ANNUAL REPORT

2016

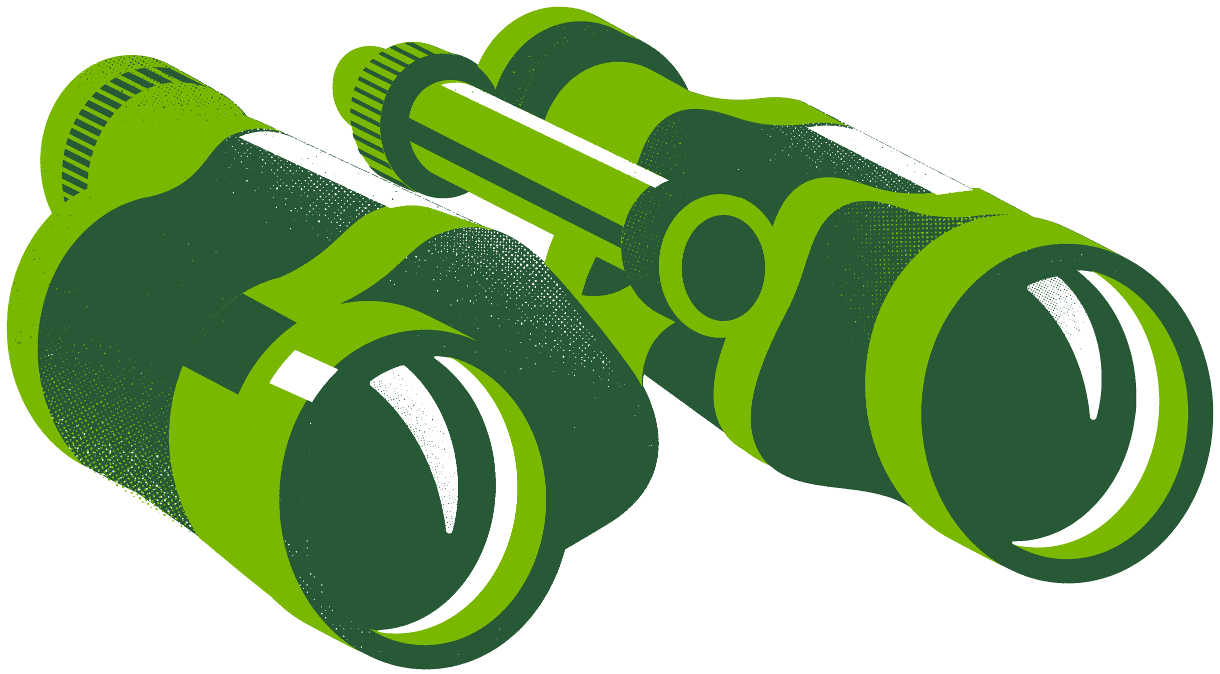
S-Bank

ANNUAL REPORT 2016

EXECUTIVE BOARD'S REVIEW 1 JANUARY – 31 DECEMBER 2016

CONSOLIDATED FINANCIAL STATEMENTS

S-BANK LTD.'S FINANCIAL STATEMENTS



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 on a phone or tablet. In 2016, a mobile fuel payment option was added to S-mobiili, making it possible to pay for fuel purchases at ABC stations conveniently with a smartphone.

Our free basic banking services continue to be the core of S-Bank's range of products and services. A 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 without annual and monthly fees.

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 S-Bank Group are produced by its subsidiary FIM Asset Management.

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

S-Bank is owned by SOK (37.5%), S Group's regional cooperatives (37.5%), LocalTapiola group (23.5%) and Elo Mutual Pension Insurance (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 2016

2.9 million customers | **1.9 million** international debit cards

1.7 million online banking IDs | EUR **4,547 million** in deposits

EUR **3,492 million** in granted credit | EUR **6,264 million** in managed assets (FIM)

15.1% capital adequacy ratio | EUR **22.3 million** operating result

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

REVIEW BY THE MANAGING DIRECTOR:

Digitisation has been a trend in banking operations for a few years. It is interesting how the discussion on the topic has developed over that time. Initially, we also talked about digitisation itself, its meaning and the changes it will introduce in the banking services. In the beginning, our angle to digitisation was often technical. Today's discussion rightfully looks at digitisation as a tool and an enabling feature, and the most important thing–service provided to customers–is highlighted.

This autumn will mark the tenth anniversary of S-Bank. The mission defined back then remains topical today: S-Bank is here to make the everyday life of S Group's co-op members easier. Unparalleled convenience and benefits – this is the vision around which S-Bank has built its services. Over nearly ten years, customer behaviour has changed and subsequently, the bank's customer service methods have changed as well. The user volumes of the mobile bank exceeded those of the online bank a long time ago, and, currently, approximately 70 per cent of transactions are performed with the mobile application, whenever and wherever it is convenient for the customer. Therefore, the focus of development has increasingly shifted to mobile services.

There are often doubts about whether senior citizens are able to use and manage with the new, mobile services. Based on the customer feedback I have received, they mostly manage just fine. Many of the current seventy-somethings have used computers and IT during their active careers and are now mobile service users just like the rest of us. And why not? After all, mobile services are not about transforming the previous face-to-face customer service into a cumbersome self-service accessed through a mobile phone. These services are completely new, combining information from several sources for the benefit of customers and focusing on the customers' user experience. Convenience and benefits are still in.

The ABC mobile fuel payment is an excellent example of such a new kind of service. This was the problem: During the freezing winters in Finland, paying for fuel purchases outside at the pump was a pain. Why not pay for the purchase while sitting in the warmth of one's vehicle? We invited professionals from ABC and the bank around the same table, and the end result was an internationally awarded new service in S-mobiili. It enables customers to pay for their fuel purchase through a smartphone application from the comfort of their own car.

In addition to the mobile fuel payment being an excellent service, it is also paving the way to the future. We will continue to develop these kinds of services, which combine services from S Group's different chains and provide unparalleled convenience in the customers' daily lives, in the future as well.

Recently, the dissolution of boundaries between sectors has been a topic of discussions. As digitisation has eroded earnings from the traditional business operations, companies are expanding their operations and seeking new forms of operation outside their traditional business. Banks branch out to the health care business and the Postal Service helps customers with yard work. We at S-Bank observe this development with interest and confidence, since we know what being in that place at the junction of several sectors entails. We do not need to look for partners in new sectors–they are available under our roof. This enables us to integrate easy authentication, payment, and the financing of purchases with the very services we already use as S Group's customers. Our goal is to make everyday life as comfortable and smooth as possible.

PEKKA YLIHURULA
Managing Director, S-Bank Ltd.

YEAR 2016

Year 2016

S-Bank experienced strong growth in 2016. During the year, S-Bank received 130,000 new customers, and more than 25,000 customers transferred their primary banking, including their salary account, to S-Bank. S-Bank's mortgage base grew more than six times faster than the market. In addition, the introduction of the extended, 45-year mortgage in December received a great deal of publicity and resulted in record numbers of new mortgage applications.

The streamlining of the organisational structure of S-Bank Group continued in 2016. The changes were primarily related to the earlier acquisition of the share majority of asset management company FIM and the merger with LocalTapiola. The integration phase following the merger was completed in May, when the use of the MasterCards issued by LocalTapiola was discontinued and the affected customers were provided with Visa cards by S-Bank.

At the beginning of March, S-Bank sold the entire share capitals of the mutual property companies it owned, Koy Limingan Terminaali and Koy Lempäälän Terminaali. At the beginning of March, FIM's brokerage and custody services were also transferred to S-Bank. In June, S-Bank purchased the remainder of FIM Corporation's share capital, and at the end of November, FIM Corporation merged with S-Bank. At the end of the year, the business operations of FIM Investment Services Ltd. were transferred to S-Bank. In October, the shares of FIM Real Estate owned by FIM Corporation were transferred to FIM Investment Services, and an authorisation to manage alternative investment funds was applied for FIM Investment Services. In this connection, the name of FIM Investment Services was changed to FIM Private Equity Funds Ltd. at the beginning of 2017.

At the end of 2016, S-Bank had more than 2.9 million customers using its free-of-charge basic banking services. They had more than 1.9 million S-Bank Visa cards. By the end of the year, nearly 1.7 million customers had acquired banking IDs for online banking and S-mobiili. By the end of 2016, S-mobiili had been downloaded onto nearly a million smartphones or tablets.

S-Bank's deposit portfolio was EUR 4,547 million at the end of the year. This showed an increase of around EUR 435 million from the previous turn of the year. Credit portfolio increased by EUR 661 million during the year and amounted to EUR 3,492 million at the end of the year.

The funds and asset management services offered by S-Bank are produced by its subsidiary FIM. At the end of 2016, the number of unit holders in the funds managed by FIM was more than 200,000, and the assets under management totalled EUR 6,264 million. FIM Asset Management manages the FIM and LocalTapiola Funds.

New products for easier daily life

New products and services are developed with a keen ear to the customers' wishes. The goal is to provide unparalleled convenience and benefits for customers, and therefore, customers' needs and user experience are at the core of service developments.

In February, we introduced a mobile fuel payment service, together with the ABC chain, enabling customers to pay for fuel purchases with their smartphones. Paying for fuel purchases with Apple Watch has been possible since June. The service is unique, even internationally, and it won the Technology Innovation Award of the Association for Convenience and Fuel Retailing (NACS).

In April, S-Bank introduced a calculator for comparing the advantages and costs of services provided by various banks. In addition to bank fees, the calculator also takes into account the benefits offered to co-op members by S Group.

In October, FIM introduced an Impact investment project, which aims at supporting the employment of asylum seekers. It is an example of impact investment, which has become a huge phenomenon around the world. Impact investment projects pursue monetary profit, as well as positive and quantifiable social or environmental impacts.

In November, FIM introduced to the market a fund which primarily invests in forest properties in Finland. The fund has both FIM and S share series. The advantage of the Forest Fund to the consumer is its small minimum investment requirement: The initial investment in the Forest Fund is as low as 200 euros. The corresponding sum for the competing Finnish funds is 5,000 euros.

At the beginning of December, LocalTapiola's insurance services were added to S-mobile. The service offers information on valid insurance policies, contact details of the claims service, and insurance invoices. LocalTapiola is S Group's insurance partner, and LocalTapiola customers receive Bonus from their insurance payments.

In December, S-Bank introduced a new kind of mortgage with a loan period of up to 45 years. This mortgage that allows reasonable monthly living costs leaves more money for other things. This mortgage solution is first offered for the Smartti homes built by YIT and for the BoKlok homes built by Skanska.

Recognition in Finland and abroad

Customers chose S-Bank as the most responsible bank for the fourth year running in the Sustainable Brand Index survey in spring 2016. The results of the BrandIndex survey by YouGov also indicated that Finns regard S-Bank as a strong, reliable operator: S-Bank was the most positively discussed Finnish financial brand in both January–June and July–December 2016, compared with other Finnish financial brands. Customer service and credit control at S-Bank again received favourable feedback in the Customer's Voice survey in April, and according to the customer loyalty index 2016, published in September, S-Bank has the most loyal customers. The strengths of S-Bank identified are its Finnish origin, cooperative values, presence in the daily life of customers, and the ability to avoid complicated banking jargon.

The ABC mobile fuel payment service introduced in February received extensive international attention. The service won the National Association of Convenience Stores (NACS) technology award in June.

In addition to convenience, S-Bank's objective is to provide benefits to customers. Free-of-charge basic banking services, in other words, a current account, debit card and banking IDs form the core of the product portfolio. The prices of other products are also quite competitive. The affordability of the S-Bank services has been highlighted in many surveys, as well. The S-Etukortti Visa has been the card with the lowest costs in, for example, the comparison that the Taloustieto magazine commissioned from Suomen Rahatieto in February, and in the survey published by Vertaaensin.fi in October. The comparisons made by Suomen Rahatieto show that the mortgages offered by S-Bank were the cheapest on the market in March and in October, S-Bank was found to be the most affordable option for a couple with a mortgage, a single person with a mortgage, and a single person who rents.

FIM's funds were also praised in 2016. In January, the FIM USA fund was ranked fourth in its category in a Morningstar comparison, and FIM Real won a Lipper Fund Award in March. In April, FIM Real Estate was the most inexpensive and best-performing fund in a comparison published by *Arvopaperi* magazine.

Group operating result

S-Bank Group's operating profit amounted to EUR 22.3 million. Profit for the financial period after taxes totalled EUR 17.3 million and the capital adequacy ratio was 15.1 per cent.

BALANCE BOOK

2016

S-Bank

REPORT BY THE EXECUTIVE BOARD

1 JANUARY – 31 DECEMBER 2016

OPERATING ENVIRONMENT

EXTERNAL OPERATING ENVIRONMENT

The global economy grew at a slower than average pace in 2016. Economic development was weak at the beginning of the year, as GDP growth in the USA was slower than expected, and in emerging countries, economic growth slowed down. In the latter half of the year, economic indicators improved and the economic activity increased in many countries. The hike in the price of crude oil increased inflation in many countries. GDP in the euro region increased at a reasonable pace.

Political uncertainty made financial markets nervous last year. The British referendum result on Brexit and the outcome of the presidential election in the USA caused fluctuations in the financial markets. However, the fluctuation was short-term. At the end of the year, the level of share indexes in the main markets was higher than at the beginning of the year.

The stimulant monetary policy by the central banks of developed countries continued in 2016. In March, the European Central Bank lowered the key interest rate to zero and the interest on banks' overnight deposits to -0.40 per cent. In April 2016, European Central Bank increased the volume of securities purchases to EUR 80 billion per month. ECB's stimulus measures resulted in the interests of government bonds becoming negative in many euro countries. During the year, all euribor rates ended up negative. The central bank's measures weakened the exchange rate of the euro, in relation to the dollar. In the USA, the Federal Reserve postponed increasing the key interest rate until the very end of the year.

Economic growth in Finland accelerated in 2016. Economic growth was based on domestic demand, in particular. The purchasing power of and consumption by households were supported by the increase in employment and the low inflation. During the year, consumer confidence strengthened considerably and was at the highest level in more than five years at the end of the year. Last year, investments picked up considerably and grew extensively. In particular, housing construction and other construction fared strongly. Export development was weaker. A positive aspect was industrial production taking an upward turn. The confidence of companies strengthened at the end of the year. Housing prices increased throughout the country by slightly over 0.5 per cent during the year.

Drawdowns of new mortgages increased considerably in 2016. The low interest rate level, strengthened consumer confidence and a brighter overall economic outlook explain the increase in the number of new mortgages. The increase in the mortgage portfolio accelerated, as well. The mortgage portfolio increased by an average of 2.4 per cent last year. The instalment-free months granted by banks contributed to the increase in the loan portfolio. The annual growth in households' consumer credit was four per cent. Deposits by households increased, and the average growth in deposits was approximately 4.5 per cent. Corporate bonds increased at a rate of approximately five per cent, supported by loans withdrawn by housing associations. During the year, fund-managed capital in funds registered in Finland increased by 9.3 per cent to EUR 106.5 billion, which is a record-high level. The total amount of fund capital increased as a result of positive net subscriptions and changes in the value of investments.

INTERNAL OPERATING ENVIRONMENT

Year 2016 was characterised by growth and development. In addition, focus was on streamlining the corporate structure. In late 2015, S-Bank further specified its strategy, and during the first half of 2016, S-Bank prepared to implement changes in line with its strategy, including simplifying the bank's product selection. The integration phase following the merger with LocalTapiola Bank in 2014 was completed in May, when the use of the MasterCards issued by LocalTapiola was discontinued and the affected customers were issued Visa cards by S-Bank.

Several significant new products were launched during the year. In February, S-Bank and the ABC chain introduced a mobile fuel payment service that enables customers to pay for fuel purchases by using their smartphones. Paying for fuel purchases with Apple Watch has been possible since June. In April, S-Bank introduced a calculator for comparing the advantages and costs of services provided by various banks. In October, FIM introduced an Impact investment project, which aims at supporting the employment of asylum seekers, and in November, the Forest Fund investing in forest properties was launched. In December, LocalTapiola insurance services were added to S-mobiili and S-Bank introduced a new kind of mortgage with the loan period of up to 45 years.

S-Bank Group centralised its operations and streamlined its corporate structure in 2016. At the beginning of March, S-Bank sold the entire share capitals of mutual property companies it owned, Koy Limingan Terminaali and Koy Lempäälän Terminaali. At the beginning of March, FIM's brokerage and custody services were also transferred to S-Bank. In June, S-Bank purchased the remainder of FIM Corporation's share capital, and at the end of November, FIM Corporation merged with S-Bank. At the end of the year, the business operations of FIM Investment Services Ltd. were transferred to S-Bank. In October, the shares of FIM Real Estate owned by FIM Corporation were transferred to FIM Investment Services, and an authorisation to manage alternative investment funds was applied for FIM Investment Services. In this connection, the name of FIM Investment Services was changed to FIM Private Equity Funds Ltd. at the beginning of 2017.

FINANCIAL STANDING

FINANCIAL PERFORMANCE AND PROFITABILITY

Financially, 2016 was a good year for S-Bank, in the same manner as the previous year. S-Bank Group's operating result amounted to EUR 22.3 million (16.6). Result for the financial period after taxes totalled EUR 17.3 million (12.6).

The Group's cost/income ratio improved, compared to the previous year, totalling 0.82 (0.88). Return on equity (ROE) improved as a result of the good result and was 4.4 per cent (3.2), while the return on assets (ROA) was 0.3 per cent (0.3).

S-Bank Group's own funds increased from the previous year. On the other hand, demand for own funds also increased, as a result of the increase in the balance sheet and lending. At the end of the financial period, the Group's own funds totalled EUR 398.2 million (376.1), whereas the minimum requirement for own funds was EUR 210.6 million (194.9). Due to the positive development of the balance sheet and lending, capital adequacy weakened slightly to 15.1 per cent (15.4). More detailed information on risk management and the development of capital adequacy is available under section Risk management and capital adequacy in the Notes.

KEY FINANCIAL INDICATORS (EUR MILLION)	12/2016	12/2015	12/2014*
Operating result	22.3	16.6	14.6
Net income	160.5	153.8	147.6
Deposits	4,547.0	4,112.0	4,057.2
Lending	3,492.2	2,831.1	2,571.1
Debt securities	1,481.5	1,594.2	1,834.8
Cost/income ratio	0.82	0.88	0.87
Return on equity (ROE)	4.4%	3.2%	4.2%
Return on assets (ROA)	0.3%	0.3%	0.3%
Equity ratio	7.7%	8.2%	8.3%
Capital adequacy ratio	15.1%	15.4%	16.1%

* The reported figures describe the operations of S-Bank Group. When comparing the figures to the corresponding figures of 2014, the merger with the LocalTapiola Bank should be taken into consideration.

Net income

Net income increased from the previous year by more than EUR 6 million and totalled EUR 160.5 million (153.8). The majority of net income was constituted by net interest income, which totalled EUR 69.4 million (72.1). The low interest environment was manifested in the decrease in the net interest income, compared to the previous year. Income from 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 remained nearly at last year's level, standing at EUR 53.4 million (53.7). The net fee and commission income from banking increased, as a result of the increase in lending. By contrast, the asset management business suffered from the market turmoil and the resulting decrease in trading volumes.

Other income totalled EUR 37.7 million (28.0). Other income consisted of net income from financial assets available for sale, net income from securities trading, other operating income, net income from hedge accounting, and net income from investment properties. Net income from financial assets available for sale were EUR 22.6 million (10.7). The increase was due to the divestment of Visa Europe Ltd.'s shares to Visa Inc., which generated a capital gain of EUR 13.4 million to S-Bank. With derivatives designated at fair value through profit and loss, as well as considering hedge accounting, net income from securities trading amounted to EUR 0.0 million (0.8). Net result from hedge accounting amounted to EUR -0.5 million (0.6). Other operating income totalled EUR 15.5 million (14.7) and net income from investment properties totalled EUR 0.2 million (1.2). S-Bank divested the two property companies it owned, which is why no transactions were recognised in the net income of the property companies thereafter. The capital gains from the properties were included in other operating income.

Expenses

Operating expenses remained at last year's level and totalled EUR 138.2 million in 2016 (137.2). As a result of the statutory labour negotiations carried out at the end of 2015, personnel expenses decreased from the previous year and totalled EUR 45.9 million (50.7). However, other administrative expenses increased from the previous year, totalling EUR 70.7 million (66.1). The increase in other administrative expenses was due to the investments in the development of digital business and the agent fees that increased as a result of growth in the sales of the agency operations.

Depreciation during the financial period decreased from the previous year, totalling EUR 11.8 million (12.6). Other operating expenses also decrease, totalling EUR 6.7 million (7.3). Other operating expenses consisted of membership and supervision fees, facility, machinery and equipment rental and vehicle expenses.

Credit and impairment losses

Credit and impairment losses totalled EUR 3.0 million (0.4). Gross credit and impairment losses and losses due to malpractice amounted to EUR 11.3 million (8.6). Credit losses written back amounted to EUR 8.3 million (8.2). The increase in the credit and impairment losses is due to the strong growth in the credit portfolio. Proportioned to the size of the credit portfolio, the percentage of credit and impairment losses is at the previous year's level.

Deposits

The deposit portfolio developed well in the financial period. At year-end, the amount of demand deposits totalled EUR 4,529.3 million (4,030.4), and the amount of fixed-term deposits totalled EUR 17.7 million (81.6). Of these, deposits by private customers totalled EUR 3,601.1 million (3,230.0), including EUR 3,584.1 million (3,223.4) in demand deposits and EUR 17.0 million (74.8) in fixed-term deposits. Deposits by corporate customers totalled EUR 945.8 million (814.4). Of these, demand deposits totalled EUR 945.1 million (807.0) and fixed-term deposits amounted to EUR 0.7 million (7.4). On the closing date, the deposit portfolio totalled EUR 4,547.0 million (4,112.0).

Lending and investment operations

In terms of lending, 2016 was the best year in S-Bank's history. The mortgage portfolio, in particular, grew considerably faster than the market. Lending by limited liability housing companies also grew substantially. In total, lending portfolio increased by EUR 661.1 million during the year and amounted to EUR 3,492 million at the end of the year (2,831.1). This included EUR 2,647.8 million (2,309.2) in private customers' credit and EUR 844.4 million (521.9) in credit of corporate customers. S-Bank's capital investments in the money and capital markets totalled EUR 1,481.5 million (1,594.2).

Equity

At the year-end, equity totalled EUR 401.4 million (390.6), of which the minority interest was EUR 0.1 million (12.0). The decrease in the minority interest is due to the purchase of the remainder of FIM Corporation's share capital. Equity increased as a result of the good performance in the financial period and the positive development of the fair value reserve.

The strong balance sheet growth decreased equity ratio to 7.7 per cent (8.2), despite the growth in equity.

Assets under management

The amount of assets being managed by FIM Asset Management Ltd. was EUR 6,264.2 million (6,012.0) at the turn of the year. Of the managed assets, the share of fund capital was EUR 5,389.6 million (5,252.5), and asset management capital accounted for EUR 874.6 million (759.5). Net subscriptions in the funds totalled EUR -100.5 million (226.4) at the end of the review period. The number of unit holders in the funds exceeded 200,000 at the end of December. FIM Asset Management manages the FIM and LocalTapiola Funds.

OPERATIONS OF S-BANK'S SUBSIDIARIES

FIM CORPORATION

Until June 2016, S-Bank Ltd. owned 51 per cent of FIM Corporation.

In June, S-Bank acquired the rest of FIM Corporation's share capital, increasing its holding to 100 per cent. A decision to merge FIM Corporation with S-Bank was made in June and the merger was completed in November. FIM's corporate structure dissolved in the merger.

FIM ASSET MANAGEMENT LTD.

FIM Asset Management Ltd. manages FIM's and LocalTapiola's funds and provides services related to asset management to S-Bank Group. S-Bank owns 100 per cent of FIM Asset Management Ltd.'s share capital. The result of FIM Asset Management Ltd. was EUR -1.6 million (-0.7) for the financial period.

FIM INVESTMENT SERVICES LTD.

FIM Investment Services Ltd.'s brokerage, custody and alternative investment products business was transferred to S-Bank through a transfer of business on 1 March 2016. Subsequently, the business operations of FIM Investment Services consist of customer service for and sales of investment services and consultative asset management. The business operations of FIM Investment Services Ltd. were transferred to S-Bank on the last day of the year. An authorisation to manage alternative investment funds has been applied for FIM Investment Services, and once the authorisation is received in the first months of 2017, the company will abandon its investment service authorisation. In this connection, the name of FIM Investment Services was changed to FIM Private Equity Funds Ltd. at the beginning of 2017. The result of FIM Asset Management Ltd. was EUR -1.2 million (-0.0) in the financial period.

FIM REAL ESTATE LTD

FIM Real Estate Ltd. manages S-Bank Group's real estate funds. FIM Corporation owns 80% of its subsidiary FIM Real Estate Ltd. FIM Real Estate Ltd.'s result was EUR 0.4 million (0.2) in the financial year.

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 net sales for the review period were EUR 7.2 million (6.4). Of this, EUR 5.6 million were intra-Group net sales (4.8). Other revenue consisted of telephone services for co-op members offered to the cooperative enterprises. Expenses were mainly related to personnel. S-Asiakaspalvelu's operating result was EUR 0.0 million (0.0).

PROPERTY COMPANIES

In February, S-Bank sold the entire share capital of two mutual property companies, Koy Limingan Terminaali and Koy Lempäälän Terminaali. The capital gain from the divestment of the properties, EUR 2.6 million, was recognised in other operating income.

ADMINISTRATION

General meeting of shareholders

The Annual General Meeting was held on 30 March 2016. The Annual General Meeting adopted the 2015 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.

Executive Board

The General Meeting of Shareholders confirms the number of members in the Executive Board and nominates the 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.

At S-Bank's Annual General Meeting, the following members were elected to S-Bank's Executive Board: Jari Annala, CFO of SOK; Juha Ahola, Financial Manager of SOK; Matti Niemi, Managing Director of Osuuskauppa HOK-Elanto cooperative; Veli-Matti Puutio, Managing Director of Osuuskauppa Arina cooperative, Harri Lauslahti, Group Director of the LocalTapiola Group. In addition, Juha Mäkinen, Senior Managing Director at LocalTapiola East, was elected to the Board as a new member. In addition, Heli Arantola, Senior Vice President of Strategy and Business Development of the Fazer Group, was appointed to the Board as an independent member. Jari Annala was elected as the chairman of the Board and Harri Lauslahti as its vice chairman.

The deputy members nominated by S Group and elected to S-Bank's Executive Board were Hannu Krook, Managing Director of the Osuuskauppa Varuboden-Osla Handelslag cooperative, and Olli Vormisto, Managing Director of Osuuskauppa Hämeenmaa cooperative.

Erik Valros, Managing Director of LocalTapiola Uusimaa, was elected as a deputy member of S-Bank Ltd.'s Executive Board, appointed by the LocalTapiola Group.

Board member Jari Eklund and deputy member Timo Mäki-Ullakko resigned from the Board.

The Board convened 12 times during the financial period (14), and the average attendance rate of members was 98 per cent (94). The fees paid to Board members totalled EUR 30,000 (30,000).

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 is the Managing Director of S-Bank Ltd. Aki Gynther, head of the Knowledge and Capital unit, has been the deputy Managing Director since February 2016.

Personnel

Compared to the previous year, S-Bank Group's number of personnel decreased by 30 people. At the end of the year, S-Bank Group employed a total of 666 people (696). Of them, 466 (459) worked for S-Bank Ltd., 126 (96) for S-Asiakaspalvelu Oy, and 74 (141) for the FIM companies. S Group's regional cooperative enterprises and LocalTapiola Group's regional companies operate as S-Bank's agents.

Wages, salaries and remuneration

S-Bank Group has remuneration principles confirmed by the Executive Board, which are supplemented by the remuneration principles of the FIM companies. S-Bank's Executive Board decides on all available remuneration methods and regularly assesses the functioning of the remuneration systems and compliance with the operating principles and procedures.

S-Bank Executive Board's Compensation and Nomination Committee is a body assisting the Board and annually prepares performance-based compensation principles for the bank's personnel, in accordance with its rules of procedure, and submits them to the bank's Executive Board for confirmation. S-Bank's Executive Board's Compensation and Nomination Committee, for its part, ensures that the bank's principles on wages, salaries and remuneration are in line with good and efficient risk management and do not encourage excessive risk-taking. The Compensation and Nomination Committee consists of at least two members nominated by the bank's Executive Board from among its members.

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

The salaries and fees paid to personnel at S-Bank Group totalled EUR 36.7 million (41.7) during the year 2016. The recognised salaries and wages at S-Bank totalled EUR 23.5 million (24.8) and other remuneration totalled EUR 1.8 million (2.7). The recognised salaries and wages at S-Asiakaspalvelu totalled EUR 3.2 million (3.2) and other remuneration totalled EUR 0.2 million (0.2). The recognised salaries and wages at the FIM companies totalled EUR 6.6 million (8.0) and other remuneration totalled EUR 1.4 million (2.8).

The remuneration paid to S-Bank Ltd.'s Executive Board members totalled EUR 30,000 (30,000). The remuneration paid to FIM Corporation's Board members totalled EUR 30,000 (67,500), while the fees paid to FIM Asset Management's Board members totalled EUR 7,250 (900). In 2016, the persons whose actions essentially affect the credit institution's risk profile were paid EUR 4.1 million (3.6) in salaries and EUR 0.7 million (1.0) in other remuneration. A total of 51 persons (41) received these salaries and remuneration.

In 2016, the wages, salaries and remuneration of persons who were transferred in S-Bank Group's internal transfers of business have been reported for the company in which the person in question worked at the end of the year.

In accordance with S-Bank's remuneration principles, variable compensation is postponed if the remuneration of the individual in question exceeds EUR 50,000 for an earnings period of one year. In 2016, the variable compensation was postponed for two people (2).

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

There were no significant events after the end of the financial period.

OUTLOOK FOR 2017

The financial outlook for 2017 is quite positive. The recent strengthening of the economic indicators, both abroad and in Finland, signify accelerating economic growth. The economic situation in industry, in particular, seems to have recovered. The stimulant monetary policy by the central banks will further boost economic growth. The increase in the price of raw materials and oil will increase inflation to some extent. In the USA, good economic growth will continue and may be further supported by the economic policy of the new president. Economic growth will be boosted in the emerging countries. In the euro region, growth will primarily continue along the same lines as in the previous year. The European Central Bank will maintain a low key interest rate, and the euribor rate levels will continue to be exceptionally low.

The political environment creates risks in the economic outlook of 2017. Economic policies in the USA may give rise to concerns in the financial market and among economic operators. Several elections will be held in the euro region, and unexpected results of the elections may create uncertainty in the economic development of the euro countries.

Economic growth in Finland is expected to continue to be reasonably good in 2017. In addition to domestic demand, growing exports will support economic development. Inflation will accelerate slightly. Unemployment will decrease and employment will improve.

Growth in S-Bank will continue. Growth will be sought by deepening the customer relationships with private customers. The operations will continue to focus on the development of digital services. In addition, efficiency improvement will be carried on. The results of the business operations are expected to grow, but taking non-recurring items into consideration, the Group's operating result is forecast to decrease from 2016.

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 9,139,606.13, be entered in the retained earnings account and that no dividend be distributed.

CALCULATION OF KEY INDICATORS

Net income:

Interest income – interest expenses

Net fee and commission income:

Fee and commission income – fee and commission expenses

Other income

Other operating expenses + Impairment losses from credits and other receivables

Cost/income ratio:

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

Return on equity (ROE), %

$$\frac{\text{Operating profit/loss - Income taxes}}{\text{Equity and minority interest + Accumulated appropriations less deferred tax liabilities (average from start and end of year)*}} \times 100$$

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, %

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

Capital adequacy ratio, %

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

Capital adequacy ratio of Tier 1 own funds, %

$$\frac{\text{Tier 1 own funds, total}}{\text{Minimum requirement for own funds, total}} \times 8\%$$

Leverage ratio, %

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

* only when calculating company-specific key indicators; these items do not exist in the Group.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

ASSETS (€ THOUSAND)	Note	31 DEC 2016	31 DEC 2015
Cash	1,15,16,18	96,964	207,298
Debt securities eligible for refinancing with central banks			
Other	3,15,16,18	930,242	1,123,559
Receivables from credit institutions	1,15,16,18	31,214	19,684
Repayable on demand		19,462	6,850
Other		11,751	12,834
Receivables from the public and public sector entities	2,15,16,18	3,492,232	2,831,137
Repayable on demand		2,998	3,052
Other		3,489,234	2,828,085
Debt securities	3,15,16,18	551,296	470,660
From others		551,296	470,660
Shares and holdings	4,16,18	30,605	31,047
Shares and holdings in associated companies	4,15,18	3	2
Derivative contracts	5,15,16,18	1,278	1,714
Intangible assets	6,16	42,466	35,576
Consolidation goodwill		13,267	5,354
Other non-current expenses		27,482	30,221
Tangible assets	6,16	503	12,244
Other tangible assets		503	12,244
Other assets	7	**3,872**	**2,817**
Accrued income and prepayments	8	**21,769**	**31,670**
Deferred tax assets	9	**1,129**	**988**
TOTAL ASSETS		**5,203,571**	**4,768,394**

LIABILITIES (€ THOUSAND)	Note	31 DEC 2016	31 DEC 2015
LIABILITIES			
Liabilities to credit institutions	15,16,18	25,006	11,810
To credit institutions		25,006	11,810
Repayable on demand		6	10
Other		25,000	11,800
Liabilities to the public and public sector entities	15,16,18	4,583,846	4,146,376
Deposits		4,546,959	4,112,011
Repayable on demand		4,529,267	4,030,424
Other		17,693	81,587
Other liabilities		36,887	34,365
Repayable on demand		30,513	33,255
Other		6,374	1,110
Bonds issued to the public	10,15,16,18	11,000	44,081
Bonds		0	2,601
Other		11,000	41,480
Derivative contracts and other liabilities held for trading	5,11,16,18	11,523	12,073
Other liabilities	12.16	97,798	91,818
Other liabilities		97,798	91,818
Accrued expenses and prepayments received	13	22,760	22,274
Subordinated debt	14,15,16,18	42,000	43,000
Other		42,000	43,000
Deferred tax liabilities	9	8,209	6,342
LIABILITIES, TOTAL		4,802,143	4,377,774
EQUITY AND MINORITY INTEREST			
Share capital	19	82,880	82,880
Other restricted reserves	19	11,359	7,042
Fair value reserve		11,359	7,042
On measurement at fair value		11,359	7,042
Non-restricted reserves	19		
Reserve for invested unrestricted equity		243,813	243,813
Retained earnings (losses)	19	44,858	32,021
Profit (loss) for the period	19	18,404	12,837
Equity attributable to minority interest		114	12,027
EQUITY, TOTAL	19	**401,428**	**390,620**
TOTAL EQUITY AND LIABILITIES		5,203,571	4,768,394
OFF-BALANCE SHEET LIABILITIES			
Irrevocable commitments given in favour of a customer	35		
Securities repurchase commitments		196,174	258,429
Other		965,317	986,654

CONSOLIDATED INCOME STATEMENT

(€ THOUSAND)	Note	31 DEC 2016	31 DEC 2015
Interest income	20	77,872	80,687
Net income from leasing activities	21	0	55
Interest expenses	20	**-8,479**	**-8,642**
NET INTEREST INCOME		69,393	72,100
Return on equity investments	22	9	6
From other companies		9	6
Fee and commission income	23	88,745	89,682
Fee and commission expenses	23	-35,372	-35,994
Net income from securities and currency trading	24	0	814
Net income from securities trading		30	674
Net income from currency trading		-30	139
Net income from available-for-sale financial assets	25	22,577	10,703
Net result from hedge accounting	26	-545	595
Net income from investment properties	27	209	1,185
Other operating income	28	15,458	14,734
Administrative expenses		-116,626	-116,829
Personnel expenses		-45,879	-50,703
Salaries, wages and remuneration		-36,729	-41,743
Indirect personnel expenses		-9,150	-8,959
Pension costs		-7,070	-6,656
Other indirect personnel expenses		-2,080	-2,303
Other administrative expenses		-70,747	-66,126
Depreciation, amortisation and impairment on consolidated goodwill	30	-3,394	-2,080
Depreciation, amortisation and impairment on tangible and intangible assets	30	-8,439	-10,549
Other operating expenses	29	-6,729	-7,315
Impairment losses on loans and other commitments	31	**-3,009**	**-423**
Impairment losses on other financial assets	31	**-21**	**0**
Share of results of associated companies		**0**	**1**
OPERATING PROFIT (LOSS)		**22,256**	**16,630**
Income tax		**-4,975**	**-4,050**
PROFIT (LOSS) FROM ORDINARY ACTIVITIES AFTER TAXES		**17,281**	**12,580**
Profit or loss for the period attributable to minority interest		**1,123**	**257**
PROFIT (LOSS) FOR THE PERIOD		**18,404**	**12,837**

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED CASH FLOW STATEMENT (EUR MILLION)	2016	2015
CASH FLOW FROM OPERATIONS		
Result for the period	17	13
Adjustments of the result for the period	4	9
Increase (-) or decrease (+) in operating assets:	-652	-240
Receivables from the public and public sector entities	-659	-250
Other assets	7	10
Increase (+) or decrease (-) in operating liabilities	421	8
Liabilities to credit institutions	13	-56
Liabilities to the public and public sector entities	437	57
Other liabilities	-29	8
A. Cash flow from operations, total	-210	-210
Cash flow from investing activities		
Investments in tangible and intangible assets	-7	-11
Acquired shares in subsidiaries	-16	
Divested shares in subsidiaries	3	
Shares and holdings in associated companies	0	0
B. Cash flow from investment activities, total	-20	-11
Cash flow from financing activities		
Subordinated loans	-1	2
Dividends paid and other distribution of profits	**-1**	**-1**
Change in minority interest	**0**	**-2**
C. Cash flow from financing activities, total	-2	-1
Net change in liquid assets (A+B+C)	-231	-223
Liquid assets at the start of period	1,867	2,090
Liquid assets at the end of the period	1,635	1,867
Interest income	74	82
Interest expenses	-8	-7
Profit adjustments for the period		
Net result from hedge accounting	1	-1
Depreciation according to plan	12	13
Share of results of associated companies	0	0
Impairment losses on loans and other receivables	1	-1
Items without payment transactions and other adjustments	-9	-2
Adjustments, total	4	9
Liquid assets		
Cash	97	207
Debt securities	1,484	1,617
Shares and holdings	24	23
Receivables from credit institutions	31	20
Total	1,635	1,867

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. Pursuant to representative agreements, customer service is also provided by S Group cooperatives and LocalTapiola Group's regional companies, acting as agents at their outlets.

On 3 February 2017, the Executive Board approved the financial statements for the period 1 January – 31 December 2016.

Accounting policies

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

In addition, the capital requirements directive (CRDIV), the EU's capital requirement regulation (CRR, EU 575/2013), and the regulations of the European Banking Authority, as well as 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 following are included in the consolidated financial statements: FIM Asset Management Ltd., FIM Investment Services Ltd., FIM Real Estate and S-Asiakaspalvelu Ltd.

The subsidiaries acquired are included in the financial statements using the acquisition cost method. The companies acquired during the financial period have been consolidated from the date of acquisition and the divested companies up to the time when control ceases. 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

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

Items denominated in foreign currencies

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

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

Financial assets

Principles in accordance with the IAS 39 standard are applied to financial assets, which are divided into four valuation categories:

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

Measuring financial instruments at fair value

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

Financial assets and liabilities at fair value are divided into three categories according to the determination method of fair value.

- Fair values on level 1 are determined based on the quoted, unadjusted prices of completely identical financial asset items or liabilities in an active market.
- Fair values on level 2 are determined using generally accepted valuation models in which the input is to a significant extent based on verifiable market information.
- Market prices on level 3 are based on inputs concerning the asset item or liability that is not based on verifiable market information but to a significant effect on the management's assessments.

Financial assets measured at fair value

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

Investments held to maturity

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

Loans and other receivables

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

Available-for-sale financial assets

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

Financial liabilities

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

Derivative contracts

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

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

Embedded derivatives

An embedded derivative is part of a hybrid instrument that also contains a non-derivative main contract. Because of this, part of the cash flow of the hybrid instrument fluctuates in a manner similar to the cash flow of a standalone derivative. An embedded derivative must be separated from the main contract and handled as a derivative in accounting, provided that the requirements for separation stated in IAS 39.10-13 are met. One such requirement is, for example, that financial characteristics and risks of the embedded derivative and the main contract are not closely linked. If an embedded derivative is separated from the main contract, the main contract must be handled in accordance with IAS 39 in the case of a financial instrument and in accordance with other relevant standards, if it is not a financial instrument.

S-Bank has issued subordinated debenture loans that can be categorised as the above-mentioned hybrid instruments due to options included in the contracts and because these options entitle the bank to the repayment of debt before the maturity date. S-Bank 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.

Hedge accounting

All derivatives are measured at fair value. Derivative contracts are taken out primarily for hedging purposes. S-Bank applies macro-scale fair value hedge accounting to the above-mentioned derivative contracts that meet the documented effectiveness and other requirements for hedge accounting. In such cases, open interest rate risks are hedged using interest rate swaps, which are determined as hedging items in hedge accounting. S-Bank's hedge accounting complies with the principles of IAS 39.

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

Fair value hedging

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

Changes in the fair value of securities available for sale with fixed interest rate attributable to the risk related to hedged items are recognised in the income statement under item "Net result from hedge accounting". Changes to fair value attributable to other than the hedged risk are recognised in the fair value reserve. Changes to fair value of the hedging items included in hedge accounting are recognised in the income statement under the item "Net result from hedge accounting". When hedging is effective, the changes in the fair value offset each other and the net result is close to zero. S-Bank has approved interest rate swaps as derivatives for hedging.

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

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 modification of the software licensed to the Group. 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
Goodwill: 5 years
Renovations of rented premises: 5 years

Tangible assets

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

Depreciation periods for tangible assets / investment properties

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

Impairment losses

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

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

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

Impairments related to available-for-sale financial assets were not recognised in 2016 or in the comparison year 2015.

Investment properties

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 tax

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 CAPITAL ADEQUACY

General description and goals for risk management

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

The main objective of risk management is to maintain the level of profitability, capital adequacy and liquidity above the limits defined by the Executive Board, to manage reputation risk and to secure undisturbed, continuous operations in both the short and long term. 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 and the objectives and organisation of risk management in the Group. In addition, the overall risk strategy describes the definitions of the key risks and the general principles that help the bank secure its capital adequacy, liquidity and continuity of operations. The overall risk strategy is binding to all Group companies and their business and support functions. The overall risk strategy is supplemented with risk type-specific principles and procedures. In addition to this, the Group's business units and support units compile more specific work instructions and descriptions to support the risk management of their own operations.

Risk management at S-Bank Group

S-Bank Group's risk management is built on three lines of defence:

3. Line of defence
Internal auditing

2. Line of defence
Independent control functions:
Risk control and Compliance

1. Line of defence
Business and supporting units

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

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

Internal audit is the third line of defence and independent of the functions being audited. The task of internal audit is to audit and assess the functioning of the risk management carried out by the Group and internal control.

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

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

The overall risk management responsibility in S-Bank Group rests with the Executive Board, which ensures that the Group operations are appropriately organised in accordance with applicable laws and regulations. The Executive Board confirms the overall risk strategy and defines the objectives of S-Bank's risk-bearing capability, risk-taking willingness and risk management and ensures that the Group has operating and risk management principles supporting and executing these in place. In addition, the Executive Board approves risk type-specific principles related to the management and control of risks, the principles of risk modelling and calculation, as well as sets sufficient limits on risks as part of the overall risk strategy.

The Executive Board ensures that S-Bank Group continuously has sufficient capital to cover all essential risks caused by the business operations and changes in the external operating environment and that the Group's risk-bearing capability is adequate. All material risks, reports on compliance with the set limits, instructions concerning risk management and the changes thereof are discussed by the Executive Board regularly.

The Executive Board delegates the decision-making authority to executive management, monitors the extent and functioning of risk management and ensures the sufficiency of control functions independent of the business operations. The Board also supervises that an internal audit regularly assesses the sufficiency of risk management and control.

Executive Board members must have sufficient and diversified expertise and experience in the 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 in matters concerning S-Bank's overall risk strategy and risk-taking. The Committee monitors the effectiveness of S-Bank's internal control, internal audit and risk management and assists the Board in supervising that S-Bank's executive management complies with the overall risk strategy confirmed by the Board. The Committee also processes and prepares S-bank's capital plan and matters concerning the allocation and risk limits of capital for the Board's approval. 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.

S-Bank Ltd.'s Managing Director, assisted by the Group's management team, is responsible for the practical execution of risk management, in accordance with the principles set by the Executive Board. The Managing Director and the management team ensure that legislation and regulations, as well as risk management principles and methods that are in compliance with the Articles of Association and overall risk strategy, are taken into account in the Group's on-going operations. The managing director and management team also ensure the achievement of the set goals and the monitoring and management of the risks threatening the goals and ensure that the Group's risk-bearing capability is sufficient in relation to risk-taking. In addition, the Managing Director and management team ensure that the responsibilities, authorities, processes and reporting relationships have been defined and described clearly and that the risk management resources are sufficient.

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 granting of credit and prepares credit risk management matters for consideration of the Risk Management and Audit Committee.

The Chief Risk Officer management team prepares the essential principles and procedures related to risk management in S-Bank Group, including the overall risk strategy, principles for the disclosure of risks and capital adequacy information, as well as prepares the key decision proposals related to the capital adequacy and liquidity status and the Group-level risk limits for the Risk Management and Audit Committee to process and for the Executive Board to decide on. The management team monitors and supervises S-Bank's risks, risk-taking by the business operations and the management thereof. In addition, the management team prepares the reporting of functions independent of the business operations to S-Bank's management, Risk Management and Audit Committee and the Executive Board, as well as ensures that internal and external regulation is taken into consideration in the operations.

S-Bank's Executive Board has organised control functions, which are independent of the business operations, to ensure efficient and comprehensive internal control. The internal control function, which is independent of the business operations, consists of risk control, compliance, and internal audit.

Risk control ensures comprehensive monitoring and assessment of the Group's risk-taking level and implementation of risk management. The risk management function monitors the execution of the overall risk strategy and the total risk exposure and ensures that the risks taken by the Group are appropriately proportioned to its risk-bearing capability and the defined goals, and that the Group's risk-taking complies with the limits and principles defined by the Executive Board. The risk control function maintains and develops risk measurement, assessment and reporting methods, as well as supports business operations in the identification and management of risks. Risk control regularly reports on S-Bank's risks, risk exposure and level of risk management to S-Bank's management, Chief Risk Officer management team, Risk Management and Audit Committee, Executive Board and the authorities.

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 changes in legislation and regulations and ensures Group compliance. In addition, the function monitors and assesses the adequacy and efficiency of actions taken to correct non-compliance of regulations.

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 directors of S-Bank'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. Therefore, the business and support functions are responsible for identifying and assessing risks related to their operations, management and control thereof, as well as reporting in accordance with the instructions given. Each business and support function ensures that the framework, operational conditions and risk management prerequisites of the operations it owns have been described clearly and adequately.

Risk monitoring, control and reporting

S-Bank Group monitors risks on a continuous basis, as part of the daily routines. Every employee must be aware of their responsibility in risk management and is responsible for observing the implementation of risk management within their area of responsibility and for reporting on possible deviations and risk management defects in accordance with agreed practices. The control of risk management is based on the differentiation of tasks within S-Bank Group and on independent monitoring.

As part of continuous risk management, the risk exposure of S-Bank Group and the Group companies is assessed daily on the basis of risk limits. Market and liquidity risks are monitored and reported on daily. Credit risks, capital adequacy and operational risks are monitored continuously and reported on monthly and quarterly. In general, risks and the level of risk management are reported to S-Bank's management and Executive Board regularly.

Risk management is in charge of producing key reports on risks and the level of risk management to S-Bank's management, Chief Risk Officer management team, Risk Management and Audit Committee and Executive Board. Risks are measured, tracked, monitored and reported in a manner that gives the Executive Board and line management sufficient and relevant information on operational risks and their management. Internal control assesses the processes concerning the management of risks and capital management, in accordance with the annual auditing plan.

Disclosure of risk and capital adequacy information

S-Bank Group publishes the risk management goals and methods and risk type-specific information and information concerning its capital adequacy as part of the closing of the accounts once per year. As needed, S-Bank Group assesses the need to disclose this information more frequently, if, for example, the market situation or essential changes in the company's financial development or its risk exposure so require.

In special situations, more extensive information concerning capital adequacy is also disclosed in the interim report. Such a special case could be a situation in which the Group's capital adequacy is jeopardised in a manner that the Group was not able to anticipate in the capital adequacy management process and the capital plan.

The disclosed information concerning risks and capital adequacy are also always available on S-Bank's website as part of S-Bank's report by the Executive Board and financial statements.

CAPITAL ADEQUACY MANAGEMENT

Capital adequacy management and the capital plan are part of risk management. Capital adequacy management specifies the connection between S-Bank's strategy and capital plans. Capital goals are set and the adequacy of capital is assessed based on S-Bank's strategy, risk-taking willingness and risk-bearing capability. These are the starting points for transforming risks into a capital goal. The objective of capital adequacy management is to ensure effective use, sufficient amount and quality of capital. In this manner, the Group works to ensure S-Bank's undisturbed operations and preparedness for possible unexpected losses and crisis situations.

Regulation

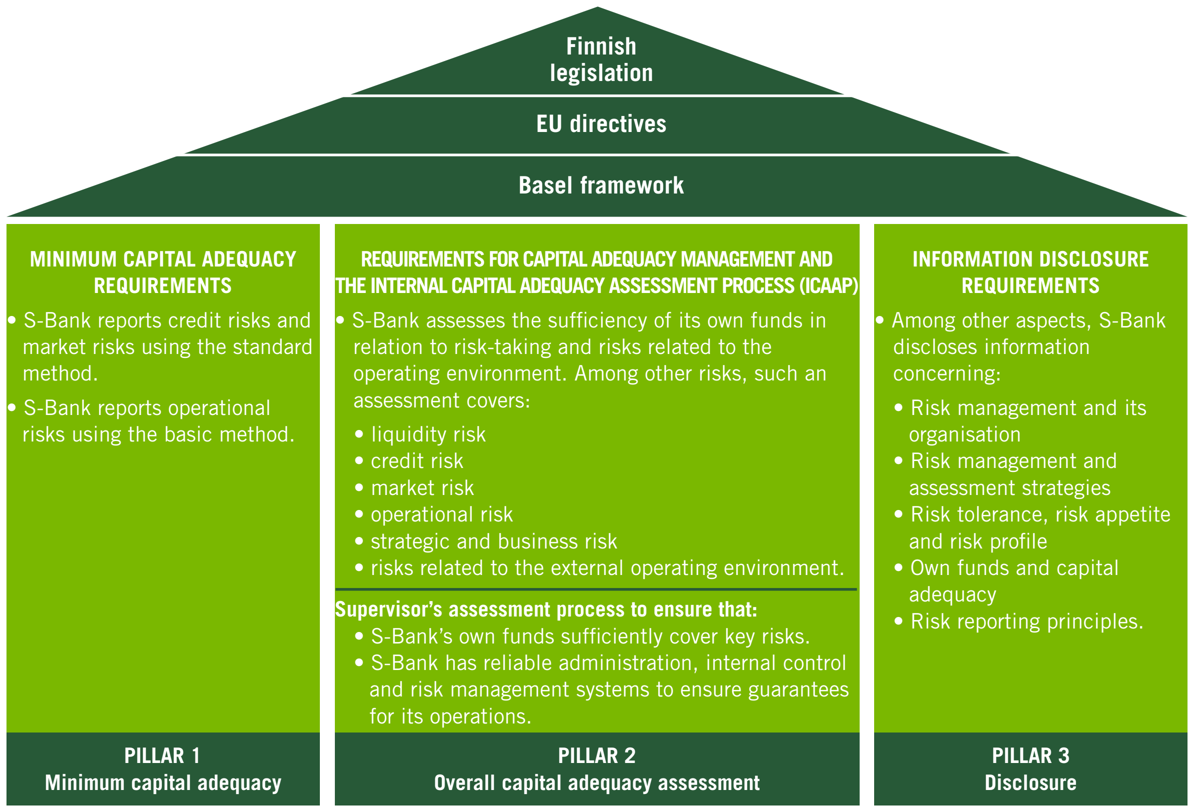
The Basel capital adequacy framework is comprised of three interlinked entities, or Pillars, illustrated below. Regulations are deployed through the EU directives, standards and national legislation.

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

Pillar 2 obligates banks to draw up an overall evaluation of their capital adequacy management and the sufficiency of their own funds in relation to the risk profile of their entire operations and the risks of their operating environment. This makes it possible to consider the bank's risks comprehensively and assess the risks outside Pillar 1 capital requirements in the risk-based capital goal assessment process. Pillar 2 also sets quality requirements for risk management and internal control. In addition, Pillar 2 guides the annual assessment by the authorities concerning the organisation of capital adequacy management and risk management, as well as the sufficiency of own funds.

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

The regulation on capital adequacy and banks' risk management in general has experienced a considerable transformation in recent years. The authorities have several projects under way and are drafting regulations to reform the regulation concerning banks in the future as well. The reforms concern, among others, capital adequacy, credit risks, market risks, liquidity risks and operational risks,



administration and control, accounting and auditing, securitisation, as well as prevention of terrorism funding and money-laundering. 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.

Capital adequacy management and capital planning

Capital adequacy management is based on a proactive approach and its starting point is S-Bank Group's strategy and operations planning and the overall risk strategy. Capital adequacy management and capital planning begin with a comprehensive identification of risks, while taking into consideration the nature and extent of the business operations, as well as the changes in the external operating environment. The amount of own funds required by the Group and the risk-based capital goal are deduced from the identified and analysed risks within the limits of the risk-taking level and willingness. The process takes into consideration the return targets, structure and availability of capitals. At the same time, various capital adequacy forecasts, stress tests, scenarios and sensitivity analyses are compiled in order to maintain the capital adequacy target, taking into account all essential risks caused by the operations and changes in the external operating environment.

The capital adequacy management process and the assessment of risk-based capital goal in accordance with Pillar 2 take into consideration all essential risk types from S-Bank Group's perspective. This integrates the Group's capital adequacy management and capital planning with comprehensive management of risks. Risk analyses impacting capital adequacy and determining risk-taking willingness also take the strategy and business plan into consideration. The annual strategy process involving the Executive Board and the Group's management team consists of a strategic analysis, strategic choice and, ultimately, the execution of the strategy. The strategic analysis includes an evaluation of the sector, market, key competition, development of regulation by the authorities and S-Bank Group's own operations. The strategy is approved by the Executive Board. The Group's business concept and vision, strategic goals and the risk-taking ability and willingness derived from these described in the overall risk strategy are defined at the strategic choices stage. Critical success factors are concretely defined at the strategic execution stage and meters and annual goal levels are created for them. 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.

Capital planning is based on S-Bank Group's business plan and the forecasts included in the plan concerning the changes of the volume of the operations and risk levels over an agreed time frame. The capital plan also provides the forecasts on the development of the capital goal, capital adequacy and liquidity at the Group and individual company levels. The plan covers and analyses the minimum capital requirements and minimum capital adequacy as stated in Pillar 1. In addition, the capital plan defines the capital goal and sufficiency of liquidity, in accordance with Pillar 2, taking into account the risk type-specific risk assessments, and sets the capital adequacy goals. The capital adequacy goals aim to ensure that the Group has sufficient capital buffers for unexpected losses, as well. S-Bank's Executive Board approves the capital plan.

Risk-bearing capability and risk-taking willingness

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

Business operations require taking such risks within the framework of risk-taking willingness which offer sufficient expected rewards in relation to the expected risks. The starting point is to achieve a stable and adequate return on the Group's equity in the short and long term. The goal is to achieve a level of capital adequacy and liquidity where the risk-taking willingness matches the Executive Board's definitions. The purpose is also to secure undisturbed continuation of the operations and ensure that S-Bank's risk-taking is controlled, planned and complies with the regulatory requirements. 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.

Stress tests

In accordance with regulatory requirements, S-Bank Group uses various stress tests to estimate how potential unfavourable changes could affect the development of capital adequacy or liquidity in the Group or an individual company over a certain time frame. Factors to be taken into consideration include macroeconomic changes in the operating environment and scenario-specific changes in the business volumes and their impact on S-Bank Group and the financial outlook, according to its strategy. The analyses take into consideration the simultaneous impact of single selected risk factors and several variables on S-Bank's risk exposure and development of profitability.

Stress tests also make use of various sensitivity analyses, which make it possible to estimate the impact of assumptions and parameters used in risk type calculation on the risk models in question. The sensitivity analyses illustrate the effects of the probability of various risks and possible losses on S-Bank's capital adequacy position and capital buffers. The stress tests and sensitivity analyses are primarily conducted as part of the annual capital plan.

Recovery plan

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

Risk-based Pillar 2 capital goal and action limits in capital adequacy management

The risk-taking willingness, which is in compliance with the overall risk strategy, defines the Pillar 2 capital goal for capital adequacy management, in addition to the Pillar 1 capital adequacy requirement set by the authorities. A limit is also set on the Group companies in the risk budget of the overall risk strategy and an alarm limit for the minimum capital adequacy goal. A plan must be drawn up for capitalisation within the Group, in case the company's capital adequacy falls below the deviation alarm indication. The plan is executed when the amount of capital falls below the actual capital adequacy limit.

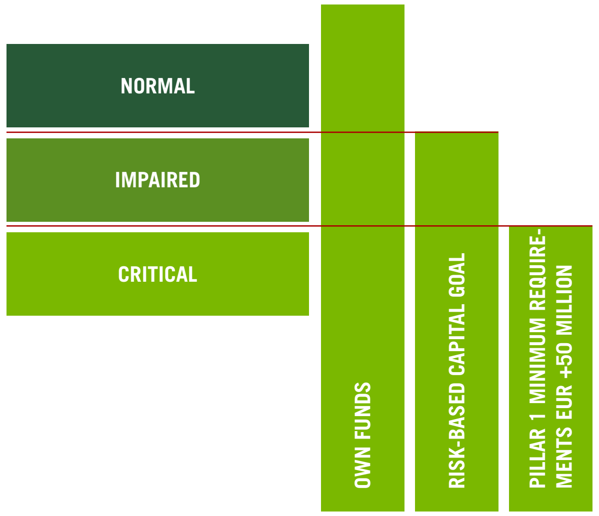
S-Bank Group, its parent company and subsidiaries apply the following capital adequacy management limits of Pillar 2, approved by the Executive Board. These limits define the capital adequacy position as normal, impaired or critical.

The Pillar 2 capital adequacy position is normal, when the Group's own funds exceed the risk-based capital goal. The capital adequacy position is impaired, if the Group's own funds are less than the risk-based capital goal. The capital adequacy 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 capital adequacy position management limits, the Executive Board has set corresponding limits for the Pillar 1 capital adequacy position. The minimum goal of the Pillar 1 capital adequacy ratio is 13 per cent, and the capital adequacy position is normal when the ratio is higher than 13 per cent. The capital adequacy position has impaired if the capital adequacy ratio is less than 13 per cent, but more than 10.5 per cent. The capital adequacy position is critical, if the capital adequacy ratio is less than the limit of 10.5 per cent.

The capital plan takes into consideration the set procedure limits and defines the measures to take in order to return the Group's capital adequacy to the position set in the objectives, if needed. When the amount of own funds is reaching the capital goal, primarily passive methods are used to reduce risks and normalise the situation. Passive methods to reduce risks restrict additional risk-taking by cutting unused risk limits, among other things. The active capital adequacy management methods will be applied only after doing this.

The Executive Board, in accordance with its job description, decides upon the capitalisation and financing arrangements and the execution thereof, as well as the application of risk reduction methods. In addition to the restrictions described above, the Group's capital adequacy and liquidity are assessed comprehensively and proactively.

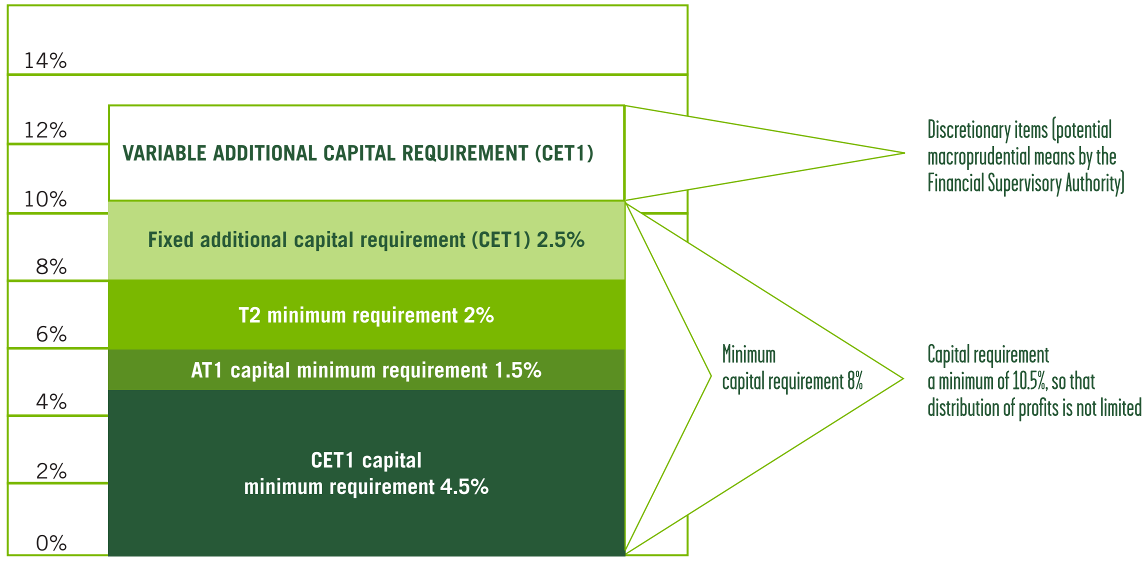


A summary of S-Bank Group's key risks and risk-based capital goal are described hereafter.

OWN FUNDS AND CAPITAL ADEQUACY

The Basel III regulatory framework sets the minimum requirements on the banks' own funds.

The minimum requirement of common equity (CET1) capital adequacy ratio is 4.5% and the additional capital requirement (AT1) is 1.5%. Tier 1 capital (T1) consists of CET1 and AT1. Since S-Bank does not have AT1 capital items, the CET1 own funds are equal to the T1 own funds. The Tier 2 minimum capital requirement is 8%, and a fixed capital-maintaining buffer (CET1) of 2.5% is included for credit institutions.



In addition, the Finnish Financial Supervisory Authority can set various variable additional capital requirements (countercyclical capital buffer 0% – 2.5% (CET1), O-SII buffer (CET1) 0% – 2% and a bank-specific additional capital requirement (Pillar 2). For the time being, the Financial Supervisory Authority has not set variable additional capital requirements and the O-SII buffer does not apply to S-Bank. However, pursuant to the regulatory technical standards (Commission Delegated Regulation EU 2015/1555), an institution-specific countercyclical capital buffer rate consists of the weighted average of the countercyclical buffer rates that apply in the countries where the relevant credit exposures of the institution are located. Among others, the Swedish and Norwegian authorities have set a countercyclical capital buffer requirement of 1.5%, which is taken into consideration in the minimum requirement of the Group's own funds. The following table illustrates the calculation of the institution-specific countercyclical capital buffer rate in the S-Bank Group. On 31 December 2016, the rate was 0.02 %. In addition, the Group prepares for conservative capital buffers in its capital adequacy goals, and they could be used in other variable additional capital requirements, as well, if needed.

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. According to the EU

EUR MILLION	Capital requirement for relevant credit exposures	Share	Countercyclical capital buffer
Sweden	1.7	0.98%	1.50%
Norway	0.6	0.36%	1.50%
Other countries	168.1	98.66%	0.00%
Total	**170.4**	**100.00%**	**0.02%**

capital requirements regulation (575/2013), the fair value fund is calculated, less the deferred tax liability of the common equity, in accordance with the corporate tax rate. A possible negative fair value fund is deducted from the common equity. Retained earnings for the past financial period 2016 are included in common equity as a result of the permission granted by the Finnish Financial Supervisory Authority, in accordance with Article 26 of the EU capital requirements regulation.

FIM Corporation's minority interest was removed from own funds in June 2016, when S-Bank acquired the remainder of FIM Corporation's share capital and the Boards of the companies approved the merger plan. FIM Corporation was merged with S-Bank at the end of 2016.

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 in the Group consist of two loans on debenture terms and a total nominal value of EUR 42 million. S-Bank redeemed two debentures and one debenture matured in 2016. Correspondingly, S-Bank issued a new debenture of EUR 26 million in June 2016. More detailed conditions of the debentures are presented in the Notes to the balance sheet items. 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 (575/2013) in the financial statements.

At the end of the financial period, the Group's own funds totalled EUR 398.2 million (376.1), whereas the minimum requirement for own funds was EUR 210.6 million (194.9).

S-Bank Group's capital adequacy ratio was 15.1 per cent (15.4).

OWN FUNDS (EUR MILLION)	12/2016	12/2015
Common equity before deductions	**401.3**	**391.2**
Share capital	82.9	82.9
Share premium account	0.0	0.0
Reserve for invested unrestricted equity	243.8	243.8
Voluntary provisions		
Minority interest	0.0	9.2
Retained earnings	63.3	44.9
Profit/loss from previous financial periods	44.9	32.0
Profit/loss for the financial period	18.4	12.8
Fair value reserve	11.4	10.4
Deductions from common equity	**45.1**	**41.5**
Intangible assets	42.5	35.6
Deferred tax assets	1.1	1.0
Value adjustment due to conservative valuation	1.5	0.0
Fair value reserve, negative valuation	0.0	3.4
Planned dividend distribution	**0.0**	**1.5**
Common equity (CET1)	**356.2**	**349.8**
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	**356.2**	**349.8**

OWN FUNDS (EUR MILLION)	12/2016	12/2015
Tier 2 capital before deductions	**42.0**	**26.3**
Debentures	42.0	26.3
Deductions form Tier 2 capital		
Tier 2 capital (T2)	**42.0**	**26.3**
Own funds, total	**398.2**	**376.1**
Own funds, total	398.2	376.1
Minimum capital requirement	210.6	194.9
Capital adequacy ratio	**15.1%**	**15.4%**
Tier 1 capital	356.2	349.8
Minimum amount of own funds	210.6	194.9
Capital adequacy ratio of Tier 1 own funds	**13.5%**	**14.4%**
Risk-weighted items, total	**2632.2**	**2436.0**
of which the credit risk represents	2328.5	2133.0
of which the market risk represents	1.5	0.9
of which the operational risk represents	299.9	299.3
of which credit valuation adjustment risk represents	2.4	2.9
Common equity in relation to risk-weighted items (%)	**13.5%**	**14.4%**
Tier 1 capital in relation to risk-weighted items (%)	**13.5%**	**14.4%**
Own funds in relation to risk-weighted items (%)	**15.1%**	**15.4%**

The Group's own funds were most significantly tied by the capital adequacy requirement of credit risk and the included items "Exposures secured by mortgages on immovable property", which totalled EUR 2252.3 million (1,836.7), "Exposures to corporates", which totalled EUR 683.9 million (483.1), and "Retail exposures", which totalled EUR 749.9 million (657.8). 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)	12/2016		12/2015	
Minimum capital adequacy requirement for credit risk	**Exposure value**	**Own funds**	**Exposure value**	**Own funds**
Exposures to central governments or central banks	230.1	0.0	329.8	0.0
Exposures to regional governments or local authorities	199.1	0.0	56.1	0.0
Exposures to the public and public sector entities	17.1	0.3	20.0	0.3
Exposures to multilateral development banks	5.1	0.0	5.1	0.0
Exposures to credit institutions and investment firms*	687.9	15.5	1,020.6	28.6
Exposures to corporates	683.9	52.0	483.1	37.2
Retail exposures	749.9	44.7	657.8	39.5
Exposures secured by mortgages on immovable property	2252.3	62.8	1,836.7	51.4
Past due exposures	12.1	1.2	18.4	2.0
Exposures in the form of covered bonds	282.3	2.3	234.0	1.9
Mutual fund investments	29.8	2.4	30.6	2.4
Equity exposures	0.8	0.1		
Other items	12.8	1.0	42.9	2.7
Off-balance sheet commitments	**1161.5**	**4.0**	**1,245.1**	**4.5**
Total	**6324.8**	**186.3**	**5,980.1**	**170.6**
Minimum capital adequacy requirement for credit risk, total		**186.3**		**170.6**
Minimum capital adequacy requirement for market risk		**0.1**		**0.1**
Minimum capital adequacy requirement for operational risks		**24.0**		**23.9**
Minimum capital adequacy requirement for credit valuation adjustment		**0.2**		**0.2**
Minimum amount of own funds, total		**210.6**		**194.9**

* 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, S-Bank Group primarily recognised exposures to corporates and exposures in the form of units or shares in collective investment undertakings, whereas the zero per cent category consisted of exposures to 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 2016, S-Bank's loan portfolio grew, which is manifested by an increase in the risk weighting categories of retail receivables (risk weighting 75%) and corporate receivables (risk weighting 100%), compared to the previous financial period. Central bank receivables and off-balance sheet (risk weighting 0%) risk weight items have decreased.

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. In terms of credit institutions and investment service companies, exposures fell predominantly into the 50 per cent risk-weighting category. 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, %	**2016**	**2015**
0%	443.3	1397.1
10%	282.3	235.2
20%	542.2	678.9
35%	2296.2	1837.1
50%	273.3	617.4
75%	1356.9	659.8
100%	1108.5	540.2
150%	22.2	14.3
	6324.8	**5980.1**

PAST DUE EXPOSURES (EUR MILLION) FOR 2016	30–90 days	More than 90 days	Impairment losses	Total
Balance sheet item				
Exposures to public sector entities	0.8	12.4	-3.6	**9.6**

PAST DUE EXPOSURES (EUR MILLION) FOR 2015	30–90 days	More than 90 days	Impairment losses	Total
Balance sheet item				
Exposures to the public and public sector entities	1.3	14.9	-2.9	**13.3**

EXPOSURES (EUR MILLION)	TOTAL AMOUNT OF EXPOSURES		AVERAGE VALUE OF EXPOSURES IN THE FINANCIAL PERIOD	
	2016	**2015**	**2016**	**2015**
Exposures to central governments or central banks	230.1	329.8	273.1	253.5
Exposures to regional governments	199.1	56.1	158.0	50.0
Exposures to the public and public sector entities	17.1	20.0	15.3	15.0
Exposures to multilateral development banks and international organisations	5.1	5.1	5.1	8.0
Exposures to credit institutions and investment firms	687.9	1,020.6	838.9	1,112.2
Exposures to corporates	683.9	483.1	659.6	510.8
Retail exposures	749.9	657.8	710.2	631.3
Exposures secured by mortgages on immovable property	2,252.3	1,836.7	2,062.1	1,796.5
Past due exposures	12.1	18.4	11.7	12.4
Exposures in the form of covered bonds	282.3	234.0	269.5	217.0
Mutual fund investments	29.8	30.6	26.9	33.1
Equity investments	0.8	0.0	0.4	0.0
Other items	12.8	42.9	22.9	48.7
Off-balance sheet items	**1,161.5**	**1,245.1**	**1,215.7**	**1,162.9**
Total	**6,324.8**	**5,980.1**	**6,269.4**	**5,851.3**

GEOGRAPHIC DISTRIBUTION OF EXPOSURES (EUR MILLION) IN 2016	Finland	Nordic countries	Other EU member states	Other countries
Exposures to central governments or central banks	98.1	22.5	0.0	0.0
Exposures to regional governments	185.7	11.2	0.0	0.0
Exposures to multilateral development banks and international organisations	0.0	0.0	5.1	0.0
Exposures to credit institutions and investment firms	376.1	130.6	91.4	92.3
Exposures to corporates	596.6	25.6	0.0	0.0
Retail exposures	920.8	0.0	0.0	0.02
Exposures secured by mortgages on immovable property	2,252.2	0.1	0.0	0.0
Past due exposures	12.1	0.0	0.0	0.0
Exposures in the form of covered bonds	85.0	157.2	0.0	40.0
Equity liabilities	26.3	0.0	0.0	3.5
Mutual fund investments	0.7	0.0	0.1	0.0
Other items	12.6	0.0	0.2	0.0
Off-balance sheet items	**1,161.0**	**0.0**	**0.4**	**0.0**
Total	**5,744.3**	**347.3**	**97.3**	**135.9**

GEOGRAPHIC DISTRIBUTION OF EXPOSURES (EUR MILLION) IN 2015	Finland	Nordic countries	Other EU member states	Other countries
Exposures to central governments or central banks	299.2	27.5	3.0	0.0
Exposures to regional governments	45.0	11.0	0.0	0.0
Exposures to multilateral development banks and international organisations	0.0	0.0	5.1	0.0
Exposures to credit institutions and investment firms	417.6	259.0	194.3	149.7
Exposures to corporates	465.4	17.7	0.0	0.0
Retail exposures	656.2	0.0	1.6	0.00
Exposures secured by mortgages on immovable property	1,836.7	0.0	0.0	0.0
Past due exposures	18.3	0.1	0.0	0.0
Exposures in the form of covered bonds	67.9	144.1	8.0	14.0
Mutual fund investments	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**

BREAKDOWN OF EXPOSURES BY BRANCH OF BUSINESS (EUR MILLION)	2016	2015	2014
Financial and insurance activities	1,188.0	1,559.5	1,896.0
Wholesale and retail trade	402.1	461.3	362.5
Real estate activities	597.9	267.8	308.5
Electricity, gas and water supply, cooling business	130.8	35.4	89.5
Industry	123.4	100.8	48.5
Mining and quarrying	6.4	6.3	4.6
Construction	79.8	77.7	4.5
Information and communication	27.6	17.2	12.8
Public administration and defence; compulsory social security	237.5	99.3	0.1
Other	101.3	84.3	240.6
No branch category**	3,430.0	3,270.5	2,801.8
Total	**6,324.8**	**5,980.1**	**5,769.5**

NOMINAL VALUES OF DERIVATIVES, IN ACCORDANCE WITH THE REMAINING MATURITY DISTRIBUTION (EUR MILLION), 31 DECEMBER 2016	Less than 1 year	1–5 years	More than 5 years
Interest rate derivatives			
Forward contracts			
Interest rate swaps	95.0	325.0	81.2
Options, bought		200.0	
Options, written		200.0	
Equity derivatives			
Forward contracts			
Options, bought	3.7		
Options, written	3.7		
Currency derivatives			
Forward contracts			
Interest rate swaps and currency swaps			

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		
Currency derivatives			
Forward contracts			
Interest rate swaps and currency swaps			

DERIVATIVE CONTRACTS 31 DEC 2016 MADE FOR HEDGING PURPOSES (EUR MILLION)	Nominal value	Positive fair value	Negative fair value
Interest rate derivatives			
Interest rate swaps	456.2	0.0	-8.3

NOT FOR HEDGING PURPOSES (EUR MILLION)	Nominal value	Positive fair value	Negative fair value
Interest rate derivatives			
Forward contracts			
Interest rate swaps	45.0	0.0	-0.1
Options, bought	200.0	0.4	
Options, written	200.0		-1.5
Equity derivatives			
Forward contracts			
Options, bought	3.7	0.2	
Options, written	3.7		-0.2
Currency derivatives			
Forward contracts			
Interest rate swaps and currency swaps			

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 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
Currency derivatives			
Forward contracts			
Interest rate swaps and currency swaps			

BREAKDOWN OF FINANCIAL ASSETS AND LIABILITIES BY INTEREST RATE MATURITIES (EUR MILLION), 2016

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 yrs.	2–5 yrs.	More than 5 years	Total
Cash	97.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	97.0
Exposures to credit institutions	31.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	31.2
Exposures to the public and public sector entities	1,096.0	651.4	690.8	379.5	452.1	125.2	79.9	17.4	3,492.2
Debt securities	244.0	353.6	101.3	3.1	41.5	151.7	487.4	99.0	1,481.5
Receivables, total	**1,468.1**	**1,004.9**	**792.1**	**382.6**	**493.6**	**276.9**	**567.3**	**116.5**	**5,101.9**
Liabilities to credit institutions	0.0	-5.0	-20.0	0.0	0.0	0.0	0.0	0.0	-25.0
Liabilities to the public and public sector entities	-4,569.4	-3.9	-6.0	-1.1	-0.6	-1.4	-1.4	0.0	-4,583.9
Bonds issued to the public	-10.0	0.0	-1.0	0.0	0.0	0.0	0.0	0.0	-11.0
Subordinated debt	0.0	0.0	-26.0	0.0	-16.0	0.0	0.0	0.0	-42.0
Liabilities, total	**-4,579.4**	**-8.9**	**-53.0**	**-1.1**	**-16.6**	**-1.4**	**-1.4**	**0.0**	**-4,661.9**
Receivables and liabilities, total	**-3,111.3**	**996.0**	**739.1**	**381.6**	**477.0**	**275.5**	**565.8**	**116.5**	**440.0**

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 yrs.	2–5 yrs.	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 debt	-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**

LEVERAGE AND LEVERAGE RATIO

The table below depicts the information related to S-Bank Group's leverage ratio, in accordance with the EU's capital requirements regulation, delegated regulation (EU 2015/62) and the Commission Implementing Regulation (EU 2016/200) concerning the disclosure of the leverage ratio for S-Bank Group. In addition, the bottom part of the table offers a qualitative description of the processes used for the management of the risk of excessive leverage and factors, which have affected the leverage ratio.

LEVERAGE RATIO (EUR MILLION)

	31 Dec 2016	31 Dec 2015
Reconciliation summary of funds and leverage ratio exposure	**Applicable amount**	**Applicable amount**
Total amount of funds, in accordance with the disclosed financial statements	5,203.57	4,768.39
Adjustments of derivative instruments	3.32	5.65
Adjustment of financing activities performed with securities		
Adjustment of off-balance sheet items (i.e.. converting off-balance sheet exposure to amounts that correspond to credit)	160.59	176.76
Other adjustments	-43.59	-39.06
Total leverage ratio exposure measure	**5,323.89**	**4,911.74**

SHARED DISCLOSURE OF LEVERAGE RATIO	Leverage ratio exposure in the capital requirements regulation	Leverage ratio exposure in the capital requirements regulation
On-balance sheet exposure (excluding derivatives and SFTs)		
Balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	5,158.68	4,727.62
On-balance sheet exposure, total	**5,158.68**	**4,727.62**
Derivative exposure		
Replacement cost related to all derivative activities	**4.60**	**7.36**
Risk-weighted exposure amounts, total	**4.60**	**7.36**
Other off-balance sheet exposures		
Off-balance sheet item exposure, gross nominal amount	**1,161.49**	**1,245.08**
(Adjustments for conversion to amounts that correspond to credit)	**-1,000.90**	**-1,068.33**
Other off-balance sheet exposures	**160.59**	**176.76**
Equity and total exposure measure		
Tier 1 capital (T1)	**356.24**	**349.77**
Total leverage ratio exposure measure	**5,323.87**	**4,911.74**
Leverage ratio	**6.69%**	**7.12%**

BREAKDOWN OF ON-BALANCE SHEET EXPOSURE (EXCLUDING DERIVATIVES, SFTS AND EXCLUDED EXPOSURE)	Leverage ratio exposure in the capital requirements regulation	Leverage ratio exposure in the capital requirements regulation
On-balance sheet exposure, total (excluding derivatives, SFTs and excluded liabilities), of which:	**5,158.68**	**4,727.62**
Trading book exposure	0.00	0.00
SFTs, of which:	**5,158.68**	**4,727.62**
Exposures in the form of covered bonds	282.31	234.05
Exposures treated as sovereigns	434.33	349.76
Exposures to regional governments, MDBs, international organisations and PSEs not treated as sovereigns	17.11	61.11
Institutions	683.34	1,013.23
Exposure secured by mortgages on immovable properties	2,252.28	1,836.74
Retail exposure	749.89	657.80
Companies	683.87	483.07
Exposures in default	12.14	18.41
Other exposures (such as equity exposures, securitisations and other exposures which do not apply to the credit obligation)	43.42	73.45

QUALITATIVE DESCRIPTION

Processes used for managing the risk of excessive leverage

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

Factors, which have affected the leverage ratio

S-Bank Group's equity ratio decreased from 7.1% to 6.7% during the financial year. Equity ratio was calculated in accordance with the CRR and the delegated regulation (EU 2015/62). The change during the financial year is attributable to the increase of EUR 412.1 million in the total leverage ratio exposure. The Tier 1 funds increased by EUR 6.5 million correspondingly.

S-BANK GROUP'S RISKS

GENERAL

A risk refers to an uncertainty in the future financial performance. Risk elimination means low, but predictable, returns in accordance with the financial theory. In general, the risk-free return level is so low that if the risk-free return level is secured, it will result in a minor uncertainty in the financial performance, whereas operations 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.

The following provides, by risk type, the definitions of S-Bank Group's key risks, the methods used for measuring and managing them, monitoring and reporting, as well as the generation of risk-based capital requirement. Finally, S-Bank Group's risk-based capital requirement is provided.

CREDIT RISKS

Definition, measurement and management of credit risk
Credit risk refers to the probability of a counterparty failing to fulfil its payment obligations as agreed, in other words, a customer fails to meet its payment obligation to S-Bank Group, which causes a loss to S-Bank or its subsidiary. Risk may arise in situations in which the granting of credit was not based on accurate and sufficient information or in which the customer's financial standing or the value of a collateral weakens. Credit risk may also arise from off-balance sheet commitments, such as unused credit arrangements, credit facilities and guarantees. Moreover, credit and counterparty risks arise from investment activities, stock brokerage, inability of the counterparties to meet their payment obligations, and asset management operations due to customers' outstanding commission payments.

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 property to private and corporate customers and unsecured card and consumer credits taken by private customers. The credit risk strategy ensures that credit risk management adheres to good banking and lending practice and external regulation. The Executive Board steers the Group's lending levels by means of the credit risk strategy, related objectives, limits, credit decision authorisations and other essential principles. Credit risk management includes the lending process, limits, factors that reduce the credit risk, such as collateral management and guarantees, as well as credit risk monitoring, control and reporting. Credit risk is managed in the business and support functions within the framework of the principles and limits defined in the Group's overall risk strategy and the credit risk strategy. This helps ensure that sufficient capital is reserved for the risks taken and that the objectives of risk-taking willingness and risk management are met.

Process of granting and managing credit

In lending, the bank strives to provide customers with the most suitable credit products, or a combination thereof, which meet their specific needs. Granting and managing credit are based on a process, which includes identifying the customer, customer-specific risk analysis, payment default check and risk classification, as well as the assessment of the project to be funded and a possible collateral. Customers applying for credit undergo an analysis, which investigates the applicant's ability to fulfil their obligations. The information to be collected and analysed depends on the credit being applied for, its intended use and the customer group. Overall, 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's payment behaviour.

Credit decisions are one-off decisions, credit-line decisions or binding offers that relate to increased responsibility, or other decisions that improve the Group's exposure position. The highest decision-making power rests with the Group's Executive Board, which has delegated decision-making power further within the Group. 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 decisions and changes to credit are prepared, implemented and documented as agreed. The credit decision process itself is centralised, and some credit decisions for private customers are made automatically on the basis of risk rating models. This ensures that the credit decisions are profitable, effective and uniform. Material details and risks related to the credit being granted are reviewed with the customer in accordance with the operating guidelines.

In housing finance and related loan decisions, S-Bank complies with the decisions and guidelines of the Financial Supervisory Authority concerning the Loan-To-Value calculation (3/2015). The guidelines took effect on 1 July 2016 and applies to the amount of credit granted to private customers in housing finance in relation to the fair value of collateral provided as collateral for the loan upon granting the credit. The Loan-to-Value Ratio, or the loan ceiling, set by the authorities is 90%. After the guidelines took effect, or 1 July 2016 – 31 December 2016, the average Loan-To Value in housing finance has been 60.5% in S-Bank.

Credit granted on the basis of credit management and customer monitoring, the development of customers' situations and the value of collateral are monitored frequently. In this way, any payment delays, problematic credit and other suspicious business transactions can be detected and necessary measures can be taken.

Major customer risks and concentration risks

The purpose of the management of high customer risks is to limit the total exposure of an individual customer and customer entity. According to the regulatory definitions, 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 acceptable capital, after a credit risk reduction. A maximum limit of EUR 150 million has been set for institutions, and this limit does not exceed 100 per cent of the acceptable own funds. S-Bank Group investigates and documents financial ties whenever an individual exposure exceeds a set limit.

S-Bank manages high customer risks at the Group level by setting total limits on each customer entity. The customer entity's limit is allocated further to different business units by the Credit Management Committee. With regard to credit granting, S-Bank Group's private customer base is extensive. The potential concentration risk is decreased by the fact that its customers are geographically spread around Finland and that its credit portfolio and collateral consist of different credit products. Lending to corporate customers has also been divided between different sectors.

Concentration risk to S-Bank Group may be caused primarily by credit institutions and companies. Concentration risk is monitored regularly as part of the management's risk report. 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 targeting the concentration risk of the largest companies.The risk-based capital requirement of the concentration risk is based on the test.

Indirect exposure arisen from collateral is part of the supervision of risk concentrations. Real estate securities are S-Bank Group's largest single group of collateral. Real estate securities are divided between a large number of individual loans and they are also geographically distributed in different parts of Finland. The effects of potential changes in the value of real estate securities on the Group's capital adequacy and capitals are assessed as part of the capital plan scenario analyses.

Impairment losses

Impairment refers to a situation in which it has been estimated on the basis of objective criteria that the bank will not receive receivables back in full. Objective evidence includes, for example, a customers' delay in payment, insolvency or bankruptcy, reorganisation or rearrangement of debts, or a major change in the credit rating. If there is objective evidence of impairment, an impairment loss is recorded. The amount of recognised impairment loss is the best estimate of the amount of expected credit losses, after taking into account all relevant information about the situation on the reporting date that is available before the financial statements are published.

The impairment loss is recognised in the balance sheet and result through the review of impairment. Impairment losses consist of both individually significant and group-specific impairments. Firstly, individually significant receivables undergo a review. After this, receivables, which are not individually significant and with no earlier impairment recognition, undergo a group-specific impairment assessment. Loan receivables with similar credit risk properties are divided into groups. Their review aims to analyse and assess the transfer of the credit base into the following delay states and, eventually, to credit losses.

The assessment considers the extent of collateral in relation to credit, the value judgement percentage of collateral, the collateral type and potential realisation costs, as well as the payment behaviour and cash flow estimates. Should objective evidence emerge at a later date on the increase of the value of a financial asset, impairment is cancelled.

S-Bank Group conducts an impairment assessment at least every quarter. At the end of the financial year, an item or group of items in loans and other receivables are assessed for potential impairment. Individual and group-specific impairments are assessed by the business operations and risk control and are submitted to the credit committee for approval before the credit committee approves the entries.

The impaired receivables amounted to EUR 3.6 million (2.9) in the 2016 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 in euro realised in 2016 were larger than in the previous financial period, but the share of credit loss amount in relation to the loan portfolio has remained on the same level.

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

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

Impairment losses related to financial assets available for sale are also assessed by the business operations and risk control before the Credit Management Committee approves the entries. No impairment losses were recognised in available-for-sale financial assets for 2016.

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).

Reducing the credit risk

S-Bank Group uses collateral and guarantees as a methods for reducing credit risks, which impact granting and pricing of secured credit. The Group's Executive Board decides on the acceptable collateral types and their valuation principles. Guarantees used include conventional forms of guarantee, such as government guarantee and guaranty obligations of natural persons or legal entities. By using guarantees, the customer risk is transferred from the counterparty to the guarantor. Collateral and guarantees are used in the credit risk management of various credit products, in accordance with methods described in the credit granting guidelines, which are used to ensure that collateral is acceptable, binding, extensive enough and realisable.

The principle is that credits are only granted to customers, whose repayment capability is adequate, independent of the value of potential collateral. The values of guarantees are monitored and updated during the life cycle of the credit and information on their features are maintained in order to identify and manage any risk concentrations. In addition, the amount of collateral and guarantees is regularly reported on within the organisation.

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 capital adequacy reporting: The greatest euro-denominated change has taken place in exposures secured by mortgages, as the mortgage portfolio has increased: The item Exposures to corporates consists of a guarantee insurance issued by Garantia Insurance Company, which covers the S-Mortgage.

COLLATERAL AND GUARANTEES USED FOR CAPITAL ADEQUACY	Exposure value (EUR million)	
	2016	2015
Exposures to central governments or central banks	115.7	93.7
Exposures to regional governments or local authorities	2.2	7.5
Exposures to credit institutions and investment firms	19.0	27.5
Exposures to corporates	64.4	0.0
Secured on real estate property	2,296.2	1,836.7

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

Credit risk monitoring and reporting

The units taking credit risk are responsible for the management of credit risks and regularly monitor the credit portfolio, value of collateral and functioning of credit management processes, 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. S-Bank's credit control and collection are guided by risk-based supervision methods, efficient processes and good collection practices.

Key credit risks and changes therein, such as risk concentrations, overdue and uncollectable receivables, credit losses and the development of refunds in the credit portfolio, as well as the qualitative goals of credits are monitored and reported monthly to the management. The reports contain customer group and product specific information. Moreover, exposures and collateral concentrations of major counterparties are monitored on a regular basis. In addition, the risk control function monitors and ensures that the business operations function in accordance with the principles defined by the overall risk strategy, limits set in the risk budget and the decision authorities. Risk control regularly reports on S-Bank Group's credit risk profile and the success of risk management to S-Bank's management, Chief Risk Officer management team, Risk Management and Audit Committee and Executive Board.

Risk-based capital goal for credit risks

In Pillar 2, the capital goal of private customers' unsecured card and consumer credit is analysed by means of insolvency likelihood and credit loss returns, for example. For credits secured on real estate property, sufficiency of the collateral coverage and the amount of realised credit losses are reviewed. Based on the assessments, it can be expected that the risk weightings, in accordance with the standard method, are sufficient to cover the risk-based capital goal. To sum up, the risk-based capital goal is comprised of the capital requirements under Pillar 1 and the concentration risk calculated for major companies. Unlike the Pillar 1 capital requirement, the credit risk of the treasury's investment operations is handled in Pillar 2, as part of the market risk.

MARKET RISKS

Quantity, measurement and management 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. At S-Bank Group, the market risk mainly arises in the treasury's investment operations and, to a minor extent, in the market guarantee operations of stock brokerage. In the review of Pillar 2, the interest rate risk of basic banking operations is also included in market risks.

The market risk arises indirectly in the investment operations of investment and alternative funds, but these operations are regulated by the Finnish Act on Common Funds, 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 and in ICAAP reporting with scenario techniques as part of business risks.

S-Bank Group's market risks consist mainly of interest rate risks, but the Group also has share, currency and property risks to some extent. In addition, the credit risk component of debt securities generate market risks, which in S-Bank is called spread risk.

Market risks are viewed from the perspective of market price risks and income risks, which measure the risks from different angles. The market price risk always relates to the market price sensitivity of balance sheet items and the resulting effects of the market price fluctuation on fair value. For income risks, the perspective relates more to accounting: it simulates the effects of the realisation of the risks on the bank's result in situations where the instrument is held to maturity. Market risks are measured by means of allocation/sensitivity figures, stress tests and scenario analyses.

The purpose of S-Bank Group's market risk management is to manage such unexpected changes in the bank's result and capital adequacy 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 risk capital is compared with the Pillar 1 capital requirement and the Pillar 2 capital goal, which is in accordance with S-Bank Group's internal market risk model. Moderate risk taking of market risks aims to support the Group's profitability and, thus, the increase in own funds.

Market risk management is based on conservative risk-taking willingness and the risk limits derived from it, which are monitored and reported on actively to S-Bank's management. Monitoring and observing the external operating environment proactively are emphasised in market risk management. The task of the treasury unit in S-Bank Group is to manage S-Bank Group's overall market risk within the framework of its authority, unless the task has been specifically allocated to a business unit.

Interest rate risks

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

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

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

The interest rate risk in the banking operations is monitored monthly by means of interest rate gap analysis, in which liabilities and receivables are grouped into time periods on the basis of their interest rate maturities. The effects of changes in interest rate curves on S-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 S-Bank's overall interest rate risk. The risk is monitored on a daily basis.

On 31 December 2016, S-Bank's interest rate risk in financing activities was EUR -15.6 million (-29.3) as the interest rates increased by one percentage point. S-Bank changed the grounds of measuring the interest rate risk based on the present value at the beginning of 2016, so that the interest rate risk is only measured for items continuously valued in the balance sheet, which is the main factor behind the decrease in the interest rate risk. Simultaneously, the limit level of the interest rate risk, based on the present value, was lowered.

Credit premium risks (spread risks)

Besides the interest rate risk, the credit premium risk (spread risk) is related to the operations of the treasury unit. This risk is comprised of fixed-interest and variable-rate bonds in the portfolio. Credit premium risk is related 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 assessed daily, in accordance with the internal market risk model, as well as the parameters and methods defined in the overall risk strategy. S-Bank's Executive Board has set a maximum amount for the credit premium risk. Counterparty limits are defined by assessing the credit risk of possible counterparties, mainly on the basis of credit ratings given by credit rating companies. Investment activities have been cautious, and assets have been invested in liquid objects with a good credit rating.

Equity risks

Balance sheet equity risks materialise directly as a result of the change in market prices. Equity risks result from investment and brokerage activities, and their management and limiting are based on simple allocation limits. S-Bank uses shares primarily to spread the market risks and the risk level of share risks 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. On 1 March 2016, S-Bank sold the entire share capital of two mutual property companies, Koy Limingan Terminaali and Koy Lempäälän Terminaali.

Currency risks

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

Other market risk

As part of the investing activities, indirect market risk is generated for S-Bank Group through the fund investments of forest properties. This risk is kept extremely moderate by means of investment limits.

Market risk monitoring and reporting

In S-Bank Group, the treasury unit monitors the interest rate and spread risk daily. The Knowledge and Capital unit is responsible for the operational assessment and reporting of market risks, in accordance with the procedures agreed upon within the organisation. Market risks are monitored regularly at the Knowledge and Capital management team's meetings, in the Chief Risk Officer management team and as part of the monthly reporting submitted to S-Bank Group's Executive Board. Risk control also monitors the market risk exposure on a daily basis. In addition, the risk monitoring function monitors the management of S-Bank Group's market risks and the functioning and use of the market risk models in use. The key aspects of market risks, the functioning of risk management and the impact of risks on the sufficiency of capital are reported to S-Bank's management, Chief Risk Officer management team, Risk Management and Audit Committee and the Executive Board.

Risk-based capital goal for market risk

The capitals reserved for market risks under Pillar 2 are specified on the basis of S-Bank's overall risk strategy and market risk model. Capital is reserved for the spread risk on the basis of stressed volatility levels of credit risk premiums. Volatility assumptions applied in practice are equal to the risk levels of 2008 and 2011 as they were during these years detected to occur in the markets.

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

LIQUIDITY RISK

Definition, measurement and management of liquidity risk

Liquidity risk refers to a cash position risk; i.e. an uncertainty arising 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.

S-Bank Group measures the Liquidity Coverage Ratio (LCR) in accordance with parameters defined by authorities, as well as internal parameters and model. The limits and calculation parameters applied to internal modelling have been approved by S-Bank's Executive Board. They comply with the risk tolerance and risk-taking willingness that is in accordant with the overall risk strategy. In on-going operations, the treasury unit ensures that the liquidity position remains above the defined limit values.

Liquidity risk management is based on ensuring that the amount of S-Bank's liquid assets exceeds the liquidity need that will, in a normal and stressed operating environment, secure liquidity in the short (0–2 days), medium (0–30 days) and long (over 30 days) term. 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 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 two (2) days. In addition, the bank can use the Bank of Finland's limit on its ongoing operations to ensure both intraday liquidity and overnight liquidity, when necessary.

Liquidity management also includes the management of securities, which means that a sufficient number of secured investments are available for S-Bank to cover the collateral required by various business operations.

In addition, a minimum requirement in liquidity management is to fulfil the central bank's minimum reserve obligation and meet the Net Stable Funding Ratio (NSFR) requirements.

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

S-Bank Group's fund-raising operations

S-Bank's fund-raising is primarily based on the deposit portfolio. S-Bank shows 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 the Group's business model, a key indicator of sufficient funding is the ratio between lending and borrowing. On 31 December 2016, it was 77 per cent (69).

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

Liquidity risk monitoring and reporting

The Knowledge and Capital unit's team in charge of reporting to the authorities is responsible for the operational reporting of risks, and it reports on the liquidity exposure to risk control and treasury on a daily basis. Treasury and risk control monitor and assess S-Bank's liquidity exposure on the basis of the reports submitted to them and consistently report on the situation to S-Bank's management.

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.

Liquidity risks are monitored regularly at the Knowledge and Capital management team's meetings, in the Chief Risk Officer management team and as part of the monthly reporting submitted to S-Bank Group's Executive Board. In addition, the risk monitoring function monitors the management of S-Bank Group's liquidity risks and the functioning and use of the liquidity risk models in use. The key aspects of market risks, the functioning of risk management are reported to S-Bank's management, Chief Risk Officer management team, Risk Management and Audit Committee and the Executive Board.

Securing the continuity of liquidity

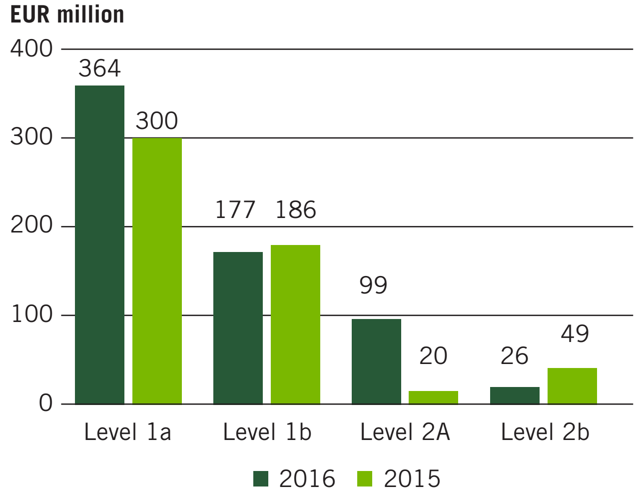
As part of the Group's liquidity strategy, the solvency restoration plan, included in the treasury unit's liquidity plan, specifies practices and operating models to ensure liquidity in exceptional situations and the conditions under which S-Bank takes the planned actions. The plan also specifies the type of up-to-date liquidity state information received by the management and the authorisations that allow for adopting exceptional methods. The plan specifies actions that must be carried out, when the liquidity position 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 LCR ratio on 31 December 2016 was 112 per cent (123), and the minimum requirement was 70 per cent. The minimum requirement will gradually increase to 100 per cent by 2018, and the limit will increase to 80 per cent starting from 1 January 2017. The requirement as a factor guiding S-Bank's investment business 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 figures include impairment losses that have been applied to balance sheet items (i.e. 'hair cuts'). The composition of the LCR buffer is illustrated in both the chart and the table.

LIQUIDITY (LCR) BALANCE SHEET ITEM (EUR MILLION) TAKING INTO ACCOUNT THE VALUE DECREASES IN ACCORDANCE WITH THE CRR	LCR 2016	LCR 2015
Liquid assets, 1	529.0	437.0
Liquid assets, 2a	85.0	17.0
Liquid assets, 2b	13.0	25.0
Liquid assets, total	**627.0**	**479.0**
Liquidity outflow, total	**613.0**	**458.0**
Liquidity inflow, total	**54.0**	**68.0**
Liquidity requirement (%)	**112%**	**123%**

Composition of the LCR buffer (market value)



COMPOSITION OF THE LCR BUFFER (MARKET VALUE, EUR MILLION)	31 DEC 2016	31 DEC 2015
Level 1a	**364**	**300**
Assets from regional governments or local authorities	227	69
Assets from multilateral development banks and international organisations	5	5
Funds from central administration	35	19
Central bank reserves available for withdrawal	97	207
Level 1b	**177**	**186**
Extremely high-quality covered bonds	177	186
Level 2A	**99**	**20**
High-quality covered bonds (a third country, credit rating 1)	40	20
High-quality covered bonds (credit rating 2)	42	-
Corporate bonds (credit rating 1)	17	-
Level 2b	**26**	**49**
Corporate bonds (credit ratings 2 and 3)	26	49
Total	**667**	**555**

FINANCIAL ASSETS AND LIABILITIES BY MATURITY (EUR MILLION), 2016

Balance sheet item	0–1 months	1–3 months	3–6 months	6–9 months	9–12 months	1–2 yrs.	2–5 yrs.	More than 5 years	Total
Cash	97.0								97.0
Receivables from credit institutions	31.2	0.0							31.2
Receivables from the public and public sector entities*	111.9	103.4	146.3	80.5	95.7	368.7	880.8	1,705.0	3,492.2
Debt securities	39.5	112.8	56.5	7.1	48.5	331.4	781.5	104.1	1,481.5
Receivables, total	**279.7**	**216.2**	**202.7**	**87.6**	**144.3**	**700.1**	**1,662.3**	**1,809.1**	**5,101.9**
Liabilities to credit institutions	0.0	-5.0	-20.0	0.0	0.0	0.0	0.0	0.0	-25.0
Liabilities to the public and public sector entities**	-4,569.3	-3.9	-6.0	-1.1	-0.6	-1.4	-1.4	0.0	-4,583.8
Bonds issued to the public	-10.0	0.0	-1.0	0.0	0.0	0.0	0.0	0.0	-11.0
Subordinated debt	0.0	0.0	0.0	0.0	0.0	0.0	-8.4	-33.6	-42.0
Liabilities, total	**-4,579.3**	**-8.9**	**-27.0**	**-1.1**	**-0.6**	**-1.4**	**-9.8**	**-33.6**	**-4,661.8**
Receivables and liabilities, total	**-4,299.7**	**207.3**	**175.7**	**86.5**	**143.7**	**698.7**	**1,652.4**	**1,775.5**	**440.1**

* 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), 2015

Balance sheet item	0–1 months	1–3 months	3–6 months	6–9 months	9–12 months	1–2 yrs.	2–5 yrs.	More than 5 years	Total
Cash	207.3								207.3
Receivables from credit institutions	19.7								19.7
Receivables from the public and public sector entities*	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
Bonds issued to the public		-16.5	-9.6	-16.0	-2.0				-44.1
Subordinated debt	-3.0		-15.0	-1.0		-4.0	-4.0	-16.0	-43.0
Liabilities, total	**-3,908.5**	**-102.7**	**-76.6**	**-47.5**	**-38.5**	**-58.8**	**-24.1**	**0.0**	**-4,256.7**
Liabilities, total	**-4,077.2**	**-43.4**	**-46.2**	**-31.1**	**-13.4**	**-12.2**	**-5.8**	**-16.0**	**-4,245.3**

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

Risk-based capital requirement goal in 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, S-Bank's deposit portfolio is about 1.5-fold, compared to the credit granted, and due to the financing structure, the liquidity risk is small. S-Bank's currency risk and its impact are insignificant.

OPERATIONAL RISKS, INCLUDING REPUTATIONAL RISK

Definition of operational risk

Operational risk refers to the possibility of loss arising as a result of unclear or insufficient guidelines, actions in violation of instructions, deficient systems, employee actions or external factors. A legal risk and reputation risk are included in the operational risk.

S-Bank Group's operational risk profile is essentially affected by the products and services, the agent operating model applied by S-Bank, purchasing of information systems from different providers, and the increase in the importance of digital channels. The consequences of realised operational risks may include financial loss or, indirectly, the weakening of S-Bank's reputation and valuation and the confidence it enjoys.

Measurement and management of operational risks

The primary goal in operational risk management is to identify and assess operational risks, which may play a significant role in the achievement of operational goals set, as well as to define management methods for the risks identified, in other words, the measures that aim to prevent, detect and reduce various disturbances, defects, errors and unauthorised use. Outsourcing-related operational risks are also considered in risk identification.

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

The risks are surveyed as part of S-Bank Group's annual operating plan. This task is based on the Group's strategy and the changes in its external and internal operating environments. S-Bank Group's all business and supporting units survey the operational risks related to, or possibly caused by, their own operations. Surveyed risks are assessed, and the probabilities and impacts of their occurrence, in case of damage, are determined. This enables the company to determine an expectation value for the risks; i.e. the amount of probable loss during a year. Moreover, the risk surveys specify risk management methods; i.e. 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 for damage caused by malpractice, property damage or criminal activity, for example. S-Bank Group prepares for substantial operational disturbance with a continuity plan.

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

Monitoring and reporting operational risks

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

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

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

Risk-based capital goal for operational risks

The assessment of the risk-based capital goal is mainly based on risk assessments related to the Group's operations and actual damage 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 S-Bank's operational losses.

STRATEGIC AND BUSINESS RISKS

Definition and measurement of strategic and business risks

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

The realisation of strategic and business risks is manifested, for example, as the volatility of the result and a poor result development, inflexible cost structures, uncompetitive products, services and prices, or structural ineffectiveness.

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, reputation risks and risks of changes in the external operating environment are measured 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 risk scenario analyses to assess the impact of changes in the internal and external business environment on the Group's balance sheet, profitability and capita adequacy.

Management, monitoring and reporting of strategic and business risks

The business and support functions manage strategic and business risks as part of operations planning and daily supervision. Indicators derived from strategy are monitored and reported on to the company's management on a regular basis. The business risk is managed by drawing up annual business plans and, through budgeting, by compiling income and cost calculations for upcoming years. The actual results are monitored regularly and reported to the Group's management. The development of business operations can be responded to by means of strategic decisions in a short time frame, if needed.

Risk-based capital goal of strategic and business risks

The capital reserved for strategic and business risks in Pillar 2 is defined by means of the scenario analyses based on S-Bank Group's business plans and profit and loss statements. The scenario analyses look at the development of budgeted business volumes and operating expenses in situations in which internal and external changes in the operating environment and the strategic choices develop unfavourably.

In 2015, the project to integrate the operations of S-Bank Group was a considerable risk, which was handled as a separate item in the risk-based capital requirement. The integration of the operations was finalised in 2016. Significant reputation risks or losses have not materialised in connection with the project.

S-BANK GROUP'S RISK-BASED CAPITAL GOAL

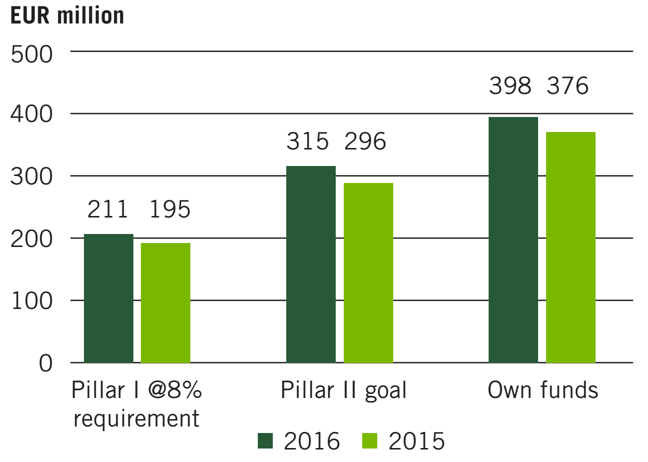
The summary below describes the relation of the Pillar 1 capital requirement and Pillar 2 risk-based capital goal to own funds for the above-mentioned risks in S-Bank Group. The capital buffer, in relation to the Pillar 1 capital requirement, totals EUR 187.7 million. It totals EUR 83.6 million, in relation to the Pillar 2 capital goal. The table provides a summary of the Group's overall risks profile, which is confirmed by the Executive Board when it approves the financial statements.

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

PILLAR 1 CAPITAL REQUIREMENT AND PILLAR 2 CAPITAL GOAL EUR MILLION	31 Dec 2016	31 Dec 2015
Pillar 1 capital requirement, total	**210.6**	**194.9**
Credit risk	186.3	170.6
Market risk	0.1	0.1
Operational risk	24.0	23.9
Risk related to the credit valuation adjustment	0.2	0.2
Pillar 2 capital goal, total	**314.7**	**295.7**
Credit risk	183.7	149.5
Spread risk	69.3	82.3
Other market risk	20.3	22.8
Operational risk	24.0	23.9
Strategic risk	6.7	8.3
Business risks	10.8	8.9
Own funds	**398.2**	**376.1**
Capital buffers		
for Pillar 1 capital requirement	**187.7**	**181.2**
for Pillar 2 capital goal	**83.6**	**80.4**

Own funds and capital requirements



NOTES TO CONSOLIDATED BALANCE SHEET ITEMS, EUR THOUSAND

	31 DEC 2016		
1. Receivables from credit institutions	**Repayable on demand**	**Other than repayable on demand**	**Total**
From the Central Bank	96,964	0	96,964
From Finnish credit institutions	9,370	11,751	21,120
From foreign credit institutions	10,093	0	10,093
Total receivables from credit institutions	**116,426**	**11,752**	**128,177**

	31 DEC 2015		
	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
Total receivables from credit institutions	**214,148**	**12,834**	**226,982**

2. Receivables from the public and public sector entities	31 Dec 2016	31 Dec 2015
Companies and housing associations	657,959	378,812
Finance and insurance institutions	57,594	34,220
Public sector entities	0	0
Households	2,766,236	2,408,534
Non-profit organisations serving households	7,876	2,811
Foreign entities	2,567	6,759
Total	**3,492,232**	**2,831,137**
Impairment losses at beginning of year	**2,912**	**3,676**
Receivable-specific impairment losses recorded in the period	368	100
Group-specific impairment losses recorded in the period	3,253	2,812
Group-specific impairment losses reversed in the period	-2,912	-3,676
Impairment losses at year-end	**3,620**	**2,912**

3. Debt securities	31 Dec 2016	
	Other than publicly quoted	Total
Issued by public-sector entities		
Available-for-sale financial assets		
Sovereign debts	115,554	115,554
Local government securities	23,411	23,411
Other bonds issued by public-sector entities	47,217	47,217
Other debt securities	81,182	81,182
Issued by public sector entities, total	**267,365**	**267,365**
Debt securities not issued by public-sector entities		
Financial assets held for trading		
Bonds issued by banks	240	240
Available-for-sale financial assets		
Commercial papers	27,022	27,022
Bonds issued by banks	850,697	850,697
Other debt securities	336,214	336,214
Debt securities not issued by public-sector entities, total	**1,214,173**	**1,214,173**
Total debt securities	**1,481,538**	**1,481,538**
– of which eligible for refinancing with central banks	930,242	930,242
- of which those that accumulate no interest, total	6,830	6,830

3. Debt securities	31 Dec 2015	
	Other than publicly quoted	Total
Issued by public-sector entities		
Available-for-sale financial assets		
Treasury bonds and notes	28,600	28,600
Other bonds issued by public-sector entities	73,567	73,567
Other debt securities	20,015	20,015
Issued by public sector entities, total	**122,182**	**122,182**
Debt securities not issued by public-sector entities		
Financial assets held for trading		
Bonds issued by banks	3,034	3,034
Available-for-sale financial assets		
Commercial papers	12,003	12,003
Bonds issued by banks	1,122,560	1,122,560
Other debt securities	334,441	334,441
Debt securities not issued by public-sector entities, total	**1,472,038**	**1,472,038**
Total debt securities	**1,594,220**	**1,594,220**
– of which eligible for refinancing with central banks	1,123,559	1,123,559
- of which those that accumulate no interest, total	0	0

4. Shares and holdings		31 Dec 2016	
Shares and holdings	**Publicly quoted**	**Other than publicly quoted**	**Total**
Financial assets held for trading	555	0	555
Available-for-sale financial assets	29,793	257	30,050
Shares and holdings in associated companies	0	3	3
Total	**30,348**	**260**	**30,608**
- of which in credit institutions	0	0	0

		31 Dec 2015	
Shares and holdings	**Publicly quoted**	**Other than publicly quoted**	**Total**
Financial assets held for trading	446	0	446
Available-for-sale financial assets	30,399	202	30,601
Shares and holdings in associated companies	0	2	2
Total	**30,844**	**205**	**31,049**
- of which in credit institutions	0	0	0

	31 DEC 2016		
5. Derivative contracts	**Nominal value**	**Positive fair value**	**Negative fair value**
For hedging purposes			
Interest rate derivatives			
Interest rate swaps	456,200	0	-8,284
Of the nominal value of derivative exposures in hedge accounting,			
EUR thousand in less than one year,	95,000		
EUR thousand in 1–5 years and	305,000		
EUR thousand in more than five years.	56,200		

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

	31 DEC 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– years and	342,000		
EUR thousand in more than five years.	39,000		

	31 DEC 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		

6. Changes in intangible and tangible assets during the financial year

Intangible assets, EUR thousand	**Intangible rights**	**Computer programmes and licence fees**	**Advances paid**	**Goodwill**	**Consolidated goodwill**	**Goodwill**	**Total**
Acquisition cost 1 Jan 2015	2,146	56,953	10,195	4,119	10,373	14,492	83,786
Increase	0	11,135	152	0	0	0	11,287
Decrease	0	-5,778	-364	0	0	0	-6,142
Transfers between items	0	9,471	-9,471	0	0	0	0
Acquisition cost 31 Dec 2015	2,146	71,780	512	4,119	10,373	14,492	88,930
Accumulated amortisation, depreciation and impairment 1 Jan 2015	-1,905	-42,019	0	-755	-2,939	-5,264	-47,618
Depreciation	-219	-2,615	0	-824	-2,080	-1,333	-5,737
Accumulated amortisation, depreciation and impairment, 31 Dec 2015	-2,123	-44,634	0	-1,579	-5,018	-6,597	-53,354
Carrying amount 1 Jan 2015	241	14,993	10,195	3,364	7,434	9,228	36,168
Carrying amount 31 Dec 2015	23	27,147	512	2,540	5,354	7,894	35,576

Intangible assets, EUR thousand	Intangible rights	Computer programmes and licence fees	Advances paid	Goodwill	Consolidated goodwill	Goodwill	Total
Acquisition cost 1 Jan 2016	2,146	71,780	512	4,119	10,373	14,492	88,930
Increase	0	270	6,854	0	11,306	11,306	18,430
Divestments	0	0	-26	0	0	0	-26
Decrease	0	-94	0	0	0	0	-94
Transfers between items	-2,146	-12,856	-106	0	0	0	-15,108
Acquisition cost 31 Dec 2016	0	59,101	7,233	4,119	21,679	25,798	92,132
Accumulated amortisation, depreciation and impairment, 1 Jan. 2016	-2,123	-44,634	0	-1,579	-5,018	-6,597	-53,354
Accumulated amortisation for decreases and transfers	2,146	13,062	0	0	0	0	15,207
Depreciation	-23	-7,280	0	-824	-3,394	-4,217	-11,520
Accumulated amortisation, depreciation and impairment, 31 Dec 2016	0	-38,852	0	-2,403	-8,412	-10,815	-49,667
Carrying amount 1 Jan 2016	23	27,147	512	2,540	5,354	7,894	35,576
Carrying amount 31 Dec 2016	0	20,249	7,233	1,716	13,267	14,983	42,466

Tangible assets EUR thousand	Land and water areas	Buildings and structures	Machinery and equipment total	Other tangible assets	Total
Acquisition cost 1 Jan 2015	792	13,977	14,327	194	29,290
Increase	0	0	381	0	381
Decrease	0	0	-32	0	-32
Acquisition cost 31 Dec 2015	792	13,977	14,675	194	29,638
Accumulated amortisation, depreciation and impairment 1 Jan 2015	0	-2,455	-13,982	0	-16,438
Depreciation	0	-672	-284	0	-956
Accumulated amortisation, depreciation and impairment, 31 Dec 2015	0	-3,128	-14,266	0	-17,394
Carrying amount 1 Jan 2015	792	11,522	344	194	12,852
Carrying amount 31 Dec 2015	792	10,850	409	194	12,244

Tangible assets EUR thousand	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Total
Acquisition cost 1 Jan 2016	792	13,977	14,675	194	29,638
Increase	0	0	205	0	205
Divestments	-792	-13,977	0	0	-14,600
Decrease	0	0	-158	-70	-228
Transfers between items	0	0	17	0	17
Acquisition cost 31 Dec 2016	0	0	3,992	124	4,698
Accumulated amortisation, depreciation and impairment, 1 Jan. 2016	0	-3,540	-3,542	0	-7,082
Accumulated amortisation on divestments	0	3,663	0	0	3,081
Accumulated amortisation for decreases and transfers	0	-10	172	70	231
Depreciation	0	-112	-242	0	-354
Impairment	0	0	0	-70	-70
Accumulated amortisation, depreciation and impairment, 31 Dec 2016	0	0	-3,613	0	-4,195
Carrying amount 1 Jan 2016	792	10,850	409	194	12,244
Carrying amount 31 Dec 2016	0	0	379	124	503

7. Other assets	31 Dec 2016	31 Dec 2015
Receivables from payment transactions	23	0
Trade receivables from securities	573	0
Other	3,276	2,817
Total	**3,872**	**2,817**

EUR 32 thousand of trade receivables from securities is from investment service companies

8. Accrued income and prepayments	31 Dec 2016	31 Dec 2015
Interest receivables	13,230	20,812
Other accrued income and advances paid	8,538	10,858
Total	**21,769**	**31,670**

9. Deferred tax assets and liabilities	31 Dec 2016	31 Dec 2015
Deferred tax assets attributable to losses	1,129	988
Deferred tax assets / liabilities arising from the fair value reserve	2,840	1,761
Deferred tax liability from appropriations	5,369	4,107
Deferred tax liability from consolidation measures	0	474

10. Debt securities issued to the public by the credit institution	31 Dec 2016		31 Dec 2015	
	Carrying amount	Nominal value	Carrying amount	Nominal value
Certificates of deposit	11,000	10,992	41,480	41,443
Bonds	0	0	2,601	2,601
Total	**11,000**	**10,992**	**44,081**	**44,044**

11. Other liabilities held for trading	31 Dec 2016	31 Dec 2015
From short-selling of shares	732	266
Other liabilities held for trading, total	**732**	**266**

12. Other liabilities	31 Dec 2016	31 Dec 2015
Payables arising from payment transactions	88,655	79,338
Securities purchase liabilities	87	2,400
Other	9,056	10,079
Other liabilities, total	**97,798**	**91,818**

13. Accrued expenses and advances received	31 Dec 2016	31 Dec 2015
Interest expenses	459	1,076
Other accrued expenses and advances received	22,301	21,197
Total	**22,760**	**22,274**

	31 DEC 2016			
14. Subordinated liabilities	Carrying amount *	Nominal value	Interest rate	Due date
Debenture I/2015	16,019	16,000	Euribor 12 month + 1.5%	1 Dec 2025
Debenture I/2016	26,233	26,000	Euribor 12 month + 1.8%	30 June 2026

*) 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 debenture loans are subordinated to the bank's other debt obligations.

In capital adequacy calculation, loans on debenture terms are grouped to the Tier 2 capital in accordance with the CRR regulation. For capital loans, the provisions of Chapter 12 of the Finnish Companies Act are applied.

Model of the key features of equity instruments	Debenture I/2015	Debenture I/2016
Issuer	S-Bank Ltd.	S-Bank Ltd.
Unique identifier (ISIN)	FI4000185418	FI4000210877
Governing law(s) applied to the instrument	Finnish	Finnish
Regulation		
Transitional CRR rules	Tier 2 capital (T2)	Tier 2 capital (T2)
Post-transitional CRR rules	Tier 2 capital (T2)	Tier 2 capital (T2)
Eligible at solo or consolidated/ sub-consolidated/ solo & consolidated/ sub-consolidation group	Solo & consolidated	Solo & consolidated
Instrument type		
Amount recognised in regulatory capital EUR Million (on the last reporting date)	16	26
Nominal amount of instrument EUR million	16	26
Issue price	100%	100%
Redemption price	100%	100%
Original date of issuance	30 Jan 2008	15 Sept 2008
Perpetual or dated	Dated	Dated
Original maturity date	15 Jan 2018	15 Sept 2018
Issuer call subject to prior supervisory approval	yes	yes
Accounting classification	Liability amortised cost	Liability amortised cost
Original date of issuance	1 Dec 2015	30 June 2016
Perpetual or dated	Dated	Dated
Original maturity date	1 Dec 2025	30 June 2026
Issuer call subject to prior supervisory approval	yes	yes
Optional call date, contingent call dates, and redemption amount	The debenture will be repaid based on its nominal value in equal instalments annually on 1 December, with 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.	The debenture capital will be repaid, based on its nominal value, in equal instalments annually on 30 June, with 30 June 2022 as the first instalment and 30 June 2026 as the last instalment. The issuer reserves the right to repay the debenture before the maturity date. The repayment can take place no earlier than five (5) years after the issuance of the loan, unless the Financial Supervision Authority grants a permission to a repayment earlier than in five (5) years.
Subsequent call dates, if applicable	See above	See above

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

15. Distribution of maturity of financial assets and liabilities	31 DEC 2016 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	15,073	23,650	814,641	76,878	0	930,242
Receivables from credit institutions	31,214	0	0	0	0	31,214
Receivables from the public and public sector entities	215,337	322,487	1,249,436	621,477	1,083,495	3,492,232
Debt securities	137,274	88,472	298,292	27,257	0	551,296
Derivative contracts (assets)	0	236	1,035	6	0	1,278
Financial assets, total	**398,898**	**434,845**	**2,363,405**	**725,618**	**1,083,495**	**5,006,621**
Liabilities to credit institutions	**5,006**	**20,000**	**0**	**0**	**0**	**25,006**
Liabilities to the public and public sector entities	4,573,261	7,726	2,859	0	0	4,583,846
Bonds issued to the public	10,000	1,000	0	0	0	11,000
Subordinated debt	0	0	8,400	33,600	0	42,000
Derivative contracts (liabilities)	732	998	7,194	2,019	580	11,523
Financial liabilities, total	**4,589,000**	**29,724**	**18,452**	**35,619**	**580**	**4,673,376**

	31 DEC 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
Derivative contracts (assets)	100	659	954	0	0	1,714
Financial assets, total	**301,059**	**497,846**	**2,131,779**	**665,361**	**850,710**	**4,446,755**
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
Bonds issued to the public	16,495	27,585	0	0	0	44,081
Subordinated debt	3,000	16,000	8,000	16,000	0	43,000
Derivative contracts (liabilities)	1,113	2,793	6,309	2,210	0	12,425
Financial liabilities, total	**4,121,663**	**93,495**	**24,324**	**18,210**	**0**	**4,257,692**

16. Breakdown of balance sheet items into domestic and foreign amounts and from Group entities	31 DEC 2016 Finnish currency	Foreign currency	Total	From Group entities
Balance sheet item				
Receivables from credit institutions	16,718	14,495	31,214	22,680
Receivables from the public and public sector entities	3,492,232	0	3,492,232	0
Debt securities	1,481,538	0	1,481,538	0
Derivative contracts	1,278	0	1,278	0
Shares and holdings	30,607	0	30,608	30,102
Intangible assets	42,466	0	42,466	1,867
Tangible assets	503	0	503	0
Other assets (including cash)	123,727	7	123,734	1,418
Total	**5,189,069**	**14,503**	**5,203,571**	**56,067**
Liabilities to credit institutions	25,006	0	25,006	0
Liabilities to the public and public sector entities	4,570,804	13,042	4,583,846	22,680
Bonds issued to the public	11,000	0	11,000	0
Derivative contracts and liabilities held for trading	11,523	0	11,523	0
Other liabilities	128,669	98	128,767	1,414
Subordinated debt	42,000	0	42,000	0
Total	**4,789,002**	**13,140**	**4,802,143**	**24,095**

	31 DEC 2015			
	Finnish currency	Foreign currency	Total	From Group entities
Balance sheet item				
Receivables from credit institutions	18,570	1,114	19,684	0
Receivables from the public and public sector entities	2,831,137	0	2,831,137	31,175
Debt securities	1,594,220	0	1,594,220	0
Derivative contracts	1,714	0	1,714	0
Shares and holdings	31,047	0	31,047	30,309
Intangible assets	35,576	0	35,576	0
Tangible assets	12,244	0	12,244	0
Other assets (including cash)	242,521	252	242,773	149
Total	**4,767,028**	**1,366**	**4,768,394**	**61,634**
Liabilities to credit institutions	11,810	0	11,810	0
Liabilities to the public and public sector entities	4,146,376	0	4,146,376	42,089
Bonds issued to the public	44,081	0	44,081	0
Derivative contracts and liabilities held for trading	12,073	0	12,073	0
Other liabilities	120,434	0	120,434	-444
Subordinated debt	43,000	0	43,000	0
Total	**4,377,774**	**0**	**4,377,774**	**41,645**

	31 DEC 2016		31 DEC 2015	
17. Securities lending	Carrying amount	Nominal value	Carrying amount	Nominal value
Available for sale				
Treasury bonds and notes	12,165	12,000	10,294	10,000
Total	**12,165**	**12,000**	**10,294**	**10,000**

	31 DEC 2016		31 DEC 2015	
18. Fair values and carrying amounts of financial assets and liabilities	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash	96,964	96,964	207,298	207,298
Receivables from credit institutions	31,214	31,231	19,684	19,684
Receivables from the public and public sector entities	3,492,232	3,724,304	2,831,137	2,987,973
Debt securities	1,481,538	1,490,490	1,594,220	1,610,536
Shares and holdings	30,605	30,525	31,044	30,964
Shares and holdings in associated companies	3	14	2	10
Shares and holdings in Group companies	0	0	0	0
Derivative contracts	1,278	1,278	1,714	1,714
Financial liabilities				
Liabilities to credit institutions	25,006	25,033	11,810	11,819
Liabilities to the public and public sector entities	4,583,846	4,630,482	4,146,376	4,162,979
Bonds issued to the public	11,000	11,002	44,081	44,111
Derivative contracts and other liabilities held for trading	11,523	11,523	12,073	12,073
Subordinated debt	42,000	42,259	43,000	43,140

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

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

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

	31 DEC 2016			
Financial instruments measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets and liabilities held for trading purposes	1,287			1,287
Available-for-sale financial assets	1,164,634	355,827		1,520,460
Derivative receivables		1,278		1,278
Derivatives liabilities		10,791		10,791

	31 DEC 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		11,807		11,807

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.

19. Equity items	**31 Dec 2016**	**31 Dec 2015**
Share capital; 1 Jan	82,880	82,880
Share capital 31 Dec	**82,880**	**82,880**
Fair value reserve; 1 Jan	7,042	20,530
Increase (+)/decrease(-)	4,317	-13,488
Fair value reserve, 31 Dec	**11,359**	**7,042**
Invested non-restricted equity reserve; 1 Jan	243,813	243,812
Increase (+)/decrease(-)	0	0
Invested non-restricted equity reserve 31 Dec	**243,813**	**243,813**
Loss from previous periods	44,858	32,021
Profit/loss for the financial period	18,404	12,837
	63,262	**44,858**
Minority interest	114	12,027
Total equity	**401,428**	**390,620**

NOTES TO CONSOLIDATED INCOME STATEMENT ITEMS, GROUP, EUR THOUSAND

20. Interest income and expenses	**31 Dec 2016**	**31 Dec 2015**
Interest income		
Receivables from credit institutions	-51	119
Receivables from the public and public sector entities	61,663	60,549
Debt securities	16,260	19,851
Derivative contracts	0	168
Other interest income	0	0
Total	**77,872**	**80,687**
Interest income from impaired receivables and other receivables	1,962	2,367
Interest expenses		
Liabilities to credit institutions	303	2
Liabilities to the public and public sector entities	3,273	4,596
Bonds issued to the public	0	0
Derivative contracts and liabilities held for trading	4,294	3,610
Subordinated debt	608	425
Other interest expenses	1	9
Total	**8,479**	**8,642**

21. Net income from leasing activities	**31 Dec 2016**	**31 Dec 2015**
Rental income	0	61
Depreciation of leasing assets according to plan	0	-3,949
Gains and losses of leasing assets (net)	0	3,931
Other income	0	12
	0	**55**

Finance lease operations were discontinued in 2015

22. Return from equity investments	31 Dec 2016	31 Dec 2015
Dividend income from investments classified as financial assets held for trading	9	6
	9	**6**

23. Fee and commission income and expenses	31 Dec 2016	31 Dec 2015
Fee and commission income		
from lending	20,811	15,432
from borrowing	3,857	3,590
from payment transactions	7,366	6,481
from funds	44,884	45,609
from asset management	1,171	2,597
from legal duties	1,423	380
from stock brokerage	6,553	10,944
from insurance brokerage	904	453
from issuing of guarantees	182	165
from other activities	1,593	4,032
	88,745	**89,682**
Fee and commission expenses		
from paid commission fees	33	20
from other sources	35,338	35,975

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

	31 DEC 2015 Gains and losses on sales (net)	Changes in fair value (net)	Total
From debt securities	0	-1,037	-1,037
From shares and other equity	0	0	0
From derivative contracts	-2,025	3,736	1,711
Net income from securities trading, total	**-2,025**	**2,699**	**674**
Net income from currency trading	-17	156	139
Income statement item, total	**-2,042**	**2,855**	**814**

25. Net income from available-for-sale financial assets	31 Dec 2016	31 Dec 2015
Net income from disposal of financial assets	22,524	10,741
Other income/expenses from available-for-sale financial assets	53	-39

26. Net result from hedge accounting	31 Dec 2016	31 Dec 2015
Net result from hedging instruments	-993	-875
Net result from hedged items	448	1,471

27. Net income from investment properties	31 Dec 2016	31 Dec 2015
Rental income	321	1,857
Depreciation according to plan	-112	-672
	209	**1,185**

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

28. Other operating income	31 Dec 2016	31 Dec 2015
Other income	15,458	14,734

29. Other operating expenses	31 Dec 2016	31 Dec 2015
Rental expenses	5,325	5,558
Other expenses	1,404	1,757
Total	**6,729**	**7,315**
Financial Stability Authority contributions		
Stability contribution	314	271
Deposit guarantee contribution	3,535	2,705
Administrative fee	0	25
Total	**3,849**	**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 funds accumulated in the old Deposit guarantee fund and the bank tax paid in previous years is estimated to cover the Financial Stability Fund contributions until 2020.

30. Depreciation, amortisation and impairment on tangible and intangible assets	31 Dec 2016	31 Dec 2015
Amortisation according to plan, intangible	8,127	12,584
Depreciation according to plan, tangible	242	46
Impairment losses	70	0

	31 DEC 2016				
31. Impairment losses on loans and other commitments and other financial assets	Contract-specific impairment losses, gross	Contract--specific impairments gross	Group-specific impairments, gross	Deductions	Recognised in the income statement
Receivables from the public and public sector entities	10,595	368	3,253	11,207	3,009

	31 DEC 2015				
	Contract-specific impairment losses, gross	Contract--specific impairments gross	Group-specific impairments, gross	Deductions	Recognised in the income statement
Receivables from the public and public sector entities	8,602	100	2,812	11,091	423

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

	Other collateral	
32. Collateral provided	**31 Dec 2016**	**31 Dec 2015**
Collateral provided on own debt, balance sheet item:		
Liabilities to credit institutions	174,000	157,500
Derivative contracts	11,737	11,616
Collateral provided on own debt, total	**185,737**	**169,116**
Other collateral provided on own behalf	**136**	**13,771**
Collateral provided for others	**31**	**18**

33. Pension liabilities

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

34. Leasing and other rental liabilities	31 Dec 2016	31 Dec 2015
Within one year	1,573	1,720
Due in 1–5 years	642	3,975
Total	**2,216**	**5,695**

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

35. Off-balance sheet commitments	31 Dec 2016	31 Dec 2015
Guarantees	20,915	20,186
Undrawn credit facilities	1,140,576	1,224,896

The Group's off-balance sheet commitments, on behalf of companies included in the same Group, amount to EUR 20.99 million.

36. Brokerage receivables and payables	31 Dec 2016	31 Dec 2015
Savings in accordance with the Finnish Act Governing Long-term Savings Agreements	174	162
Other brokerage receivables and liabilities		
Purchases from brokers	6,267	7,133
Liabilities to customers	13,372	11,063

NOTES ON PERSONNEL AND MANAGEMENT

37. Personnel	31 DEC 2016 Average number	number	31 DEC 2015 Average number	number
Permanent full-time personnel	535	529	585	572
Permanent part-time personnel	75	74	72	73
Fixed-term personnel	66	63	55	51
Total	**676**	**666**	**712**	**696**

Salaries and fees paid to Group management (EUR thousand)	31 Dec 2016	31 Dec 2015
Consolidated corporation/Managing Director and his deputy	939	885
Consolidated corporation/Executive Board	67	98

The amount of credit granted to the Managing Director, his deputies 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, GROUP, EUR THOUSAND

38. Loans and other financial receivables from related parties of the credit institution, investments made in such entities and guarantees and collateral provided by third parties on behalf of related parties	31 DEC 2016 Receivables from the public and public sector entities	Total	31 DEC 2015 Receivables from the public and public sector entities	Total
Basis for classification as a related party				
Management	1,677	1,677	464	464
Management of holding company	2,930	2,930	1,433	1,433
Kinship	186	186	1,577	1,577
Impairment losses at the end of the financial period				
Total	**4,791**	**4,791**	**3,474**	**3,474**

There are 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. S-Bank procures and provides services to its holding companies, applying the standard business basis and terms and conditions. The sales terms of the investment properties sold to the holding company during the financial period also corresponded to the valid market-based terms and conditions.

SUBSIDIARIES AND ASSOCIATED COMPANIES

39. Subsidiaries	Registered Office	Ownership
S-Asiakaspalvelu Oy	Helsinki	100%
FIM Asset Management Ltd	Helsinki	100%
FIM Investment Services Ltd.	Helsinki	100%
FIM Real Estate Ltd.	Helsinki	80%

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, GROUP, EUR THOUSAND

40. Notes regarding trustee services and total amount of customer funds	31 Dec 2016	31 Dec 2015
Customer assets under management at the end of the financial period	6,264,184	6,012,039
Customer assets under asset management	2,497,042	2,433,527
On the basis of full powers	874,628	759,545
On the basis of other agreements	1,622,415	1,673,981
Funds in cash accounts	0	0
Assets under consultative asset management	25,243	24,398

S-Bank's subsidiary FIM Asset Management Ltd. practices common fund activities in accordance with the extended licence pursuant to the Finnish Act on Common Funds, business activities materially related thereto and asset management activities. At the year-end, the company had a total of 56 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. Consultative asset management, private banking, institutional sales and customer service were transferred from FIM Investment Services Ltd. to S-Bank as a transfer of business on 31 December 2016.

NOTE ON AUDITOR'S FEES, GROUP, EUR THOUSAND

41. Information on the auditors' fees	31 DEC 2016	31 DEC 2015
Audit	304	292
Tax advice	6	11
Other services	5	111

S-BANK LTD.'S FINANCIAL STATEMENTS

BALANCE SHEET

ASSETS (€ THOUSAND)	Note	31 DEC 2016	31 DEC 2015
Cash	1, 15, 16, 19	96,964	207,298
Debt securities eligible for refinancing with central banks			
Other	3, 15, 16, 19	930,242	1,123,559
Receivables from credit institutions	1, 15,16	29,823	12,257
Repayable on demand		18,072	459
Other		11,751	11,799
Receivables from the public and public sector entities	2, 15, 16, 19	3,492,096	2,860,912
Repayable on demand		2,998	3,107
Other		3,489,098	2,857,805
Debt securities	3, 15, 16, 19	551,296	467,626
From others		551,296	467,626
Shares and holdings	4, 16, 18	30,551	30,418
Shares and holdings in associated companies	4, 16,19	3	3
Shares and holdings in Group companies	4, 16,19	29,942	30,309
Derivative contracts	5, 15, 16, 19	1,278	1,714
Intangible assets	6, 16	42,528	29,677
Tangible assets	6, 16	305	293
Other tangible assets		305	293
Other assets	11	2,952	12,138
Unpaid subscriptions to share issues/investment unit issues/ primary capital issues			
Other assets	7	3,884	2,952
Accrued income and prepayments	8	16,674	25,017
Deferred tax assets	9		
TOTAL ASSETS		**5,225,586**	**4,792,036**

LIABILITIES (€ THOUSAND)	Note	31 DEC 2016	31 DEC 2015
LIABILITIES			
Liabilities to credit institutions	15, 16, 19	25,006	11,810
To credit institutions		25,006	11,810
Repayable on demand		6	10
Other		25,000	11,800
Liabilities to the public and public sector entities	15, 16, 19	4,606,526	4,188,465
Deposits		4,569,639	4,154,100
Repayable on demand		4,551,947	4,072,513
Other		17,693	81,587
Other liabilities		36,887	34,365
Repayable on demand		30,513	33,255
Other		6,374	1,110
Bonds issued to the public	10, 15, 16, 19	11,000	44,081
Bonds		0	2,601
Other		11,000	41,480
Derivative contracts and other liabilities held for trading	5, 11, 15, 16, 19	11,523	11,807
Other liabilities	12, 16	97,238	86,930
Other liabilities		97,238	86,930
Accrued expenses and prepayments received	13	16,166	12,425
Subordinated debt	14, 15, 16, 19	42,000	43,000
Other		42,000	43,000
LIABILITIES, TOTAL		4,809,461	4,398,518
APPROPRIATIONS			
Depreciation difference		5,686	5,670
Voluntary provisions		21,057	13,013
ACCUMULATED APPROPRIATIONS, TOTAL		26,743	18,684
EQUITY			
Share capital	20, 21, 22	82,880	82,880
Other restricted reserves			
Fair value reserve	20	14,198	8,791
On measurement at fair value		14,198	8,791
Non-restricted reserves			
Reserve for invested non-restricted equity	20	243,832	243,832
Retained earnings (losses)	20	39,331	30,413
Profit (loss) for the period	20	9,140	8,919
EQUITY, TOTAL	20	389,382	374,835
TOTAL EQUITY AND LIABILITIES		**5,225,586**	**4,792,036**
OFF-BALANCE SHEET LIABILITIES			
Irrevocable commitments given in favour of a customer	38		
Securities repurchase commitments		201,294	290,549
Other		968,317	991,259

INCOME STATEMENT

(EUR thousand)	Note	31 DEC 2016	31 DEC 2015
Interest income	23	78,081	80,982
Net income from leasing activities	24	0	55
Interest expenses	23	-8,493	-8,679
NET INTEREST INCOME		**69,588**	**72,358**
Return on equity investments	25	998	1,236
From Group companies		998	1,236
Fee and commission income	26	42,772	29,677
Fee and commission expenses	26	-7,495	-4,383
Net income from securities and currency trading	27	25	-44
Net income from securities trading		49	-30
Net income from currency trading		-25	-14
Net income from available-for-sale financial assets	28	22,570	10,703
Net result from hedge accounting	29	-545	595
Net income from investment properties	30	114	602
Other operating income	31	17,146	15,400
Administrative expenses			
Personnel expenses		-31,524	-33,487
Salaries, wages and remuneration		-25,273	-27,534
Indirect personnel expenses		-6,250	-5,954
Pension costs		-4,637	-4,435
Other indirect personnel expenses		-1,614	-1,518
Other administrative expenses		-68,096	-59,146
Depreciation and impairment on tangible and intangible assets	33	-8,497	-9,035
Other operating expenses	32	-13,156	-4,300
Impairment losses on loans and other receivables	34	-2,559	-423
OPERATING PROFIT (LOSS)		**21,342**	**19,754**
Appropriations		**-8,060**	**-10,926**
Income tax		**-4,143**	**91**
PROFIT (LOSS) FROM ORDINARY ACTIVITIES AFTER TAXES		**9,140**	**8,919**
PROFIT (LOSS) FOR THE PERIOD		**9,140**	**8,919**

CASH FLOW STATEMENT

(EUR MILLION)	2016	2015
CASH FLOW FROM OPERATIONS		
Result for the period	9	9
Adjustments of the result for the period	14	12
Increase (-) or decrease (+) in operating assets:	-623	-238
Receivables from the public and public sector entities	-629	-253
Other assets	6	15
Increase (+) or decrease (-) in operating liabilities:	403	24
Liabilities to credit institutions	13	-56
Liabilities to the public and public sector entities	418	76
Other liabilities	-28	5
A. Cash flow from operations, total	-197	-192
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in tangible and intangible assets	-7	-11
Shares and holdings	-17	
B. Cash flow from investment activities, total	-25	-11
CASH FLOW FROM FINANCING ACTIVITIES		
Subordinated liabilities, decrease	-1	2
C. Cash flow from financing activities, total	-1	2
NET CHANGE IN LIQUID ASSETS (A+B+C)	-223	-201
Liquid assets at the start of period	1,854	2,055
Liquid assets at the end of period	1,631	1,854
Interest income	74	82
Interest expenses	-9	-7

(EUR MILLION)	2015	2014
PROFIT ADJUSTMENTS FOR THE PERIOD		
Net result from hedge accounting	1	-1
Depreciation according to plan	8	9
Impairment losses on loans and other receivables	1	-1
Items without payment transactions and other adjustments	5	5
Adjustments, total	14	12
LIQUID ASSETS		
Cash	97	207
Debt securities	1,482	1,614
Shares and holdings	23	21
Receivables from credit institutions	30	12
Total	1,631	1,854

ACCOUNTING POLICIES

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

S-Bank's headquarters are located at Fleminginkatu 34, 00510 Helsinki, Finland. Pursuant to representative agreements, customer service is also provided by S Group cooperatives and LocalTapiola Group's regional companies, acting as agents at their outlets.

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

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.

Otherwise, reference is made to the consolidated accounting principles.

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

	31 DEC 2016		
1. Receivables from credit institutions	**Repayable on demand**	**Other than repayable on demand**	**Total**
From the Central Bank	96,964	0	96,964
From Finnish credit institutions	8,146	11,751	19,897
From foreign credit institutions	9,926	0	9,926
Total receivables from credit institutions	**115,036**	**11,751**	**126,787**

	31 DEC 2015		
	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
Total receivables from credit institutions	**207,757**	**11,799**	**219,555**

2. Receivables from the public and public sector entities	**31 Dec 2016**	**31 Dec 2015**
Companies and housing associations	657,959	386,538
Finance and insurance institutions	57,458	57,670
Households	2,766,236	2,407,134
Non-profit organisations serving households	7,876	2,811
Foreign entities	2,567	6,759
Total receivables from the public and public sector entities	**3,492,096**	**2,860,912**
Credit loss provisions relating to the item "Receivables from the public and public sector entities" totalled EUR 2,210 thousand.		
Impairment losses at beginning of year	**2,912**	**3,676**
Receivable-specific impairment losses recorded in the period	368	100
Group-specific impairment losses recorded in the period	3,253	2,812
Group-specific impairment losses reversed in the period	-2,912	-3,676
Impairment losses at year-end	**3,620**	**2,912**
Amount of credit loss at the end of the financial period	2,559	423
Non-performing receivables at the end of the financial period	12,419	14,937
Receivables with impairments at the end of the financial period	-3,620	-2,912

3. Debt securities	31 DEC 2016	
Issued by public-sector entities	Other than publicly quoted	Total
Available-for-sale financial assets		
Local government securities	115,554	115,554
Treasury bonds and notes	23,411	23,411
Other bonds issued by public-sector entities	47,217	47,217
Other debt securities	81,182	81,182
Issued by public sector entities, total	**267,365**	**267,365**
Debt securities not issued by public-sector entities		
Financial assets held for trading		
Bonds issued by banks	240	240
Available-for-sale financial assets		
Commercial papers	27,022	27,022
Bonds issued by banks	850,697	850,697
Other debt securities	336,214	336,214
Debt securities not issued by public-sector entities, total	1,214,173	1,214,173
Total debt securities	**1,481,538**	**1,481,538**
– of which eligible for refinancing with central banks	930,242	930,242
- of which those that accumulate no interest, total	6,830	6,830

	31 DEC 2015	
Issued by public-sector entities	Other than publicly quoted	Total
Available-for-sale financial assets		
Treasury bonds and notes	28,600	28,600
Other bonds issued by public-sector entities	73,567	73,567
Other debt securities	20,015	20,015
Issued by public sector entities, total	**122,182**	**122,182**
Debt securities not issued by public-sector entities		
Financial assets held for trading	0	0
Available-for-sale financial assets		
Commercial papers	12,003	12,003
Bonds issued by banks	1,122,560	1,122,560
Other debt securities	334,441	334,441
Debt securities not issued by public-sector entities, total	**1,469,004**	**1,469,004**
Total debt securities	**1,591,186**	**1,591,186**
– of which eligible for refinancing with central banks	1,123,559	1,123,559
- of which those that accumulate no interest, total	0	0

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

		31 Dec 2015	
	Publicly quoted	Other than publicly quoted	Total
Shares and participations			
Financial assets held for trading	0	0	0
Available-for-sale financial assets	30,215	202	30,418
Shares and holdings in Group companies	0	30,309	30,309
Shares and holdings in associated companies	0	3	3
Total	**30,215**	**30,515**	**60,730**
- of which in credit institutions			

		31 DEC 2016	
5. Derivative contracts	Nominal value	Positive fair value	Negative fair value
For hedging purposes			
Interest rate derivatives			
Interest rate swaps	456,200	0	-8,284
Of the nominal value of derivative exposures in hedge accounting,			
EUR thousand in less than one year,	95,000		
EUR thousand in 1–5 years and	305,000		
EUR thousand in more than five years.	56,200		

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

For hedging purposes	31 DEC 2015 Nominal value	Positive fair value	Negative fair value
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		

For non-hedging purposes	31 DEC 2015 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 derivatives 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		

6. Changes in intangible and tangible assets during the financial period	Computer programmes and licence fees	Advances paid	Goodwill	Total
Acquisition cost 1 Jan 2015	42,983	10,195	4,000	57,178
Increase	11,118	0	0	11,118
Decrease	-5,778	-364	0	-6,142
Transfers between items	9,471	-9,471	0	0
Acquisition cost 31 Dec 2015	57,793	360	4,000	62,154
Accumulated amortisation, depreciation and impairment 1 Jan 2015	28,884		-533	28,351
Depreciation	-2,259		-800	-3,059
Accumulated amortisation, depreciation and impairment, 31 Dec 2015	-31,143		-1,333	-32,476
Carrying amount 1 Jan 2015	0	0	0	0
Carrying amount 31 Dec 2015	26,650	360	2,667	29,677

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

Changes in tangible assets 2015, EUR thousand	Machinery and equipment	Total
Acquisition cost 1 Jan 2015	229	229
Increase	336	336
Decrease	-32	-32
Acquisition cost 31 Dec 2015	533	533
Accumulated amortisation, depreciation and impairment 1 Jan 2015	-73	-73
Depreciation	-167	-167
Accumulated amortisation, depreciation and impairment, 31 Dec 2015	-240	-240
Carrying amount 1 Jan 2015	0	0
Carrying amount 31 Dec 2015	293	293

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

7. Other assets	31 Dec 2016	31 Dec 2015
Receivables from payment transactions	23	0
Trade receivables from securities	573	
Other	3,289	2,952
Total	**3,884**	**2,952**

EUR 32 thousand of trade receivables from securities is from investment service companies

8. Accrued income and advances paid	31 Dec 2016	31 Dec 2015
Interest receivables	13,230	20,812
Other accrued income	3,444	4,205
Total	**16,674**	**25,017**

9. Deferred tax assets and liabilities	31 Dec 2015	31 Dec 2015
Deferred tax assets attributable to losses	12	0
Deferred tax liabilities arising from the fair value reserve	2,840	1,758
Deferred tax liability from appropriations	5,349	3,737

10. Debt securities issued to the public by the credit institution	31 DEC 2016		31 DEC 2015	
	Carrying amount	Nominal value	Carrying amount *	Nominal value
Certificates of deposit	11,000	10,992	41,480	41,443
Bonds	0	0	2,601	2,601
Total	**11,000**	**10,992**	**44,081**	**44,044**

11. Other liabilities held for trading	31 Dec 2016	31 Dec 2015
From short-selling of shares	732	0
Other liabilities held for trading, total	**732**	**0**

12. Other liabilities	31 Dec 2016	31 Dec 2015
Payables arising from payment transactions	88,655	79,338
Securities purchase liabilities	87	0
Other	8,496	7,592
Other liabilities, total	**97,238**	**86,930**

13. Accrued expenses and advances received	31 Dec 2016	31 Dec 2015
Interest expenses	459	1,083
Other accrued expenses	15,707	11,342
Total	**16,166**	**12,425**

14. Subordinated loans	31 DEC 2016 Carrying amount *	Nominal value	Interest rate	Due date
Debenture I/2015	16,019	16,000	Euribor 12 month + 1.5%	1 Dec 2025
Debenture I/2016	26,233	26,000	Euribor 12 month + 1.8%	30 June 2026

*) 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 debenture loans are subordinated to the bank's other debt obligations. In capital adequacy calculation, loans on debenture terms are grouped to the Tier 2 capital in accordance with the CRR regulation. For capital loans, the provisions of Chapter 12 of the Finnish Companies Act are applied.

Model of the key features of equity instruments	Debenture I/2015	Debenture I/2016
Issuer	S-Bank Ltd.	S-Bank Ltd.
Unique identifier (ISIN)	FI4000185418	FI4000210877
Governing law(s) applied to the instrument	Finnish	Finnish
Regulation		
Transitional CRR rules	Tier 2 capital (T2)	Tier 2 capital (T2)
Post-transitional CRR rules	Tier 2 capital (T2)	Tier 2 capital (T2)
Eligible at solo or consolidated/ subconsolidated/solo & consolidated/ sub-consolidation group	Solo & consolidated	Solo & consolidated
Instrument type		
Amount recognised in regulatory capital EUR Million (on the last reporting date)	16	26
Nominal amount of instrument EUR million	16	26
Issue price	100%	100%
Redemption price	100%	100%
Accounting classification	Liability amortised cost	Liability amortised cost
Original date of issuance	1 Dec 2015	30 June 2016
Original maturity date	15 Jan 2018	15 Sept 2018
Issuer call subject to prior supervisory approval	yes	yes
Perpetual or dated	Dated	Dated
Original maturity date	1 Dec 2025	30 June 2026

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

Model of the key features of equity instruments	Debenture I/2015	Debenture I/2016
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.
Non-compliant transitioned features	no	no
If yes, specify non-compliant features	Not applicable	Not applicable

	31 DEC 2016					
15. Distribution of maturity of financial assets and liabilities	**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	15,073	23,650	814,641	76,878	0	930,242
Receivables from credit institutions	29,823	0	0	0	0	29,823
Receivables from the public and public sector entities	215,200	322,487	1,249,436	621,477	1,083,495	3,492,095
Debt securities	137,274	88,472	298,292	27,257	0	551,296
Derivative contracts (assets)	0	236	1,035	6	0	1,278
Financial assets, total	**397,371**	**434,845**	**2,363,405**	**725,618**	**1,083,495**	**5,004,734**
Liabilities to credit institutions	5,006	20,000	0	0	0	25,006
Liabilities to the public and public sector entities	4,595,942	7,726	2,859	0	0	4,606,526
Bonds issued to the public	10,000	1,000	0	0	0	11,000
Subordinated debt	0	0	8,400	33,600	0	42,000
Derivative contracts (liabilities)	732	998	7,194	2,019	580	11,523
Financial liabilities, total	**4,611,681**	**29,724**	**18,452**	**35,619**	**580**	**4,696,056**

	31 DEC 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
Derivative contracts (assets)	100	659	954	0	0	1,714
Financial assets, total	**314,328**	**504,099**	**2,131,570**	**665,361**	**850,710**	**4,466,069**
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
Bonds issued to the public	16,495	27,585	0	0	0	44,081
Subordinated debt	3,000	16,000	8,000	16,000	0	43,000
Derivative contracts (liabilities)	1,113	2,793	6,309	2,210	0	12,425
Financial liabilities, total	**4,163,752**	**93,495**	**24,324**	**18,210**	**0**	**4,299,781**

16. Breakdown of balance sheet items into domestic and foreign amounts and from Group entities	31 DEC 2016			
	Finnish currency	Foreign currency	Total	From Group entities
Receivables from credit institutions	15,347	14,476	29,823	0
Receivables from the public and public sector entities	3,492,096	0	3,492,096	0
Debt securities	1,481,538	0	1,481,538	0
Derivative contracts	1,278	0	1,278	0
Shares and holdings	60,495	0	60,496	29,942
Intangible assets	42,528	0	42,528	0
Tangible assets	305	0	305	0
Other assets (including cash)	117,522	0	117,522	72
Total	**5,211,109**	**14,477**	**5,225,586**	**30,013**
Liabilities to credit institutions	25,006	0	25,006	0
Liabilities to the public and public sector entities	4,593,484	13,042	4,606,526	22,680
Bonds issued to the public	11,000	0	11,000	0
Derivative contracts and liabilities held for trading	11,523	0	11,523	0
Other liabilities	113,306	98	113,405	4,051
Subordinated debt	42,000	0	42,000	0
Total	**4,796,320**	**13,140**	**4,809,461**	**26,731**

Breakdown of balance sheet items into domestic and foreign amounts and from Group entities	31 DEC 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 holdings	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
Bonds issued to the public	44,081	0	44,081	0
Derivative contracts and liabilities held for trading	11,807	0	11,807	0
Other liabilities	99,355	0	99,355	-444
Subordinated debt	43,000	0	43,000	0
Total	**4,398,518**	**0**	**4,398,518**	**41,645**

17. Securities lending	31 DEC 2016	
	Carrying amount	Nominal value
Available for sale		
Treasury bonds and notes	12,165	12,000
Total	**12,165**	**12,000**

	31 DEC 2015	
	Carrying amount	Nominal value
Available for sale		
Treasury bonds and notes	10,294	10,000
Total	**10,294**	**10,000**

18. 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 2016 and 2015 financial periods have not been entered in the income statement, excluding interest rate derivatives.

	31 DEC 2016		31 DEC 2015	
19. Fair values and carrying amounts of financial assets and liabilities	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Cash	96,964	96,964	207,298	207,298
Receivables from credit institutions	29,823	29,840	12,257	12,257
Receivables from the public and public sector entities	3,492,096	3,724,169	2,860,912	3,017,748
Debt securities	1,481,538	1,490,490	1,591,186	1,607,485
Shares and holdings	30,551	30,471	30,418	30,338
Shares and holdings in associated companies	3	12	3	11
Shares and other holdings in Group companies	29,942	46,438	30,309	55,613
Derivative contracts	1,278	1,278	1,714	1,714
Financial liabilities				
Liabilities to credit institutions	25,006	25,033	11,810	11,831
Liabilities to the public and public sector entities	4,606,526	4,653,162	4,188,465	4,205,068
Bonds issued to the public	11,000	11,002	44,081	44,111
Derivative contracts and other liabilities held for trading	11,523	11,523	11,807	11,807
Subordinated debt	42,000	42,259	43,000	43,140

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

	31 DEC 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

20. Equity items	**31 Dec 2016**	**31 Dec 2015**
Share capital; 1 Jan	82,880	82,880
Share capital 31 Dec	**82,880**	**82,880**
Fair value reserve; 1 Jan	8,791	25,653
Increase (+)/decrease(-)	5,407	-16,862
Fair value reserve, 31 Dec	**14,198**	**8,791**
Invested non-restricted equity reserve; 1 Jan	243,832	243,832
Invested non-restricted equity reserve 31 Dec	**243,832**	**243,832**
Profi/loss from previous financial periods 1 Jan	39,331	30,413
Profit/loss for the period	9,140	8,919
Total	**389,382**	**374,835**

21. Share capital

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

22. Shareholders and distribution of shareholdings	
Owner	**Holding, %**
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

23. Interest income and expenses	31 Dec 2016	31 Dec 2015
Interest income		
Receivables from credit institutions	-52	112
Receivables from the public and public sector entities	61,873	60,851
Debt securities	16,260	19,851
Derivative contracts	0	168
Other interest income	-1	0
Total	**78,081**	**80,982**
of which intra-Group items	210	310
Interest expenses		
Liabilities to credit institutions	303	17
Liabilities to the public and public sector entities	3,280	4,622
Bonds issued to the public	0	0
Derivative contracts	4,294	3,607
Other interest expenses	9	8
Subordinated debt	608	425
Total	**8,493**	**8,679**
of which intra-Group items	8	19

24. Net income from leasing activities	31 Dec 2016	31 Dec 2015
Rental income	0	61
Depreciation of leasing assets according to plan	0	-3,949
Gains and losses of leasing assets (net)	0	3,931
Other income	0	12
	0	**55**

Finance lease operations were discontinued in 2015

25. Return from equity investments	31 Dec 2016	31 Dec 2015
Dividend income received from Group companies and dividend income received from associated companies	998	1,236
	998	**1,236**

26. Fee and commission income and expenses	31 Dec 2016	31 Dec 2015
Fee and commission income		
Fee and commission income		
from lending	20,811	14,925
from borrowing	3,857	3,590
from payment transactions	7,635	6,598
from legal duties	1,423	380
from stock brokerage	5,237	0
from insurance brokerage	40	56
from issuing of guarantees	182	165
from other activities	3,586	3,964
	42,772	**29,677**
Fee and commission expenses		
from paid commission fees	33	20
Other	7,462	4,363
	7,495	**4,383**

	31 DEC 2016		
27. Net income from securities and currency trading	**Gains and losses on sales (net)**	**Changes in fair value (net)**	**Total**
From debt securities	129	-829	-700
From shares and other equity	-9	-20	-29
From derivative contracts	-790	1,568	778
Net income from securities trading, total	**-670**	**719**	**49**
Net income from currency trading	0	-25	-25
Income statement item, total	**-670**	**694**	**25**

	31 DEC 2015		
	Gains and losses on sales (net)	**Changes in fair value (net)**	**Total**
From debt securities	0	-802	-802
From shares and other equity	0	0	0
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**

28. Net income from available-for-sale financial assets	31 Dec 2016	31 Dec 2015
Net income from disposal of financial assets	22,517	10,741
Other income/expenses from available-for-sale financial assets	53	-39

Net income from the disposal of financial assets includes a gain of EUR 13.4 million from the divestment of Visa Europe as a non-recurring item. S-Bank approved the divestment of Visa Europe t Visa Inc. and the transaction was completed in June 2016.

29. Net result from hedge accounting	31 Dec 2016	31 Dec 2015
Net result from hedging instruments	-993	-875
Net result from hedged items	448	1,471

30. Net income from investment properties	31 Dec 2016	31 Dec 2015
Rental income	321	1,857
Rental expenses	-207	-1,256
	114	**602**

Kiinteistöosakeyhtiö Lempäälän Terminaali and Kiinteistöosakeyhtiö Limingan terminaali were divested in 2016

31. Other operating income	31 Dec 2016	31 Dec 2015
Other income	17,146	15,400

32. Other operating expenses	31 Dec 2016	31 Dec 2015
Rental expenses	3,591	3,543
Loss from the merger	8,591	0
Other expenses	973	757
Total	**13,156**	**4,300**
Financial Stability Authority contributions		
Stability contribution	314	271
Deposit guarantee contribution	3,535	2,705
Administrative fee	0	25
Total	**3,849**	**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 funds accumulated in the old Deposit guarantee fund and the bank tax paid in previous years is estimated to cover the Financial Stability Fund contributions until 2020.

33. Depreciation, amortisation and impairment on tangible and intangible assets	31 Dec 2016	31 Dec 2015
Intangible assets		
Depreciation according to plan	8,320	8,837
Tangible assets		
Depreciation according to plan	177	199

There are no impairment losses on tangible and intangible assets.

	31 DEC 2016				
34. Impairment losses on loans and other commitments and other financial assets	**Realised contract-specific credit losses, gross**	**Contract-specific impairments, gross**	**Group-specific impairments, gross**	**Deductions**	**Recognised in the income statement**
Receivables from the public and public sector entities	10,145	368	3,253	11,207	2,559

	31 DEC 2015				
	Realised contract-specific credit losses, gross	**Contract-specific impairments, gross**	**Group-specific impairments, gross**	**Deductions**	**Recognised in the income statement**
Receivables from the public and public sector entities	8,602	100	2,812	11,091	423

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

	Other collateral	
35. Collateral provided	**31 Dec 2016**	**31 Dec 2015**
Collateral provided on own debt		
Liabilities to credit institutions	174,000	157,500
Liabilities to the public and public sector entities	11,737	11,616
Derivative contracts	11,737	11,616
Collateral provided for others	26	0

36. Pension liabilities

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

37. Leasing and other rental liabilities	31 Dec 2016	31 Dec 2015
Within one year	1,455	318
Due in 1–5 years	616	277
Total	2,070	595

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

38. Off-balance sheet commitments	31 Dec 2016	31 Dec 2015
Guarantees	20,915	20,186
Undrawn credit facilities	1,148,696	1,261,621

The Group's off-balance sheet commitments, on behalf of companies included in the same Group, amount to EUR 20.99 million.

39. Brokerage receivables and payables	31 Dec 2016	31 Dec 2015
Savings in accordance with the Finnish Act Governing Long-term Savings Agreements	174	162
Other brokerage receivables and liabilities		
Purchases from brokers	6,267	7,133
Liabilities to customers	13,372	11,063

NOTES ON PERSONNEL AND MANAGEMENT

	2016		2015	
40. Personnel	**Average number**	**Number on 31 Dec 2016**	**Average number**	**Number on 31 Dec 2015**
Permanent full-time personnel	381	388	382	379
Permanent part-time personnel	35	32	43	49
Fixed-term personnel	45	46	38	31
Total	**460**	**466**	**463**	**459**

Salaries and fees paid to management (EUR thousand)	2016	2015
Managing director and his deputy	483	686
Executive Board	30	30

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

RELATED PARTY TRANSACTIONS, EUR THOUSAND

	31 DEC 2016	31 DEC 2015
41. 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	**Receivables from the public and public sector entities**	**Receivables from the public and public sector entities**
Ownership	0	0
Management	1,677	464
Management of holding company	2,930	1,433
Kinship	186	1,577
Total	**4,793**	**3,474**

There are 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. S-Bank procures and provides services to its holding companies, applying the standard business basis and terms and conditions. The sales terms of the investment properties sold to the holding company during the financial period also corresponded to the valid market-based terms and conditions.

NOTES ON SHARE OWNERSHIP, EUR THOUSAND

42. Holdings in other companies	
S-Asiakaspalvelu Oy, domiciled in Helsinki	
Shareholding 100%	
Equity (EUR thousand)	669
Result for the period (EUR thousand)	366
FIM Investment Services Ltd.	
Shareholding 100%	
Equity (EUR thousand)	8,926
Result for the period (EUR thousand)	-1,234
FIM Asset Management Ltd	
Shareholding 100%	
Equity (EUR thousand)	14,095
Result for the period (EUR thousand)	-1,648
S-Crosskey Ab, domiciled in Maarianhamina (Mariehamn)	
Shareholding 40%	
Equity (EUR thousand)	30
Result for the period (EUR thousand)	1

OTHER NOTES

43. Notes regarding trustee services and total amount of customer funds	31 Dec 2016	31 Dec 2015
Funds in cash accounts	0	0
Assets under consultative asset management	25,243	0

On 31 December 2016, consultative asset management was transferred from FIM Investment Services Ltd. to S-Bank as a transfer of business.

NOTE ON AUDITOR'S FEES, EUR THOUSAND

44. Information on the auditors' fees	31 Dec 2016	31 Dec 2015
Audit	152	118
Tax advice	6	9
Other services	5	111

S-Bank

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