities to credit institutions | 157,500 | 346,450 |
| Derivatives and other liabilities held for trading | 11,616 | 12,871 |
| **Collateral provided on own debt, total** | **169,116** | **359,321** |
| **Other collateral provided on own behalf** | **13,771** | **20,004** |
| **Collateral provided for others** | **18** | **20** |

**39. Pension liabilities**

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

| 40. Leasing and other rental liabilities | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Within one year | 1,652 | 1,720 |
| Due in 1–5 years | 1,750 | 3,975 |
| Due in more than five years | 0 | 0 |
| **Total** | **3,402** | **5,695** |

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

### 41. Other financial liabilities

In connection with the purchase of the majority shareholding in FIM Corporation in 2013, it was agreed that S-Bank may purchase the remained of the share capital, in accordance with the mutually agreed terms and conditions, during 2016.

The Group is obligated to audit the valued added tax depreciations it has made on real estate investments, if the taxable use decreases during the period being audited. The maximum amount of the exposure is EUR 0.8 million and the year of maturity is 2020.

| 42. Off-balance sheet liabilities | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Guarantees | 20,186 | 10,406 |
| Undrawn credit facilities | 1,224,896 | 1,035,685 |

The Group's off-balance sheet commitments, on behalf of companies included in the same Group, amount to EUR 14.3 million.

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

Nothing to report

| 44. Brokerage receivables and payables | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Savings in accordance with the Finnish Act Governing Long-term Savings Agreements | 162 | 169 |
| **Other brokerage receivables and liabilities** | | |
| Purchases from brokers | 7,133 | 7,169 |
| Liabilities to customers | 11,063 | 10,534 |

### 45. Other off-balance sheet arrangements

Nothing to report

# NOTES ON PERSONNEL AND MANAGEMENT

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| **46. Personnel** | Average number | Number on 31 Dec 2015 | Average number | Number on 31 Dec 2014 |
| Permanent full-time personnel | 585 | 572 | 518 | 589 |
| Permanent part-time personnel | 72 | 73 | 76 | 82 |
| Fixed-term personnel | 55 | 51 | 73 | 44 |
| **Total** | **712** | **696** | **666** | **715** |

| Salaries and fees paid to Group management (EUR thousand) | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Consolidated corporation/Managing Director and his deputy | 885 | 985 |
| Consolidated corporation/Executive Board | 98 | 118 |

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

# RELATED PARTY TRANSACTIONS, EUR thousand

| 47. Loans and other financial receivables from related parties of the credit institution, investments made in such entities and guarantees and collateral provided by third parties on behalf of related parties | 31 December 2015 | 31 December 2014 |
|---|---|---|
| | Receivables from the public and public sector entities | Receivables from the public and public sector entities |
| **Basis for classification as a related party** | | |
| Management | 464 | 1,888 |
| Management of holding company | 1,433 | 58 |
| Kinship | 1,577 | 132 |
| **Total** | **3,474** | **2,079** |

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

# SUBSIDIARIES AND ASSOCIATED COMPANIES

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

Subsidiaries have been consolidated using the acquisition cost method

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

Associated companies have been consolidated using the equity method

# OTHER NOTES, EUR thousand

| 49. Notes regarding trustee services and total amount of customer funds | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Customer assets under management at the end of the financial period | 6,012,039 | 5,526,866 |
| Customer assets under asset management | 6,012,039 | 5,599,792 |
| On the basis of full powers | 729,919 | 788,917 |
| On the basis of other agreements | 5,282,120 | 4,810,875 |

S-Bank's subsidiary FIM Asset Management Ltd. practices common fund activities in accordance with its licence, business activities materially related thereto and asset management activities. At the year-end, the company had a total of 58 investment funds or hedge funds under its management. The company's asset management services include discretionary asset management and fund asset management, offered to both private individuals and institutional investors. In addition, S-Bank's subsidiary FIM Investment Services Ltd. offers its customers consulting asset management services.

# NOTE ON AUDITOR'S FEES, EUR thousand

| 50. Information on the auditors' fees | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Audit | 292 | 315 |
| Tax advice | 11 | 15 |
| Other services | 111 | 117 |

# S-BANK LTD., BALANCE SHEET

| ASSETS (EUR thousand) | Appendix | 31 December 2015 | 31 December 2014 |
|---|---|---|---|
| **Cash** | 18, 19, 24 | 207,298 | 173,526 |
| **Debt securities eligible for refinancing with central banks** | | | |
| Other | 3, 18, 19, 24 | 1,123,559 | 1,464,060 |
| **Receivables from credit institutions** | 1, 18, 19, 24 | 12,257 | 14,645 |
| Repayable on demand | | 459 | 1,640 |
| Other | | 11,799 | 13,005 |
| **Receivables from the public and public sector entities** | 2,18, 19, 24 | 2,860,912 | 2,598,189 |
| Repayable on demand | | 3,107 | 2,532 |
| Other | | 2,857,805 | 2,595,657 |
| **Leasing objects** | 4 | 0 | 5,343 |
| **Debt securities** | 3, 18, 19, 24 | | |
| Other | | 467,626 | 368,811 |
| **Shares and participations** | 5, 19, 24 | 30,418 | 35,219 |
| **Shares and participations in associated companies** | 5, 24 | 3 | 3 |
| **Shares and other equity in companies included in the same Group** | 5, 24 | 30,309 | 30,603 |
| **Derivative contracts** | 6, 19, 24 | 1,714 | 1,451 |
| **Intangible assets** | 7,10, 19 | 29,677 | 27,761 |
| **Tangible assets** | 8, 10 | | |
| Other tangible assets | | 293 | 156 |
| **Other assets** | 11 | 2,952 | 12,138 |
| **Accrued income and advances paid** | 12 | 25,017 | 30,952 |
| **ASSETS, TOTAL** | | **4,792,036** | **4,762,858** |

| EQUITY AND LIABILITIES (EUR thousand) | Appendix | 31 December 2015 | 31 December 2014 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Liabilities to credit institutions** | | | |
| To central banks | 18, 19, 24 | 0 | 50,000 |
| To credit institutions | | 11,810 | 18,143 |
| Repayable on demand | | 10 | 15 |
| Other | | 11,800 | 18,128 |
| **Liabilities to the public and public sector entities** | 18, 19, 24 | 4,188,465 | 4,112,322 |
| Deposits | | 4,154,100 | 4,079,654 |
| Repayable on demand | | 4,072,513 | 3,839,700 |
| Other | | 81,587 | 239,954 |
| Other liabilities | | 34,365 | 32,669 |
| Repayable on demand | | 33,255 | 31,491 |
| Other | | 1,110 | 1,178 |
| **Debt securities issued to the public** | 14, 19 | | |
| Bonds | | 2,601 | 2,601 |
| Other | | 41,480 | 55,054 |
| **Derivative contracts and other liabilities held for trading** | 6, 19, 24 | 11,807 | 14,121 |
| **Other liabilities** | 15, 19 | | |
| Other liabilities | | 86,930 | 64,198 |
| **Accruals and deferred income** | 16 | 12,425 | 14,883 |
| **Subordinated liabilities** | | | |
| Capital loans | 17, 18, 24 | 43,000 | 41,000 |
| **LIABILITIES, TOTAL** | | 4,398,518 | 4,372,322 |
| **APPROPRIATIONS** | | | |
| **Depreciation difference** | | 5,670 | 3,009 |
| **Voluntary provisions** | | 13,013 | 4,749 |
| **ACCUMULATED APPROPRIATIONS, TOTAL** | | 18,684 | 7,758 |
| **EQUITY** | | | |
| **Share capital** | 25, 26 | 82,880 | 82,880 |
| **Other restricted reserves** | | | |
| Fair value reserve | 25 | | |
| On measurement at fair value | | 8,791 | 25,653 |
| **Non-restricted reserves** | | | |
| Reserve for invested non-restricted equity | 25 | 243,832 | 243,832 |
| **Profit (loss) from previous financial periods** | 25 | 30,413 | 19,262 |
| **Profit (loss) for the financial period** | 25 | 8,919 | 11,151 |
| **EQUITY, TOTAL** | 25 | 374,835 | 382,778 |
| **LIABILITIES, TOTAL** | | **4,792,036** | **4,762,858** |
| **OFF-BALANCE SHEET LIABILITIES** | | | |
| **Commitments given in favour of a customer** | 46 | | |
| Irrevocable | | 290,549 | 196,521 |
| Other | | 991,259 | 841,602 |

# S-BANK LTD., INCOME STATEMENT

| (EUR thousand) | Appendix | 1 Jan– 31 Dec 2015 | 1 Jan– 31 Dec 2014 |
|---|---|---|---|
| **Interest income** | 29 | 80,982 | 61,401 |
| **Net income from leasing activities** | 30 | 55 | 169 |
| **Interest expenses** | 29 | -8,679 | -9,547 |
| **NET INTEREST INCOME** | | **72,358** | **52,023** |
| **Return from equity investments** | 31 | 1,236 | 87 |
| From Group companies | | 1,236 | 0 |
| From other companies | | 0 | 87 |
| **Fee and commission income** | 32 | 29,677 | 17,052 |
| **Fee and commission expenses** | 32 | -4,383 | -2,887 |
| **Net income from securities and currency trading** | | | |
| Net income from securities trading | 33 | -30 | 1,586 |
| Net income from currency trading | 33 | -14 | -141 |
| **Net income from available-for-sale financial assets** | 34 | 10,703 | 14,130 |
| **Net income from hedge accounting** | 35 | 595 | 289 |
| **Net income from investment property** | 36 | 602 | 294 |
| **Other operating income** | 37 | 15,400 | 9,236 |
| **Administrative expenses** | | -92,634 | -64,705 |
| Personnel expenses | | | |
| Wages, salaries and fees | | -27,534 | -17,180 |
| Indirect personnel expenses | | | |
| Pension costs | | -4,435 | -3,180 |
| Other indirect personnel expenses | | -1,518 | -507 |
| Other administrative expenses | | -59,146 | -43,838 |
| **Depreciation, amortisation and impairment on tangible and intangible assets** | 39 | -9,035 | -4,365 |
| **Other operating expenses** | 38 | -4,300 | -5,779 |
| **Impairment losses on loans and other receivables** | 40 | -423 | -2,319 |
| **OPERATING PROFIT (LOSS)** | | **19,754** | **14,501** |
| **Appropriations** | | **-10,926** | **-1,334** |
| **Income taxes** | | **91** | **-2,016** |
| **PROFIT (LOSS) FOR THE PERIOD** | | **8,919** | **11,151** |

# CASH FLOW STATEMENT

| (EUR million) | 2015 | 2014 |
|---|---|---|
| **CASH FLOW FROM OPERATIONS** | | |
| Result for the period | 9 | 11 |
| Adjustments of the result for the period | 12 | -4 |
| **Increase (–) or decrease (+) in operating assets:** | -238 | -44 |
| Receivables from the public and public sector entities | -253 | -57 |
| Other assets | 15 | 13 |
| **Increase (+) or decrease (–) in operating liabilities:** | 24 | -441 |
| Liabilities to credit institutions | -56 | -291 |
| Liabilities to the public and public sector entities | 76 | -121 |
| Other liabilities | 5 | -29 |
| A. Cash flow from operations, total | -192 | -478 |
| **CASH FLOW FROM INVESTMENT ACTIVITIES** | | |
| Investments in tangible and intangible assets | -11 | -8 |
| B. Cash flow from investment activities, total | -11 | -8 |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Subordinated liabilities, decrease | 2 | -1 |
| C. Cash flow from financing activities, total | 2 | -1 |
| **NET CHANGE IN LIQUID ASSETS (A+B+C)** | -201 | -487 |
| Liquid assets at the start of the period | 2,055 | 2,542 |
| Liquid assets at the end of the period | 1,854 | 2,055 |
| Interest income | 82 | 81 |
| Interest expenses | -7 | -9 |

| (EUR million) | 2015 | 2014 |
|---|---|---|
| **PROFIT ADJUSTMENTS FOR THE PERIOD** | | |
| Net income from hedge accounting | -1 | 0 |
| Depreciation according to plan | 9 | 4 |
| Impairment losses on loans and other receivables | -1 | -5 |
| Items without a payment transactions and other adjustments | 5 | -4 |
| Adjustments, total | 12 | -4 |
| **LIQUID ASSETS** | | |
| Cash | 207 | 174 |
| Debt securities | 1,614 | 1,843 |
| Shares and participations | 21 | 24 |
| Receivables from credit institutions | 12 | 15 |
| Total | 1,854 | 2,055 |

# NOTES ON S-BANK LTD.

## ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the Finnish Accounting Act and, as applicable, with the provisions of the Act on Credit Institutions and the Ministry of Finance Decree on Financial Statements and Consolidated Financial Statements of Credit Institutions and Investment Firms (MFD), as well as the Finnish Financial Supervisory Authority's new regulations concerning accounting, financial statements and annual report of the financing sector operators, effective as of 1 February 2013. In preparing the financial statements, the general instructions issued by the Finnish Accounting Standards Board (KILA) have also been considered, as applicable.

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

## ITEMS DENOMINATED IN FOREIGN CURRENCY

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

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

## FINANCIAL ASSETS AND LIABILITIES

S-Bank Ltd. applies a settlement-date practice in recognising financial assets and liabilities on the balance sheet, excluding financial assets or liabilities designated at fair value through profit and loss. For financial assets and liabilities designated at fair value through profit and loss, a trading-date practice is applied to recognising the items on the balance sheet. An item included in financial assets or liabilities is initially recognised in the accounts at fair value, including transaction costs.

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

The fair value of a financial instrument is determined on the basis of prices quoted in active markets, or by using measurement methods that are generally applied in the markets. The fair values of certificates of deposit, commercial papers or derivatives (excluding futures) are determined by discounting future cash flows to the present value, applying market interest rates on the closing date. Bonds, investment funds units and futures are measured at market prices. Financial assets at fair value are measured using the bid price, while financial liabilities at fair value are measured using the asked rate.

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

Financial assets or liabilities 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. Derivative contracts to which hedge accounting has not been applied are also included.

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

Held-to-maturity investments include bonds and notes and other non-derivative investments that are connected to fixed or determinable payments, mature on a certain date or are held to maturity. Held-to-maturity investments are measured at amortised acquisition cost using the effective interest method.

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

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

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

### Hedge accounting

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

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

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

### Embedded derivative

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

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

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

### PRINCIPLES OF INCOME RECOGNITION

#### Interest income and expenses

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

#### Fee and commission income and expenses

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

### INTANGIBLE ASSETS

Intangible assets consist of licence fees for IT systems and connection charges. The capitalised expenses of IT systems also include the costs arising from modifications made for S-Bank Ltd. to the licences. Intangible assets are measured at original acquisition cost and amortised over their estimated economic lives, using the straight-line method.

#### Amortisation periods for intangible assets

IT systems and licensing fees: 5 years
Connection charges: 5 years

### TANGIBLE ASSETS

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

#### Amortisation periods for tangible assets / investment properties

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

### IMPAIRMENT LOSSES

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

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

### INVESTMENT PROPERTY

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

### INCOME TAXES

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

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

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

| | 31 December 2015 | | |
|---|---|---|---|
| **1. Receivables from credit institutions** | **Repayable on demand** | **Other than repayable on demand** | **Total** |
| From the Central Bank | 207,298 | 0 | 207,298 |
| From Finnish credit institutions | 458 | 10,681 | 11,139 |
| From foreign credit institutions | 1 | 1,118 | 1,118 |
| **Receivables from credit institutions, total** | **207,757** | **11,799** | **219,555** |

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

| **2. Receivables from the public and public sector entities** | **31 December 2015** | **31 December 2014** |
|---|---|---|
| Companies and housing associations | 386,538 | 280,355 |
| Finance and insurance institutions | 57,670 | 46,858 |
| Public sector entities | 0 | 65 |
| Households | 2,407,134 | 2,248,591 |
| Non-profit organisations serving households | 2,811 | 2,921 |
| Foreign entities | 6,759 | 19,399 |
| **Total** | **2,860,912** | **2,598,189** |
| Credit loss provisions relating to the item "Receivables from the public and public sector entities" totalled EUR 13,013 thousand | | |
| **Impairment losses, 1 January 2015** | **3,676** | **8,299** |
| Receivable-specific impairment losses recorded in the period | 100 | 100 |
| Group-specific impairment losses recorded in the period | 2,812 | 3,576 |
| Receivable-specific impairment losses reversed in the period | 0 | -191 |
| Group-specific impairment losses reversed in the period | -3,676 | -8,108 |
| **Impairment losses at year-end** | **2,912** | **3,676** |

| 3. Debt securities | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Issued by public-sector entities** | **Other than publicly quoted** | **Other than publicly quoted** |
| **Available for sale** | | |
| Treasury bonds and notes | 28,600 | 74,182 |
| Other bonds issued by public-sector entities | 73,567 | 87,971 |
| Other debt securities | 20,015 | 0 |
| **Debt securities not issued by public-sector entities** | | |
| **Available for sale** | | |
| Certificates of deposit issued by banks | 0 | 46,687 |
| Commercial papers | 12,003 | 1,500 |
| Bonds issued by banks | 1,122,560 | 1,488,026 |
| Other debt securities | 334,441 | 134,506 |
| **Total debt securities** | **1,591,186** | **1,832,872** |
| - of which eligible for refinancing with central banks | 1,123,559 | 1,464,060 |

| 4. Assets leased under finance leases | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Machinery and equipment | 0 | 5,343 |
| **Total** | 0 | 5,343 |

| 5. Shares and participations | 31 December 2015 | | |
|---|---|---|---|
| | **Publicly quoted** | **Other** | **Total** |
| **Shares and participations** | | | |
| Available for sale | 30,215 | 202 | 30,418 |
| Shares and other equity in companies included in the same Group | 0 | 30,309 | 30,309 |
| Shares and participations in associated companies | 0 | 3 | 3 |
| **Total** | **30,215** | **30,515** | **60,730** |
| - of which in credit institutions | 0 | | |

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

| 6. Derivative contracts | 31 December 2015 Nominal value | Positive fair value | Negative fair value |
|---|---|---|---|
| **For hedging purposes** | | | |
| **Interest rate derivatives** | | | |
| Interest rate swaps | 589,000 | 8 | -9,158 |
| **Of the nominal value of derivative exposures in hedge accounting** | | | |
| EUR thousand in less than one year, | 208,000 | | |
| EUR thousand in 1–5 years and | 342,000 | | |
| EUR thousand in more than five years. | 39,000 | | |

| | 31 December 2015 | | |
|---|---|---|---|
| **For non-hedging purposes** | **Nominal value** | **Positive fair value** | **Negative fair value** |
| **Interest rate derivatives** | | | |
| Options, bought | 220,000 | 768 | 0 |
| Options, written | 245,000 | 0 | -1,440 |
| Interest rate swaps | 20,200 | 0 | -325 |
| **Equity derivatives** | | | |
| Options, bought | 20,942 | 1,050 | 0 |
| Options, written | 20,942 | 0 | -995 |
| **Of the nominal value of derivative exposures other than those in hedge accounting** | | | |
| EUR thousand in less than one year, | 98,942 | | |
| EUR thousand in 1–5 years and | 350,000 | | |
| EUR thousand in more than five years. | 57,200 | | |

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

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

| 7. Intangible assets | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Software and licences | 27,011 | 24,294 |
| Other intangible assets | 2,667 | 3,467 |
| **Total** | **29,677** | **27,761** |

| 8. Tangible assets | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Other tangible assets | 293 | 156 |
| **Total** | 293 | 156 |

**9. Investment property measured at fair value**

Nothing to report

| 10. Changes in intangible and tangible assets during the financial period | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Advances for intangible assets** | | |
| Acquisition cost 1 Jan | 10,195 | 2,836 |
| Increase | 0 | 10,684 |
| Deductions | -364 | 0 |
| Transfers between items | -9,471 | -3,325 |
| Acquisition cost 31 Dec | 360 | 10,195 |
| Carrying amount 31 Dec | 360 | 10,195 |
| **Intangible assets** | | |
| Acquisition cost; 1 Jan | 42,983 | 35,068 |
| Increase | 11,118 | 4,591 |
| Deductions | -5,778 | 0 |
| Transfers between items | 9,471 | 3,325 |
| Acquisition cost 31 Dec | 57,793 | 42,983 |
| Accumulated depreciation, amortisation and impairment; 1 Jan | 28,884 | -25,125 |
| Depreciation for the period | -2,259 | -3,759 |
| Accumulated depreciation and amortisation 31 Dec | 26,625 | 28,884 |
| Carrying amount 31 Dec | 84,419 | 14,099 |

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Goodwill** | | |
| Acquisition cost; 1 Jan | 4,000 | 4,000 |
| Increase | 0 | 0 |
| Accumulated depreciation, amortisation and impairment; 1 Jan | -533 | 0 |
| Depreciation for the period | -800 | -533 |
| Accumulated depreciation and amortisation 31 Dec | -1,333 | -533 |
| Carrying amount 31 Dec | 2,667 | 3,467 |
| **Intangible assets, total; 31 Dec** | **29,677** | **27,761** |
| **Tangible assets** | | |
| Acquisition cost; 1 Jan | 229 | 229 |
| Increase | 336 | 0 |
| Deductions | -32 | 0 |
| Acquisition cost 31 Dec | 533 | 229 |
| Accumulated depreciation, amortisation and impairment | -73 | 0 |
| Depreciation for the period | -167 | -73 |
| Accumulated depreciation and amortisation 31 Dec | -240 | -73 |
| Carrying amount 31 Dec | 293 | 156 |
| **Tangible assets, total, 31 Dec** | **293** | **156** |

| 11. Other assets | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Other | 2,952 | 12,138 |
| **Total** | **2,952** | **12,138** |

| 12. Accrued income and advances paid | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Interest receivables | 20,812 | 24,953 |
| Other accrued income | 4,205 | 5,999 |
| **Total** | **25,017** | **30,952** |

| 13. Deferred tax receivables and liabilities | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Deferred tax assets attributable to losses | 0 | 1,920 |
| Deferred tax liabilities arising from the fair value reserve | 1,758 | 5,131 |
| Deferred tax liability from appropriations | 3,737 | 1,552 |

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| **14. Debt securities issued to the public by the credit institution** | **Carrying amount** | **Nominal value** | **Carrying amount *** | **Nominal value** |
| Certificates of deposit | 41,480 | 41,443 | 55,054 | 55,150 |
| Bonds | 2,601 | 2,601 | 2,601 | 2,601 |
| **Total** | **44,081** | **44,044** | **57,655** | **57,751** |

| 15. Other liabilities | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Payables arising from payment transactions | 79,338 | 51,985 |
| Other | 7,592 | 12,213 |
| **Other liabilities, total** | **86,930** | **64,198** |

| 16. ACCRUALS AND DEFERRED INCOME | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Interest expenses | 1,083 | 3,127 |
| Other accrued expenses | 11,342 | 11,756 |
| **Total** | **12,425** | **14,883** |

| | 31 December 2015 | | | |
|---|---|---|---|---|
| **17. Subordinated liabilities** | **Carrying amount *** | **Nominal value** | **Interest rate** | **Due date** |
| Loan on debenture terms I/2008 | 9,009 | 9,000 | Euribor 3 month + 0.5% | 15.1.2018 |
| Loan on debenture terms II/2008 | 3,001 | 3,000 | Euribor 3 month + 0.75% | 15.9.2018 |
| Tapiola Bank's debenture loan 1/2011 | 15,116 | 15,000 | Euribor 12 month + 1.35% | 30.6.2016 |
| Debenture I/2015 | 16,021 | 16,000 | Euribor 12 month + 1.5% | 30.6.2016 |

Terms of loans on debenture terms: The issuer reserves the right to repurchase the loan before the maturity date. The issuer, or an affiliated company, may only repurchase the loan, to a minor extent, before the end of the loan period, without the approval of the Finnish Financial Supervisory Authority. Repurchasing requires that the loans can be resold to a new investor within a short period of time. The note-holder does not have the right to require that the loan be repaid prematurely. The debenture loans are subordinated to the bank's other debt obligations. In solvency calculation, loans on debenture terms are grouped to the Tier 2 capital in accordance with the CRR regulation.
*) includes transferred interests

| Model of the key features of equity instruments | Loan on debenture terms I/2008 | Loan on debenture terms II/2008 | Tapiola Bank's debenture loan 1/2011 | Debenture I/2015 |
|---|---|---|---|---|
| Issuer | S-Bank Ltd. | S-Bank Ltd. | S-Bank Ltd. | S-Bank Ltd. |
| Unique identifier (ISIN) | S BANK DEBENTURE 15 January 2018 | S BANK DEBENTURE 15 September 2018 | FI4000026596 | FI4000185418 |
| Governing law(s) applied to the instrument | Finnish | Finnish | Finnish | Finnish |
| **Regulation** | | | | |
| Transitional CRR rules | Tier 2 capital (T2) | Tier 2 capital (T2) | Tier 2 capital (T2) | Tier 2 capital (T2) |
| Post-transitional CRR rules | Tier 2 capital (T2) | Tier 2 capital (T2) | Tier 2 capital (T2) | Tier 2 capital (T2) |
| Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated | Solo & consolidated | Solo & consolidated | Solo & consolidated | Solo & consolidated |
| Instrument type | | | | |
| Amount recognised in regulatory capital EUR Million (on the last reporting date) | 9 | 3 | 15 | 16 |
| Nominal amount of instrument EUR million | 15 | 5 | 15 | 16 |
| Issue price | 100 % | 100 % | 100 % | 100 % |
| Redemption price | 100 % | 100 % | 100 % | 100 % |
| Accounting classification | Liability amortised cost | Liability amortised cost | Liability amortised cost | Liability amortised cost |
| Original date of issuance | 30 January 2008 | 15 September 2008 | 30 June 2011 | 1 December 2015 |
| Perpetual or dated | Dated | Dated | Dated | Dated |
| Original maturity date | 15 January 2018 | 15 September 2018 | 30 June 2016 | 1 December 2025 |
| Issuer call subject to prior supervisory approval | yes | yes | yes | yes |

| | Loan on debenture terms I/2008 | Loan on debenture terms II/2008 | Tapiola Bank's debenture loan 1/2011 | Debenture I/2015 |
|---|---|---|---|---|
| Optional call date, contingent call dates, and redemption amount | The debenture will be repaid based on its nominal value in equal instalments annually on 15 January, with 15 January 2014 as the first instalment and 15 January 2018 as the last instalment. The issuer reserves the right to repay the debenture before the maturity date. Repurchasing requires that the loans can be resold to a new investor within a short period. The repurchase can be performed in accordance with the issuer's general loan terms and conditions. | The debenture will be repaid based on its nominal value in equal instalments annually on 15 September, with 15 September 2014 as the first instalment and 15 September 2018 as the last instalment. The issuer reserves the right to repay the debenture before the maturity date. Repurchasing requires that the loans can be resold to a new investor within a short period of time. The repurchase can be performed in accordance with the issuer's general loan terms and conditions. | The debenture will be repaid in full in one instalment on the repayment date of 30 June 2016 or on the date in accordance with the issuer's general loan terms and conditions. The amount to be repaid is the nominal value. | The debenture will be repaid based on its nominal value in equal instalments annually on 1 December, with 1 December 2021 as the first instalment and 1 December 2025 as the last instalment. The issuer reserves the right to repay the debenture before the maturity date. The repayment can take place no earlier than five (5) years after the issuance of the loan, unless the Financial Supervision Authority grants a permission to a repayment earlier than in five (5) years. |
| Subsequent call dates, if applicable | See above | See above | See above | See above |
| **Coupons/Dividends** | | | | |
| Fixed or floating dividend/coupon | Floating coupon | Floating coupon | Floating coupon | Floating coupon |
| Coupon rate and any related indices | Euribor 3 months + 0.5% per annum | Euribor 3 months + 0.75% per annum | Euribor 12 months + 1.35% per annum | Euribor 12 months + 1.5% per annum |
| Existence of a dividend stopper | no | no | no | no |
| Fully discretionary, partly discretionary or mandatory (in terms of timing) | mandatory | mandatory | mandatory | mandatory |
| Fully discretionary, partly discretionary or mandatory (in terms of quantity) | mandatory | mandatory | mandatory | mandatory |
| Existence of step up or other incentive to redeem | no | no | no | no |
| Non-cumulative and cumulative | non-cumulative | non-cumulative | non-cumulative | non-cumulative |
| Convertible or non-convertible | non-convertible | non-convertible | non-convertible | non-convertible |
| If convertible, what are the conversion trigger(s)? | Not applicable | Not applicable | Not applicable | Not applicable |
| If convertible, is it fully or partially convertible? | Not applicable | Not applicable | Not applicable | Not applicable |
| If convertible, what is the conversion rate? | Not applicable | Not applicable | Not applicable | Not applicable |



| | Loan on debenture terms I/2008 | Loan on debenture terms II/2008 | Tapiola Bank's debenture loan 1/2011 | Debenture I/2015 |
|---|---|---|---|---|
| If convertible, is the conversion mandatory or optional? | Not applicable | Not applicable | Not applicable | Not applicable |
| If convertible, specify the instrument type it is convertible into. | Not applicable | Not applicable | Not applicable | Not applicable |
| If convertible, specify the issuer of instrument it converts. | Not applicable | Not applicable | Not applicable | Not applicable |
| Write-down features | Not applicable | Not applicable | Not applicable | Not applicable |
| If write-down is possible, what are the write-down trigger(s)? | Not applicable | Not applicable | Not applicable | Not applicable |
| If write-down is possible, is it full or partial? | Not applicable | Not applicable | Not applicable | Not applicable |
| If write-down is possible, is it permanent or temporary? | Not applicable | Not applicable | Not applicable | Not applicable |
| If a temporary write-down, description of write-up mechanism. | Not applicable | Not applicable | Not applicable | Not applicable |
| Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Debentures are subordinated debt instruments, which belong to the T2 instruments referred to in Article 63 of the European Parliament and the Council regulation (EU) No. 575/2013, if 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, which belong to the T2 instruments referred to in Article 63 of the European Parliament and the Council regulation (EU) No. 575/2013, if 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, which belong to the T2 instruments referred to in Article 63 of the European Parliament and the Council regulation (EU) No. 575/2013, if 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, which belong to the T2 instruments referred to in Article 63 of the European Parliament and the Council regulation (EU) No. 575/2013, if 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 | no |
| If yes, specify non-compliant features | Not applicable | Not applicable | Not applicable | Not applicable |

| 18. Distribution of maturity of financial assets and liabilities | 31 December 2015 | | | | | |
|---|---|---|---|---|---|---|
| | 0–3 months | 3–12 months | 1–5 years | 5–10 years | More than 10 years | Total |
| Debt securities eligible for refinancing with central banks | 85,569 | 160,178 | 821,920 | 55,893 | 0 | 1,123,559 |
| Receivables from credit institutions | 12,257 | 0 | 0 | 0 | 0 | 12,257 |
| Receivables from the public and public sector entities | 189,365 | 254,052 | 971,245 | 595,539 | 850,710 | 2,860,912 |
| Debt securities | 27,036 | 89,210 | 337,451 | 13,929 | 0 | 467,626 |
| **Financial assets, total** | **314,227** | **503,440** | **2,130,616** | **665,361** | **850,710** | **4,464,355** |
| Liabilities to credit institutions | 10 | 11,800 | 0 | 0 | 0 | 11,810 |
| Liabilities to the public and public sector entities | 4,143,134 | 35,317 | 10,015 | 0 | 0 | 4,188,465 |
| Debt securities issued to the public | 16,495 | 27,585 | 0 | 0 | 0 | 44,081 |
| Subordinated liabilities | 3,000 | 16,000 | 8,000 | 16,000 | 0 | 43,000 |
| **Financial liabilities, total** | **4,162,639** | **90,702** | **18,015** | **16,000** | **0** | **4,287,356** |

| | 31 December 2014 | | | | | |
|---|---|---|---|---|---|---|
| | 0–3 months | 3–12 months | 1–5 years | 5–10 years | More than 10 years | Total |
| Debt securities eligible for refinancing with central banks | 34,825 | 216,412 | 1,187,989 | 24,835 | 0 | 1,464,060 |
| Receivables from credit institutions | 14,645 | 0 | 0 | 0 | 0 | 14,645 |
| Receivables from the public and public sector entities | 142,981 | 176,297 | 973,287 | 799,725 | 505,898 | 2,598,189 |
| Debt securities | 9,998 | 58,811 | 293,046 | 6,957 | 0 | 368,811 |
| **Financial assets, total** | **202,449** | **451,520** | **2,454,322** | **831,518** | **505,898** | **4,445,706** |
| Liabilities to credit institutions | 52,143 | 16,000 | 0 | 0 | 0 | 68,143 |
| Liabilities to the public and public sector entities | 3,979,072 | 94,012 | 39,238 | 0 | 0 | 4,112,322 |
| Debt securities issued to the public | 2,499 | 52,555 | 2,601 | 0 | 0 | 57,655 |
| Subordinated liabilities | 0 | 0 | 41,000 | 0 | 0 | 41,000 |
| **Financial liabilities, total** | **4,033,714** | **162,567** | **82,839** | **0** | **0** | **4,279,120** |

| 19. Breakdown of balance sheet items into domestic and foreign amounts and from Group entities | 31 December 2015 | | | |
|---|---|---|---|---|
| | Finnish currency | Foreign currency | Total | From Group entities |
| Receivables from credit institutions | 12,257 | 0 | 12,257 | 0 |
| Receivables from the public and public sector entities | 2,860,912 | 0 | 2,860,912 | 31,175 |
| Debt securities | 1,591,186 | 0 | 1,591,186 | 0 |
| Derivative contracts | 1,714 | 0 | 1,714 | 0 |
| Shares and participations | 60,730 | 0 | 60,730 | 30,309 |
| Intangible assets | 29,677 | 0 | 29,677 | 0 |
| Tangible assets | 293 | 0 | 293 | 0 |
| Other assets (including cash) | 235,133 | 134 | 235,267 | 149 |
| **Total** | **4,791,902** | **134** | **4,792,036** | **61,634** |
| Liabilities to credit institutions | 11,810 | 0 | 11,810 | 0 |
| Liabilities to the public and public sector entities | 4,188,465 | 0 | 4,188,465 | 42,089 |
| Debt securities issued to the public | 44,081 | 0 | 44,081 | 0 |
| Derivative contracts | 11,807 | 0 | 11,807 | 0 |
| Other liabilities | 99,355 | 0 | 99,355 | -444 |
| Subordinated liabilities | 43,000 | 0 | 43,000 | 0 |
| **Total** | **4,398,518** | **0** | **4,398,518** | **41,645** |

| | 31 December 2014 | | | |
|---|---|---|---|---|
| | Finnish currency | Foreign currency | Total | From Group entities |
| Balance sheet item | | | | |
| Receivables from credit institutions | 14,645 | 0 | 14,645 | 0 |
| Receivables from the public and public sector entities | 2,598,189 | 0 | 2,598,189 | 28,480 |
| Debt securities | 1,816,506 | 16,366 | 1,832,872 | 0 |
| Derivative contracts | 854 | 597 | 1,451 | 0 |
| Shares and participations | 65,825 | 0 | 65,825 | 30,603 |
| Intangible assets | 27,761 | 0 | 27,761 | 0 |
| Tangible assets | 156 | 0 | 156 | 0 |
| Other assets (including cash) | 221,909 | 51 | 221,960 | 205 |
| **Total** | **4,745,845** | **17,013** | **4,762,858** | **59,288** |
| Liabilities to credit institutions | 68,143 | 0 | 68,143 | 0 |
| Liabilities to the public and public sector entities | 4,112,322 | 0 | 4,112,322 | 47,688 |
| Debt securities issued to the public | 57,655 | 0 | 57,655 | 0 |
| Derivative contracts | 13,659 | 462 | 14,121 | 0 |
| Other liabilities | 79,081 | 0 | 79,081 | 442 |
| Subordinated liabilities | 41,000 | 0 | 41,000 | 0 |
| **Total** | **4,371,860** | **462** | **4,372,322** | **48,129** |

| | 31 December 2015 | |
|---|---|---|
| **20. Securities lending** | Carrying amount | Nominal value |
| **Available for sale** | | |
| Treasury bonds and notes | 10,294 | 10,000 |
| **Total** | **10,294** | **10,000** |

| | 31 December 2014 | |
|---|---|---|
| | Carrying amount | Nominal value |
| **Available for sale** | | |
| Treasury bonds and notes | 13,567 | 13,000 |
| Bonds issued by banks | 6,321 | 6,000 |
| **Total** | **19,888** | **19,000** |

### 21. Securities repurchase agreements

Nothing to report

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

If the fair value of a financial instrument cannot be determined on the basis of prices quoted in active markets, fair value can be determined using generally accepted valuation methods in the markets. The fair value of financial assets and liabilities is determined by discounting future cash flows to the present value, applying market interest rates on the closing date.

Such changes in fair value for the 2015 financial period have not been entered in the income statement, excluding interest rate derivatives.

### 23. Financial assets measured at cost instead of fair value

Nothing to report

| 24. Fair values and carrying amounts of financial assets and liabilities | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| **Financial assets** | | | | |
| Cash | 207,298 | 207,298 | 173,526 | 173,526 |
| Receivables from credit institutions | 12,257 | 12,257 | 14,645 | 14,645 |
| Receivables from the public and public sector entities | 2,860,912 | 2,875,869 | 2,598,189 | 2,612,611 |
| Debt securities | 1,591,186 | 1,607,485 | 1,832,872 | 1,853,189 |
| Shares and participations | 30,418 | 30,338 | 35,219 | 35,139 |
| Shares and participations in associated companies | 3 | 3 | 3 | 3 |
| Shares and other equity in companies included in the same Group | 30,309 | 55,613 | 30,603 | 57,444 |
| Derivative contracts | 1,714 | 1,714 | 1,451 | 1,451 |
| **Financial liabilities** | 0 | 0 | 0 | 0 |
| Liabilities to credit institutions | 11,810 | 11,831 | 68,143 | 68,023 |
| Liabilities to the public and public sector entities | 4,188,465 | 4,188,465 | 4,112,322 | 4,112,324 |
| Debt securities issued to the public | 44,081 | 41,480 | 57,655 | 57,693 |
| Derivative contracts and other liabilities held for trading | 11,807 | 11,807 | 14,121 | 14,121 |
| Subordinated liabilities | 43,000 | 43,140 | 41,000 | 41,163 |

| | 31 December 2015 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Financial instruments measured at fair value** | | | | |
| Financial assets and liabilities held for trading purposes | | | | 0 |
| Available-for-sale financial assets | 1,397,689 | 240,133 | | 1,637,822 |
| Derivative receivables | | 1,714 | | 1,714 |
| Derivatives liabilities | | 11,807 | | 11,807 |

| | 31 December 2014 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Financial instruments measured at fair value** | | | | |
| Financial assets and liabilities held for trading purposes | | | | 0 |
| Available-for-sale financial assets | 1,746,179 | 142,149 | | 1,888,328 |
| Derivative receivables | | 1,451 | | 1,451 |
| Derivatives liabilities | | 14,121 | | 14,121 |

| 25. Equity items | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Share capital; 1 Jan | 82,880 | 82,880 |
| **Share capital 31 Dec** | **82,880** | **82,880** |
| Fair value reserve; 1 Jan | 25,653 | 39,099 |
| Increase (+)/decrease(-) | -16,862 | -13,446 |
| **Fair value reserve, 31 Dec** | **8,791** | **25,653** |
| Invested non-restricted equity reserve; 1 Jan | 243,832 | 243,832 |
| **Invested non-restricted equity reserve; 31 Dec** | **243,832** | **243,832** |
| Loss from previous periods; 1 Jan | 30,413 | 19,262 |
| Loss from previous periods; 31 Dec | 30,413 | 19,262 |
| Profit/loss for the financial period | 8,919 | 11,151 |
| **Total** | **374,835** | **382,778** |

## 26. Share capital

6,702,892 pcs, total EUR 82,880,200.
The company has one series of shares, which provides equal rights in the company.

## 27. Share issues, options and issuance of convertible bonds

Nothing to report

| 28. Shareholders and distribution of shareholdings | |
|---|---|
| **Owner** | **Ownership, %** |
| SOK Corporation | 37.5% |
| LocalTapiola Mutual Insurance Company | 20.0% |
| Helsinki Cooperative Society Elanto | 7.5% |
| LocalTapiola Mutual Life Insurance Company | 3.5% |
| Cooperative Society Hämeenmaa, Lahti | 2.9% |
| Pirkanmaa Cooperative Society, Tampere | 2.7% |
| Cooperative Society Keskimaa, Jyväskylä | 2.5% |
| Cooperative Society Arina, Oulu | 2.5% |
| Turku Cooperative Society, Turku | 2.2% |
| Cooperative Society PeeÄssä, Kuopio | 2.2% |
| Cooperative Society KPO, Kokkola | 2.1% |
| Southern Ostrobothnia Cooperative Society, Seinäjoki | 1.8% |
| Cooperative Society Kymen Seudun Osuuskauppa | 1.8% |
| Suur-Seutu Cooperative Society SSO, Salo | 1.7% |
| Elo Employment Pension Insurance Company | 1.5% |
| Cooperative Society Suur-Savo, Mikkeli | 1.4% |
| Northern Karelia Cooperative Society, Joensuu | 1.2% |
| Satakunta Cooperative Society, Pori | 1.1% |
| Cooperative Society Varuboden-Osla Handelslag | 1.1% |
| Southern Karelia Cooperative Society, Lappeenranta | 1.0% |
| Cooperative Society Maakunta, Kajaani | 0.7% |
| Cooperative Society Keula, Rauma | 0.6% |
| Koillismaa Cooperative Society, Kuusamo | 0.3% |
| Cooperative Society Jukola, Nurmes | 0.2% |
| **Total** | **100.0%** |

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

| 29. Interest income and expenses | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Interest income** | | |
| Receivables from credit institutions | 112 | 66 |
| Receivables from the public and public sector entities | 60,851 | 41,285 |
| Debt securities | 19,851 | 19,110 |
| Derivative contracts | 168 | 940 |
| **Total** | **80,982** | **61,401** |
| of which intra-Group items | 310 | 192 |
| **Interest expenses** | | |
| Liabilities to credit institutions | 17 | 333 |
| Liabilities to the public and public sector entities | 4,622 | 5,411 |
| Derivative contracts | 3,607 | 3,420 |
| Other interest expenses | 8 | 6 |
| Subordinated liabilities | 425 | 377 |
| **Total** | **8,679** | **9,547** |
| of which intra-Group items | 19 | 3 |

| 30. Net income from leasing activities | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Rental income | 61 | 134 |
| Depreciation of leasing assets according to plan | -3,949 | -4,893 |
| Gains and losses of leasing assets (net) | 3,931 | 4,910 |
| Other expenses | 12 | 17 |
| | **55** | **169** |

| 31. Return from equity investments | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Dividend income from investments classified as available-for-sale financial assets. | 0 | 3 |
| Dividend income received from companies included in the same Group and dividend income received from associated companies | 1,236 | 1,441 |
| | **1,236** | **1,444** |

| 32. Fee and commission income and expenses | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Fee and commission income** | | |
| from lending | 14,925 | 9,871 |
| from borrowing | 3,590 | 2,031 |
| from payment transactions | 6,598 | 4,372 |
| from legal duties | 380 | 88 |
| from insurance brokerage | 56 | 47 |
| from issuing of guarantees | 165 | 97 |
| from other activities | 3,964 | 545 |
| | **29,677** | **17,052** |
| **Fee and commission expenses** | | |
| from paid commission fees | 20 | 13 |
| Other | 4,363 | 2,874 |
| | **4,383** | **2,887** |

| | 31 December 2015 | | |
|---|---|---|---|
| **33. Net income from securities and currency trading** | **Sales gains and losses (net)** | **Changes in fair value (net)** | **Total** |
| From debt securities | 0 | -802 | -802 |
| From derivative contracts | -2,948 | 3,719 | 772 |
| **Net income from securities trading, total** | **-2,948** | **2,918** | **-30** |
| Net income from currency trading | -170 | 156 | -14 |
| **Income statement item, total** | **-3,118** | **3,074** | **-44** |

| | 31 December 2014 | | |
|---|---|---|---|
| | **Sales gains and losses (net)** | **Changes in fair value (net)** | **Total** |
| From debt securities | 0 | 530 | 530 |
| From derivative contracts | -1,363 | 2,419 | 1,056 |
| **Net income from securities trading, total** | **-1,363** | **2,949** | **1,586** |
| Net income from currency trading | -20 | -121 | -141 |
| **Income statement item, total** | **-1,383** | **2,828** | **1,445** |

| 34. Net income from available-for-sale financial assets | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Net income from disposal of financial assets | 10,741 | 14,179 |
| Other income/expenses from available-for-sale financial assets | -39 | -49 |

| 35. Net income from hedge accounting | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Net result from hedging instruments | -875 | -4,581 |
| Net result from hedged items | 1,471 | 4,870 |

| 36. Net income from investment properties | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Rental income | 1,857 | 1,160 |
| Rental expenses | -1,256 | -867 |
| | **602** | **294** |

| 37. Other operating income | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Other income | 15,400 | 9,236 |

| 38. Other operating expenses | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Rental expenses | 3,543 | 2,272 |
| Other expenses | 757 | 3,507 |
| **Total** | **4,300** | **5,779** |
| Financial Stability Authority contributions | | |
| Stability contribution | 271 | |
| Deposit guarantee contribution | 2,705 | |
| Administrative fee | 25 | |
| **Total** | **3,001** | |

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

| 39. Depreciation, amortisation and impairment on tangible and intangible assets | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Intangible assets** | | |
| Depreciation according to plan | 8,837 | 4,293 |
| **Tangible assets** | | |
| Depreciation according to plan | 199 | 72 |

There are no impairment losses on tangible and intangible assets

| | 31 December 2015 | | | | |
|---|---|---|---|---|---|
| **40. Impairment losses on loans and other commitments and other financial assets** | **Agreement-specific realised impairments, gross** | **Agreement-specific impairments, gross** | **Group-specific impairments, gross** | **Deductions** | **Total** |
| Receivables from the public and public sector entities | 8,602 | 100 | 2,812 | 11,091 | 423, |

| | 31 December 2014 | | | | |
|---|---|---|---|---|---|
| | **Agreement-specific realised impairments, gross** | **Agreement-specific impairments, gross** | **Group-specific impairments, gross** | **Deductions** | **Total** |
| Receivables from the public and public sector entities | 10,653 | 100 | 3,576 | 12,010 | 2,219 |

**41. Income and expenses from other than ordinary activities**

Nothing to report

**42. Information on business areas and geographical market areas**

Nothing to report

# NOTES ON S-BANK LTD.'S COLLATERAL AND CONTINGENT LIABILITIES, EUR thousand

| | Other collateral | |
|---|---|---|
| **43. Collateral provided** | **31 December 2015** | **31 December 2014** |
| **Collateral provided on own debt** | | |
| Liabilities to credit institutions | 157,500 | 346,450 |
| Derivative contracts | 11,616 | 12,871 |

**44. Pension liabilities**

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

| 45. Leasing and other rental liabilities | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Within one year | 318 | 289 |
| Due in 1–5 years | 277 | 289 |
| Due in more than five years | 0 | 0 |
| **Total** | 595 | 578 |

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

| 46. Off-balance sheet liabilities | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Guarantees | 20,186 | 10,406 |
| Undrawn credit facilities | 1,261,621 | 1,038,123 |

The Group's off-balance sheet commitments, on behalf of companies included in the same Group, amount to EUR 14.3 million.

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

Nothing to report

**48. Brokerage receivables and payables**

Nothing to report

**49. Other off-balance sheet arrangements**

Nothing to report

# NOTES ON STAFF AND MANAGEMENT

| 50. Personnel | 2015 Average number | 2015 Number on 31 Dec 2015 | 2014 Average number | 2014 Number on 31 Dec 2014 |
|---|---|---|---|---|
| Permanent full-time personnel | 382 | 379 | 311 | 376 |
| Permanent part-time personnel | 43 | 49 | 41 | 47 |
| Fixed-term personnel | 38 | 31 | 29 | 34 |
| **Total** | **463** | **459** | **381** | **457** |

| Salaries and fees paid to management (EUR thousand) | 2015 | 2014 |
|---|---|---|
| Managing director and his deputy | 686 | 355 |
| Executive Board | 30 | 20 |

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

# RELATED PARTY TRANSACTIONS, EUR thousand

| 51. Loans and other financial receivables from related parties of the credit institution, investments made in such entities and guarantees and collateral provided by third parties on behalf of related parties | 31 December 2015 Receivables from the public and public sector entities | 31 December 2014 Receivables from the public and public sector entities |
|---|---|---|
| **Basis for classification as a related party** | | |
| Management | 464 | 1,674 |
| Management of holding company | 1,433 | 58 |
| Kinship | 1,577 | 132 |
| **Total** | **3,474** | **1,865** |

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

# NOTES ON SHARE OWNERSHIP, EUR thousand

| 52. Holdings in other companies | |
|---|---|
| **S-Asiakaspalvelu Oy, domiciled in Helsinki** | |
| Shareholding 100% | |
| Equity | 303 |
| Result for the period | 60 |
| **S-Crosskey Ab, domiciled in Maarianhamina (Mariehamn)** | |
| Shareholding 40% | |
| Equity | 28 |
| Result for the period | 2 |
| **Kiinteistö Oy Lempäälän terminaali** | |
| Shareholding 100% | |
| Equity | 50 |
| Result for the period | 0 |
| **Kiinteistö Oy Limingan terminaali** | |
| Shareholding 100% | |
| Equity | 50 |
| Result for the period | 0 |
| **FIM Corporation** | |
| Shareholding 51% | |
| Equity | 27,279 |
| Result for the period | 0 |

# OTHER NOTES

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

# NOTE ON AUDIT FEES, EUR THOUSAND

| 54. Information on the auditors' fees | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Audit | 118 | 114 |
| Tax advice | 9 | 6 |
| Other services | 111 | 18 |

S-Bank

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