CENTRAL BANK OF SAVINGS BANKS FINLAND LTD

ANNUAL REPORT 1 JANUARY 2014 – 31 DECEMBER 2014

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BOARD OF DIRECTORS' REPORT FOR THE FINANCIAL YEAR 1 JANUARY – 31 DECEMBER 2014

Central Bank of Savings Banks Finland Ltd (hereinafter SB Central Bank) is a depository bank owned by Finnish Savings Banks. SB Central Bank provides the Savings Banks with various central credit institution services, such as those related to payment services, funding of Savings Banks belonging to Savings Bank Group, and in the near future also issuing of payment cards for Saving Banks' customers. SB Central Bank is a member of the Savings Banks Group which is an amalgamation.

During the financial year, the emphasis of SB Central Bank's operation was on planning and taking over of the central credit institution role. The central credit institution services previously provided to the Savings Banks by Aktia Bank Plc were successfully transferred to SB Central Bank in stages during the year, with the largest deployments falling on the latter part of the year. Aktia Bank Plc had carried out the central credit institution functions since 1996.

SB Central Bank converted from the Finnish Accounting Standards ("FAS") to the International Financial Reporting Standards ("IFRS") on 1 January 2014. The transition date to IFRS was 1 January 2013. Transition to IFRS reporting changed the accounting policies and financial statements. Nevertheless, the transition had no significant impact on SB Central Bank's result or balance sheet in the financial year 2014 or in the comparative year 2013. The changes are described in more detail below in the notes to the IFRS Financial Statement.

The result of SB Central Bank for its first financial year as central credit institution showed a profit of EUR 80 thousand, and the balance sheet total was EUR 714 million.

Development in the operating environment

In 2014, uncertainties continued to affect the global economy, but for the investment markets the year turned out to be very positive. There were signs of divergence in the growth prospects of the different continents. Economic growth accelerated significantly in the United States and the employment situation improved, whilst Europe was held back by slow economic growth and a high rate of unemployment.

The low rate of inflation and the slowdown in economic growth in the eurozone made the European Central Bank adopt a more stimulating monetary policy; this contributed to interest rate reductions in Europe. Geopolitical tensions in the eastern border regions of Europe and the subsequent economic sanctions on Russia served to dampen the expectations of an economic recovery in Europe and, more specifically, in Finland. The Finnish economy developed slowly, and the unemployment rate rose during the year.

In 2014, the European Central Bank (ECB) decided to launch a securities purchase program in order to increase the volume of its balance sheet, thereby raising inflation expectations in the euro area. Due to political tensions it is only now that the ECB has taken decisive action to counter the threat of deflation. The concurrent structural problems in the euro zone as well as the inflexibility of the labour markets and the deficit in the public sector have contributed to the slow economic recovery in the euro area. With regard to the markets, too, ECB has acted relatively slowly, and the extent of the measures has not been sufficient. ECB's chances of implementing the published measures are questionable, and as the traditional monetary policy methods are ineffectual, there is a significant risk that the eurozone will be driven into an even more difficult situation.

In 2015, the crucial issues will be the manner in which the liquidity boosting monetary measures announced by the ECB will be put into practice and the effects that this will have on the real economy. Already, interest rates and corporate bond risk margins are very low, and continued reductions in interest rates may have minimal impact on the real economy.

The US Central Bank was quicker than the ECB in launching a stimulating monetary policy and thus boosting the US economy. The growth in GDP in the United States has exceeded expectations and the unemployment rate has fallen to a level last seen before the financial crisis. The US gross domestic product is expected to grow by over three per cent in real terms in 2015.

Finland is hampered by a significant decrease in export demand and by a change in the structure of exports, caused by the sanctions on Russia. Structural reform has progressed slowly and as a consequence Finland's credit rating was lowered in autumn 2014; in addition, labour market development was weaker in Finland in 2014 than in the rest of the euro zone. Furthermore, there is no promise of a quicker recovery in 2015. From a Finnish economic point of view, great significance lies in the measures that the future government will be able to take, in order to stabilize the economy and restore confidence.

The uncertainty concerning the economic trends was not, however, reflected in the stock markets in 2014. In each main market stock prices rose significantly. The monetary accommodation practiced by the central banks maintains liquidity, and interest rate levels will remain low in the future. In addition this will continue to bolster stock and corporate bond markets in the coming year. The positive economic outlook in the United States may also influence export demand in Europe. Compounded with a weakening euro, this may provide a boost for European efforts to turn the economy onto a growth path.

Savings Banks Group

SB Central Bank belongs to the Savings Banks Group, a finance group and an amalgamation formed by the Savings Banks and the Savings Banks Union Coop, which acts as the central institution, and their subsidiaries and associated organizations. The Savings Banks are independent, regional and local banks. The Savings Banks' product and service ranges are augmented by other financial sector services and products provided by product companies in the Savings Banks Group.

The organizations belonging to the amalgamation form a financial entity as defined in the Act on the Amalgamation of Deposit Banks, in which the Savings Banks Union Coop and its member credit institutions are jointly liable for each other's commitments and liabilities. The Savings Banks Amalgamation is formed by the Savings Banks Union Coop acting as the Amalgamation's central institution, 25 Savings Banks, Central Bank of Savings Banks Finland Ltd, and the companies belonging to the above consolidation groups. An additional member of the Amalgamation is Sp-Fund Management Company Ltd. SB Central Bank's principal owners are the 25 Savings Banks of the Amalgamation, plus one Savings Bank outside the Amalgamation.

In August 2013, Savings Banks Group announced in public that the Savings Banks were considering tightening their ranks and formalizing their group status. In November 2013, 25 Savings Banks made the decision to join an amalgamation, approve its operational principles and central institution rules, and make the changes necessitated by membership of the amalgamation in the banks' rules or articles. The corresponding decision at SB Central Bank was made in March 2014. The amalgamation's central institution became Savings Banks Union Coop, to which the Financial Supervisory Authority granted a central institution license on 16 October 2014. Operation as an amalgamation began on 31 December 2014.

The central institution is liable for its member credit institutions' debts and liabilities as provided by the Finnish Act on the Amalgamation of Deposit Banks. Under the Act, the central institution is obliged, as a support measure, to disburse to a member credit institution the required sum to prevent the member credit institution from going into liquidation. The central institution is liable for such debts of the member credit institution that cannot be discharged from the member credit institution's funds.

The member credit institutions are obliged, on the grounds set out in the Finnish Act on the Amalgamation of Deposit Banks, to disburse to the central institution their share of the sum which the central institution has disbursed to another member credit institution as a support measure, or to a creditor of another member credit institution as settlement of a matured loan, for which the creditor has not received settlement from its debtor. As a member credit institution, SB Central Bank is in its part obliged to participate in support measures, when necessary, jointly with the other member credit institutions, as provided by the Finnish Act on the Amalgamation of Deposit Banks and the regulations of the central institution.

Under the Finnish Act on the Amalgamation of Deposit Banks, the central institution is obliged to supervise the operation of the member credit institutions and, in order to secure their liquidity and solvency, provide them with guidance on risk management, reliable governance and internal control, as well as directions on following uniform accounting principles when preparing the Amalgamation's consolidated financial statement. The central institution has the right to approve general operational policies for the member credit institutions, to be observed in any of their activities important to the Amalgamation.

Additional information on the reorganization and formation of Savings Banks Group is available in the Savings Banks Group Annual Report, a copy of which is available online at www.saastopankki.fi or the Savings Banks Union Coop offices at Linnoitustie 9, 02600 Espoo, Finland.

SB Central Bank's business activities

SB Central Bank is responsible for the provision of central credit institution services for the Savings Banks. The focus of SB Central Bank's operation has been on the planning and deploying of the role of a central bank and the separation process of the Savings Banks from Aktia Bank Plc. The tasks have been prepared in close cooperation with the Savings Banks, Aktia Bank, various service providers and other banks operating in Finland.

The transition to providing the central credit institution services took place in stages during the operational year. The management service of fulfilling the minimum reserve requirement of the Savings Banks to the Bank of Finland was launched in May 2014. As the intermediary authorised by the Savings Banks, SB Central Bank takes care of the minimum reserve deposit requirement towards the Bank of Finland. The Savings Banks' payment intermediation was transferred to SB Central Bank starting from 1 November 2014. SB Central Bank mediates the Savings Banks' euro- and foreign currency payments. Since December, SEPA direct debit transactions have also been transmitted by SB Central Bank. Providing support services for Savings Banks of state-subsidized housing loans and other interest subsidy loans began in November 2014. SB Central Bank discontinued the provision of retail banking services during the year 2014.

The transfer of central credit institution services from Aktia Bank was a major project with impacts on the operation of a number of stakeholder groups. The transfer took place particularly well, and the changes for the Savings Banks and their end-customers' services remained slight, as planned. The successful operation was ensured by diligent project work and coordination together with service providers and the other most important stakeholder groups. The progress of the projects was regularly monitored by the SB Central Bank Management Group and Board of Directors.

The payment transaction volumes grew significantly due to the new central credit institution services at the end of the year. There were 3.8 million SEPA payment transactions in December (in 2013 the corresponding number was 0.0). Similarly, with regard to e-invoices, SB Central Bank's own business customers mediated a little over 5 million e-invoices during 2014. In addition, as from 1 November 2014, the Savings Bank customers' e-invoices have also been mediated through SB Central Bank.

The treasury and refinancing operations have been vigorously developed during the operational year. The organization and deployment of the day to day liquidity management for the Savings Banks were implemented in conjunction with the transfer of the payment services. In the Savings Banks Group, SB Central Bank is the entity eligible to ECB financing. The implementation of the treasury system serving the balance sheet and liquidity management for the whole Savings Banks Amalgamation was begun in stages during the year, and this will continue during 2015. Towards the end of the year, the Liquidity Coverage Ratio (LCR) accounts were offered to the Amalgamation banks, through which the banks can manage their future LCR requirements in deposit form. With regard to the refinancing function, the most important development measure was initiation of the preparations for the Euro Medium Term Note (EMTN) programme alongside the rating process.

During the year, SB Central Bank has made preparations for launching payment card issuing services, with the intention of transferring credit and debit card issuing to SB Central Bank during 2015. SB Central Bank was granted Principal Membership status of Visa Europe in 2014.

Financial position

Result

In the reporting period, SB Central Bank made a profit of EUR 80 (-2,979) thousand. The change in the result compared to previous periods was due to the change in SB Central Bank's operations, and the results of the different periods are therefore not directly comparable.

SB Central Bank's main income statement items have developed compared to the two previous years as follows (table figures in EUR thousands):

(1 000 euros)	12/2014	12/2013	12/2012
Net interest income	154	101	210
Net fee and commission income	718	869	1 645
Other operating revenue	3 489	6	11
Total operating revenue (Teur)	4 360	976	1 866
Personnel expences	-1 915	-2 117	-2 425
Other administrative expenses	-1 279	-1 343	-4 160
Depreciation of plant and equipment and intangible assets	-243	-10	-
Other operating expenses	-820	-564	-517
Net impairment loss on loans	-	-10	-
Profit before tax	104	-2 964	-5 236
Income tax expence	-24	-15	-
Profit / Loss (Teur)	80	-2 979	-5 236

SB Central Bank's net interest income was EUR 154 (101) thousand. The interest income amounted to EUR 496 (149) thousand. In 2014, the major part of interest revenue was formed by interest income from receivables from credit institutions and from debt instruments. Interest revenues were decreased due to low interest rates and the negative interest on central bank deposits. The interest expenses were EUR 342 (48) thousand. The interest expenses consisted mostly of the interest paid on debts to credit institutions.

The net revenues from fees and commissions amounted to EUR 718 (869) thousand. Of this, the share of revenues was EUR 903 (936) thousand and that of fee expenses EUR 185 (67) thousand. In 2014, the most important of the fee revenues were those from payment traffic and e-invoice mediation. Due to the commencement of the central credit institution operation, the annual figures are not comparable.

The other business revenues of EUR 3,489 (6) thousand were mostly formed by income received from Savings Banks for the sale of consultancy services related to the development of central credit institution services.

The operating expenses for the reporting period totalled EUR 4,256 (3,930) thousand. The personnel expenses included remuneration costs and pension and other social security expenses. These expenses amounted to EUR 1,915 (2,117) thousand. Other administration expenses totalled EUR 1,279 (1,239) thousand. Other expenses, EUR 1,062 (803) thousand, include depreciations and impairment losses of tangible and intangible assets and other operating expenses. The deprecia-tions totalled EUR 243 (10) thousand. No impairment losses were entered in the financial year 2014.

Balance sheet

The balance sheet of SB Central Bank saw significant growth, standing at EUR 714,067 (56,327) thousand.

The main balance sheet items have developed compared to the two previous years as follows (table figures in EUR thousands):

(1 000 euros)	12/2014	12/2013	12/2012
Cash and cash equivalents	513 509	27 574	185
Loans and advances to credit institutions	141 697	10 014	418
Loans and advances to customers	305	12	-
Investment assets	54 872	17 984	16 974
Property, plant and equipment	89	96	-
Intangible assets	1 424	308	-
Deferred tax assets	0	0	-
Other assets	2 171	338	120
Total assets (Teur)	714 067	56 327	17 697
Liabilities to credit institutions	653 096	42 910	-
Liabilities to customers	700	1 725	5 065
Debt securities issued	12 979	-	-
Tax liabilities	105	65	50
Provisions and other liabilities	881	465	1 645
Share capital	40 000	5 000	5 000
Reserves	19 064	18 999	16 000
Retained earnings	-12 758	-12 838	-10 013
Total equity	46 306	11 162	10 987
Total liabilities and equity (Teur)	714 067	56 327	17 697

The most important growth factors were mediation of the Savings Banks' minimum reserve deposits and the transfer of payment traffic from Aktia Bank Plc to SB Central Bank. In addition to the cash liquidity reserves, SB Central Bank's assets are mostly invested in central bank debt instruments, totalling EUR 54,872 (17,984) thousand. At the end of the year, loans granted to the Savings Banks totalled EUR 141,697 (10,014) thousand.

At the close of the year, SB Central Bank had no new non-performing or zero-interest receivables, nor any impairment losses on receivables recognised in 2014. Off balance sheet liabilities include irrevocable commitments made to clients, amounting at the end of the reporting period to EUR 5,195 (3) thousand in granted undrawn credit.

Other key performance data:

	12/2014	12/2013	12/2012
Cost/income ratio	1.0	4.1	3.8
Return on equity %	0.2	-26.7	-47.2
Return on capital %	0.0	-8.0	-35.4
Equity ratio %	6.5	19.8	62.1

Shareholdings and equity

SB Central Bank holds 17,391 shares in total, and the Bank's share capital is EUR 39,999,618.60. SB Central Bank holds no own shares.

The equity capital on 31 December 2014 stood at EUR 46,306 (11,162) thousand, and all of it is included as core capital. In June, following a Board decision based on a mandate given to the Board by the Annual General Meeting, SB Central Bank increased its equity capital by means of a share issue directed to the member Savings Banks of the Amalgamation. The issue was for 12,391 new shares, and the share issue increased SB Central Bank's share capital by EUR 34,999,618.60.

Risk management

Objective of risk management

The objective of risk management is to secure the bank's risk-bearing capacity and ensure the continuity of its operation. The risk-bearing capacity comprises adequate and effective risk management proportionate to the scale and demands of the operation, as well as a sufficient degree of liquidity and solvency based on profitable business operations.

Principles and organisation of risk management

Risk management is defined as the identification, assessment, quantification, limitation and monitoring of risks caused by business activities and closely related risks. The purpose of risk management is to reduce the likelihood of unanticipated losses or threats to the subject's reputation and thus ensure the implementation of group strategy. Risk and solvency management are part of internal control. SB Central Bank has a risk management office that is independent of business operations.

In accordance with its strategy, SB Central Bank provides the Savings Banks with various central credit institution services, such as those related to payment transactions, funding for the Amalgamation, and in the future also those related to card issuing. SB Central Bank does not have excessively large client or investment exposures in relation to its financial capacity, and in accordance with its strategy, SB Central Bank will take no such risks. SB Central Bank maintains its capital adequacy at a safe level.

In its operations in 2014, SB Central Bank was exposed to credit, market and operational risks, as well as business and liquidity risks.

Credit risks

Credit risk refers to a situation where a counterparty is unable to fulfil its commitments as agreed. The main source of credit risks is lending, but credit risks (counterparty risk) may also arise from other types of receivables, such as bonds, short-term debt instruments and derivative contracts, as well as off balance-sheet liabilities, such as unused credit arrangements and limits.

The business strategy and guidelines on granting credit approved by the Board set the maximum amounts of exposure and steer the directing of credit in accordance with the strategy to client banks and, to a limited degree, to other strategic partners in the Savings Banks Group.

SB Central Bank's funding, which in 2014 mostly consisted of Savings Banks' deposits or payment transaction and minimum reserve account funds, is principally in the form of cash reserves and granted loans to Amalgamation Savings Banks.

Liquidity risk

Liquidity risk refers to a bank's ability to fulfil its commitments. Liquidity risk may arise from the lack of control and/or predictability of incoming and outgoing cash flows. An uncontrolled rise in the costs of required refinancing may also be defined as liquidity risk. Liquidity risk can be more precisely divided into short-term liquidity risk and long-term financing risk.

Liquidity risk is managed e.g. by maintaining sufficient liquid funds to guarantee liquidity. During 2014, with the significant and rapid changes in the nature of its operation, SB Central Bank has maintained a large liquidity buffer.

During the reporting period 2014, SB Central Bank has obtained the required refinancing mainly as deposits from Savings Banks. SB Central Bank aims to increase the maturity of its refinancing and to increase its funding base according to the needs of the Amalgamation Banks.

Market risk

Market risk refers to the impact of changes in interests and market prices on the bank's income statement and equity. Of the market risks, SB Central Bank was only exposed to interest rate risk in the reporting period 2014, as described below.

Interest rate risk

Interest rate risk is the effect of interest rates on the market value and net interest income of the bank's balance sheet items and off balance-sheet items. Interest rate risk arises from the differences in the interest terms of receivables and liabilities and the differences in interest reset or maturity dates. Due to its balance sheet structure, SB Central Bank did not apply hedging strategies or use derivatives in the financial year 2014.

SB Central Bank applied the present value method to monitor its interest rate risks during the reporting period 2014. In order to manage interest rate risk in the reporting period 2015, SB Central Bank will also implement the income risk approach, which predicts the future net interest income within a selected time scale, as market interest rates change.

Operational risk

Operational risks refer to a danger of loss caused by inadequate or failed internal processes, personnel, systems, or external factors. Judicial risks are also included in operational risks.

SB Central Bank identifies and documents operational risks associated with products, services, functions, processes, and systems. Through the identification of operational risks, the monitoring and control measures are determined. Some of the losses caused by operational risks are covered by insurance. In addition, preparedness for significant operational disruptions is ensured through continuity plans. Regular reports are submitted to SB Central Bank's executive management on operational risks and actual losses, as well as near-miss situations.

Business risk

Business risks reflect the effects on business of uncertainties arising from the business environment. Business risks arise from competition, changes in markets and customer behaviour, and unexpected fluctuations in profit margins. Business risks may also arise from selecting the wrong strategy, inadequate management, or slow reaction to changes in the operational environment. Business risk is managed and minimized through strategy and business plans drawn up by the SB Central Bank Board of Directors. An assessment of business risks is included in the capital management plan approved by the Board.

Internal control

The purpose of internal control at SB Central Bank is to ensure that the goals and targets set at different levels in the bank are reached, while complying with the agreed and established internal control guidelines. Internal control is monitoring by the governing bodies and organization itself, taking place within SB Central Bank, and directed primarily at the state, quality and results of the operation. Internal control is effected by the Board of Directors, CEO, the risk management office, superiors and officials. Moreover, officials are obliged to report deviances and unlawfulness to the higher organization.

Internal audit

The Board of Directors has set up an internal audit office for SB Central Bank, as well as approving an annual audit schedule and reporting principles.

The internal auditors are tasked with assessing the extent and adequacy of the internal controls of SB Central Bank's operational organization and the monitoring and evaluation of the functionality of the risk management systems. The internal audit office reports its findings to the CEO. SB Central Bank's Board of Directors examines the audit summaries prepared by the internal auditors every year.

Capital adequacy management

SB Central Bank has drawn up a capital adequacy management process, the aim of which is to ensure the bank's risk-bearing capacity is sufficient in relation to all the main risks in its operation. To this end, SB Central Bank identifies and comprehensively assesses the risks inherent in its operation and matches its risk-bearing capacity to the total sum of SB Central Bank's exposures. To ensure its capital adequacy, SB Central Bank sets risk-based capital targets and draws up a capital plan in order to reach the targets. An additional aim of the capital adequacy management process is to maintain and develop the risk management procedure.

Equity and capital adequacy

The new European Union Capital Requirements Regulation (CRR) and Directive (CRD IV) were published on 27 June 2013. The new rules came into force on 1 January 2014 and are based on the 2010 recommendations of the Basel Committee on Banking Supervision or the so-called Basel III standards. The new capital adequacy regulation is legislation directly mandatory to the member states, and when it came into force a large part of the Financial Supervisory Authority's standards on capital adequacy calculation was rescinded. The European Banking Authority (EBA) issues standards to clarify the regulation, which are mandatory in common with the regulation.

The capital adequacy of SB Central Bank is expected to fulfil the required 8 per cent minimum level also in the future. As well as the minimum capital adequacy requirement, a fixed capital conservation buffer, which is 2.5 per cent, was adopted from 1 January 2015, as well as a countercyclical capital buffer, which the authorities can set at 0 – 2.5 per cent as required. SB Central Bank has set its internal monitoring minimum capital adequacy at 13.5 per cent, in readiness for any forthcoming additional capital requirement.

The most important risk barometers in SB Central Bank's capital planning are capital adequacy as provided by the Act on Credit Institutions and the risk buffer of EUR three (3) million minimum set for the equity capital over and above the Bank's Internal Capital Adequacy Assessment Process (ICAAP).

In its capital adequacy calculation, SB Central Bank applies the standard method of credit risk calculation and the basic method in calculating operational risk. SB Central Bank has published the relevant information with regard to capital adequacy calculation each year as part of its Annual Report and Notes to the Financial Statement. The main capital adequacy information has been published in the Interim Report issued half-yearly.

SB Central Bank's own funds totalled EUR 44,882 (10,915) thousand, while the minimum own fund requirement was EUR 2,463 (1,236) thousand. The Tier 1 capital consisted wholly of Common Equity Tier 1 (CET1) capital, amounting to EUR 44,816 thousand. The capital and reserves consist mostly of common equity tier 1 capital.

The information concerning SB Central Bank's capital adequacy is included in the consolidated financial statement of the Savings Banks Amalgamation. The exemptions referred to in Sections 21 and 21a of the Act on the Amalgamation of Deposit Banks do not apply to SB Central Bank. The Savings Banks Group publishes the so-called Pillar III capital adequacy information in its financial statement. The Savings Banks Group financial statement is available online at www.saastopankki.fi or from the Savings Banks Union Coop offices at Linnoitustie 9, 02600 Espoo, Finland.

SB Central Bank's capital adequacy ratio was high, standing at 145.55 per cent at the year end. The high capital adequacy figure is due to the minimum capital requirements while the operation is at the launch stage and the nature of the operation.

Statement of capital adequacy

Own funds (1 000 euros)	2014	2013*
Common Equity Tier 1 before regulatory adjustments	46 306	10 916
Share capital	40 000	5 000
Retained earnings	-12 838	-10 013
Profit (loss) for the period	80	-3 084
Regulatory adjustments to Common Equity Tier 1	-1 490	0
Common Equity Tier 1 (CET1) total	44 816	10 916
Tier 1 Capital (T1=CET1 + AT1) total	44 816	10 916
Tier 2 capital before regulatory adjustments	66	-1
Adjustments to Tier 2 capital	0	0
Tier 2 Capital (T2) total	66	-1
Own funds (TC = T1 + T2) total	44 882	10 915
RISK-WEIGHTED ASSETS		
Credit and counterparty risk	26 289	13 220
Items in balance sheet	23 774	13 218
Off balance-sheet commitments	2 515	2
CREDIT VALUATION ADJUSTMENT		
Market risk	0	0
Currency risk	0	0
Operational risk	4 501	2 224
Risk-weighted assets total	30 790	15 444
Minimum standard of Own funds	2 463	1 236
Amount which exceeds minimum standard of Own funds	42 419	9 680
Common Equity Tier 1 (CET1) as a percentage of risk-weighted assets	145.6	70.7
Tier 1 Capital (T1) as a percentage of risk-weighted assets	145.6	70.7
Own funds (TC) as a percentage of risk-weighted assets	145.8	70.7

* * Figures are based on Basel II.

Governance and management system of the Bank

The Annual General Meeting of SB Central Bank considers the previous year's financial statement, distribution of the profits, discharges, and selection of Board members. The decisions on SB Central Bank's business and strategic matters are made by the Bank's Board of Directors. Further tasks of the Board include making decisions concerning the main issues related to SB Central Bank's business operations and selecting its CEO. The work of the Board of Directors follows approved guidelines. The CEO of SB Central Bank takes care of its daily management according to the guidelines received from the Board of Directors.

The independence and integrity of the Board members and CEO are ascertained in accordance with the directions issued by the Financial Supervisory Authority. On their selection for the position and annually thereafter, the Board members and CEO are obliged to provide an account of the organizations with which they are involved. In addition, on accepting their position, each Board member and CEO must submit a fitness and propriety report as stipulated by the Financial Supervisory Authority.

SB Central Bank's management and personnel

The Annual General Meeting of SB Central Bank was held on 14 March 2014. The Board's proposal on the distribution of profits was approved. The Meeting also granted a discharge to the Board members and CEO. The Annual General Meeting selected Pirkko Ahonen as new Board member to replace Risto Sundqvist.

The SB Central Bank Board of Directors comprises the following members:

Name	position
Kämäri, Pasi	member, Chairman
Ahohen, Pirkko	member, as from 14 March 2014
Bondén, Hans	member
Hakala, Jussi	member, Deputy Chairman
Huupponen, Juhani	member
Laiho, Immo	member, resigned 10 November 2014
Saustila, Matti	member
Sundqvist, Risto	member, until 14 March 2014

The Board members hold management positions in the financial sector. During the financial year, the Board met thirteen (13) times in all. The SB Central Bank Board has supervised the deployments of new functions as part of the Board's overall supervision.

SB Central Bank's CEO during the financial year has been Hannu Lanteri, and Head of Treasury Kai Brander has acted as his Deputy.

The personnel numbers of SB Central Bank were augmented as the new services demanded, and at the close of the review period, 31 December 2014, SB Central Bank employed twenty (20) persons, all of them full-time.

The company's auditors have been Authorized Public Accountants PricewaterhouseCoopers Oy with Authorized Public Accountant Mikko Nieminen as principal auditor. The Financial Supervisory Authority carried out an inspection of SB Central Bank's operations in the first half of 2014. SB Central Bank's internal auditor has been KPMG Oy Ab.

The related party refers to the key persons holding leading positions at SB Central Bank and their family members. SB Central Bank's related party includes the Board members, CEO and Deputy CEO. The changes during the financial year are related to the changes of Board members and change of the principal auditor. SB Central Bank has granted no related party loans and has no related party business activities.

Remuneration system

SB Central Bank's remuneration system complies with the regulations of the European Union and national legislation, the directions and recommendations issued by the Financial Supervisory Authority, and the rules of the Finnish Corporate Governance Code.

When making decisions concerning the executive management and personnel remuneration system, SB Central Bank observes the provisions of Chapter 8 on governance and steering systems in the Act on Credit Institutions. However, SB Central Bank does not apply the provisions of Chapter 8, Sections 9, 11 and 12 of the Act on Credit Institutions to employees whose variable remuneration for one year's earnings period does not exceed EUR 50,000 or 100 per cent of the employee's total fixed remuneration.

"Remuneration systems" refer to the decisions, contracts, policies and procedures followed in rewarding the management and personnel. The remuneration system includes both the rewarding method and the processes related to its development and implementation. The remuneration system is developed actively and taking a long-term view in order to secure the Amalgamation's competitiveness, good economic growth, incentiveness, commitment and availability of new competent persons.

The remuneration policies comply with the business strategy, goals and values, as well as providing long-term benefits. The remuneration system is in line with the good and effective risk management of the Bank and is always implemented within the framework of the current risk management policies. The remuneration does not encourage risk-taking in the course of business in excess of the risk level determined by SB Central Bank's risk-bearing capacity or one that is otherwise sustainable.

The conditions and benefits of the CEO's position are approved by the SB Central Bank Board of Directors. The chairman and members of the Board have not been paid monthly fees or fees for each meeting during the operational year. SB Central Bank uses a remuneration system under which the personnel, including the CEO, may be paid a sum equivalent to a maximum of 3 months' salary for reaching set targets. The Bank has no pension schemes or any other similar arrangements.

The overall compensation, forming the basis of the remuneration, is divided into fixed and variable pay elements. The variable pay element comprises both short- and long-term rewards. SB Central Bank has identified the important risk-taking persons, who may affect the bank's risk profile or incur significant financial risks to the Bank through their activities.

The remuneration details in accordance with Pillar III are published in the Savings Banks Group financial statement. The financial statement is available online on the Savings Banks Group website at www.saastopankki.fi or from the Savings Banks Union Coop offices at Linnoitustie 9, 02600 Espoo, Finland.

Main outsourced functions

SB Central Bank's bank system is outsourced to Oy Samlink AB, in which the Savings Banks have a majority holding. SB Central Bank's bookkeeping and accounts are handled by Paikallispankkien PP-Laskenta Ltd, which is wholly owned by Samlink. In 2014, SB Central Bank's internal audit was outsourced to KPMG Oy Ab based on approved audit schemes. An internal audit of the payment service function was carried out in the latter part of the year. SB Central Bank's internal control is based on internal control guidelines approved by the Board of Directors.

Deposit guarantee

In 2014, SB Central Bank belonged to a deposit guarantee fund, which secures the depositors' receivables from the Bank to the maximum limit of EUR 100 thousand. SB Central Bank's operation focuses on central credit institution services provided to the Savings Banks, therefore the importance of the deposit guarantee fund is slight.

Social responsibility

The social responsibility policy of the Savings Banks Group is set out in its Annual Report. SB Central Bank's social responsibility refers to its responsibility for the impacts of its business activities on surrounding society and the company's stakeholder groups. By acting as the Savings Banks' central credit institution, SB Central Bank in its part supports the social responsibility of the local Savings Banks.

Events after the reporting period

After the end of the financial year, SB Central Bank held an extraordinary General Meeting on 21 January 2015, which decided on changing the form of the company from a limited company to a public limited company. SB Central Bank became a public limited company on 30 January 2015. In addition, SB Central Bank has continued, as scheduled, the production and development functions belonging to the central credit institution role.

Business development in 2015

We estimate that SB Central Bank's operation will expand considerably during 2015 from the current level, and that both the payment and card transactions mediated by the SB Central Bank, as well as the balance sheet, will see significant growth during the operational year. SB Central Bank's treasury functions to the Amalgamation Banks will be substantially expanded. During 2015, SB Central Bank will commence the issuing of the Savings Banks Group's credit and debit cards, as well as acquiring the credit stock attached to the credit cards from Nets Ltd for inclusion in SB Savings Bank's balance sheet. Moreover, SB Savings Bank will plan and implement projects required in support of the Amalgamation Banks' business activities.

The prerequisite of SB Central Bank's strong growth is sufficient investment in resources, risk management and internal controls. With regard to central credit institution functions pertaining to payment mediation, the foreign currency payment service will be reorganized.

The treasury activities will be developed with the core lying in refinancing. The aim is to improve the competitive edge of the Amalgamation Banks by offering them competitive short- and long-term unsecured funding. In order to ensure competitive refinancing, SB Central Bank will apply for an international credit rating together with the central institution of the Amalgamation early in 2015. With the credit rating to be obtained for SB Central Bank, it will issue bonds under the Euro Medium Term Note (EMTN) programme.

Building up the central credit institution services and expanding the treasury activities will continue to affect SB Central Bank's result adversely in 2015. The result for 2015 is forecast to show a slight profit. SB Central Bank has submitted an application to the Tax Administration for setting the previously confirmed losses against tax. On the date of the financial statement, the cumulative losses over several reporting periods total EUR 13,097 thousand.

The Board of Directors' proposal on the disposal of distributable funds

SB Central Bank's distributable funds amount to EUR 6,242,084.74.

The SB Central Bank Board of Directors proposes to the Annual General Meeting that the profit for the financial year of EUR 79,715.22 is entered as accumulated retained earnings with no dividend paid.

Calculation of key figures:

Net interest income: Interest income and commission income-interest expenses

Net fee revenues: Fee revenues-fee expenses

Other income: Other operating income

Cost-income ratio:

$$\frac{\text{Administration expenses + depreciations and impairment losses from tangible and intangible assets + other operating expenses}}{\text{Net interest income + net fee revenues + other operating income}}$$

Return on equity (ROE), %:

$$\frac{\text{Result for financial year}}{\text{Capital and reserves}} * 100$$

Return on assets (ROA), %:

$$\frac{\text{Result for financial year}}{\text{Balance sheet total on average (average of first and second half year)}} * 100$$

Equity ratio, %:

$$\frac{\text{Capital and reserves}}{\text{Balance sheet total}} * 100$$

Capital adequacy ratio, %:

$$\frac{\text{Capital and reserves total}}{\text{Risk-weighted items total}} * 100$$

CENTRAL BANK OF SAVINGS BANKS FINLAND LTD: IFRS FINANCIAL STATEMENT 2014

Statement of profit or loss and other comprehensive income

(1 000 euros)	Note	01.01.2014-31.12.2014	01.01.2013-31.12.2013
Interest income		496	149
Interest expense		-342	-48
Net interest income	**6**	**154**	**101**
Net fee and commission income	7	718	869
Other operating revenue	9	3 489	6
Total operating revenue		4 360	976
Personnel expenses	10	-1 915	-2 117
Other operating expenses	11	-2 098	-1 803
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	12	-243	-10
Total operating expenses		-4 256	-3 930
Net impairment loss on financial assets	16	0	-10
Profit before tax		**104**	**-2 964**
Income tax expense	13	-24	-15
Profit		**80**	**-2 979**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Changes in fair value reserve			
Due to fair value measurements	25	65	-1
Total		**65**	**-1**
TOTAL COMPREHENSIVE INCOME		**145**	**-2 980**

Statement of financial position

(1 000 euros)	Note	31.12.2014	31.12.2013	1.1.2013
Assets				
Cash and cash equivalents	15	513 509	27 574	185
Loans and advances to credit institutions	16	141 697	10 014	418
Loans and advances to customers	16	305	12	0
Investment assets	17	54 872	17 984	16 974
Property, plant and equipment	18	89	96	0
Intangible assets	19	1 424	308	204
Tax assets	20	0	0	0
Other assets	21	2 171	338	120
Total assets		**714 067**	**56 327**	**17 901**
LIABILITIES AND EQUITY				
Liabilities				
Liabilities to credit institutions	22	653 096	42 910	0
Liabilities to customers	22	700	1 725	5 065
Debt securities issued	23	12 979	0	0
Tax liabilities	20	105	65	50
Provisions and other liabilities	24	881	465	1 645
Total liabilities		**667 761**	**45 166**	**6 760**
Equity				
Share capital		40 000	5 000	5 000
Reserves		19 064	18 999	16 000
Retained earnings		-12 758	-12 838	-9 859
Total equity	25	**46 306**	**11 162**	**11 142**
TOTAL LIABILITIES AND EQUITY		**714 067**	**56 327**	**17 901**

Statement of cash flows

(1 000 euros)	1-12/2014	1-12/2013
Cash flows from operating activities		
Profit	80	-2 979
Adjustments for items without cash flow effect	246	44
Change in deferred tax	6	15
Income taxes paid	19	0
Cash flows from operating activities before changes in receivables and liabilities	**350**	**-2 920**
Increase (-) or decrease (+) in operating assets	**-166 492**	**-11 275**
Available-for-sale financial assets	-37 806	-15 189
Loans and advances to credit institutions	-127 557	-10 000
Loans and advances to customers	-293	-22
Increase in held-to-maturity financial assets	0	-15 162
Decrease in held-to-maturity financial assets	996	29 318
Other assets	-1 832	-218
Increase (-) or decrease (+) in operating liabilities	**622 555**	**38 391**
Liabilities to credit institutions	610 185	42 910
Liabilities to customers	-1 025	-3 340
Debt securities issued	12 979	0
Other liabilities	415	-1 180
Total	**456 413**	**24 196**
Cash flows from investing activities		
Investments in tangible and intangible assets	-1 351	-210
Total	**-1 351**	**-210**
Cash flows from financing activities		
Increase in share capital	35 000	0
Other monetary increases in equity items	0	3 000
Total	**35 000**	**3 000**
Adjustments for items without cash flow effect		
Impairment losses on financial assets	0	10
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	243	10
Other adjustments	3	23
Income taxes	24	15
Total	**270**	**59**

Change in cash and cash equivalents	**490 061**	**26 985**
Cash and cash equivalents at the beginning of financial period	**27 588**	**603**
Cash and cash equivalents at the end of financial period	**517 649**	**27 588**
Cash and cash equivalents comprise the following items:		
Cash	513 509	27 574
Receivables from central banks repayable on demand	4 140	14
Total cash and cash equivalents	**517 649**	**27 588**
Interests received	368	124
Interests paid	320	48

Statement of changes in equity

(1 000 euros)	Share capital	Other reserves	Retained earnings	Total equity
Equity 1 January 2013	**5 000**	**16 000**	**-9 859**	**11 142**
Profit for the year			-2 979	-2 979
Other comprehensive income for the year		-1		-1
Total comprehensive income	0	-1	-2 979	-2 980
Investments made by owners, recognised directly in equity		3 000	0	3 000
Equity 31 December 2013	**5 000**	**18 999**	**-12 838**	**11 162**
Equity 1 January 2014	**5 000**	**18 999**	**-12 838**	**11 162**
Profit for the year			80	80
Other comprehensive income for the year		65		65
Total comprehensive income	0	65	80	145
Investments made by owners, recognised directly in equity	35 000			35 000
Equity 31 December 2014	**40 000**	**19 064**	**-12 758**	**46 306**

Reconciliation statements of Financial Position, Profit or Loss and Cash Flows on transition from Finnish GAAP (FAS) to IFRSs

Reconciliation of Statement of financial position from FAS to IFRS

(1 000 euros)	Note	FAS 31 December 2012	Recognition and measure-ment changes	Changes in classification	IFRS 1 January 2013	FAS 31 December 2013	Recognition and measure-ment changes	Changes in classification	IFRS 31 December 2013
ASSETS									
Cash and cash equivalents		185			185	27 574			27 574
Loans and advances to credit institutions		418			418	10 014			10 014
Receivables from the public and public sector entities	a)	0			0	12		-12	0
Loans and advances to customers	a)	0			0	0		12	12
Debt securities	a)	16 974		-16 974	0	17 984		-17 984	0
Investment assets	a)	0		16 974	16 974	0		17 984	17 984
Tax assets		0			0	0			0
Other assets		120			120	338			338
Property, plant and equipment		0			0	96			96
Intangible assets	b)	0	204		204	0	308		308
Total assets		17 697	0	0	17 901	56 019	0	0	56 327
LIABILITIES AND EQUITY									
Liabilities to credit institutions	a)	0			0	42 910		-42 910	0
Liabilities to financial institutions	a)	0			0	0		42 910	42 910
Liabilities to the public and public sector entities	a)	5 065		-5 065	0	1 725		-1 725	0
Liabilities to customers	a)	0		5 065	5 065	0		1 725	1 725
Tax liabilities	c)	0	50		50	0	65		65
Provisions and other liabilities		1 645			1 645	465			465
Total liabilities		6 710	50	0	6 760	45 101	65	0	45 166
Accumulated appropriations	d)	0			0	16	-16		0
Share capital		5 000			5 000	5 000			5 000
Retained earnings		-10 013	154		-9 859	-13 097	259		-12 838
Reserves		16 000			16 000	18 999			18 999
Total equity	e)	10 987	154	0	11 142	10 902	259	0	11 162
Total equity and liabilities		**17 697**	**204**	**0**	**17 901**	**56 019**	**308**	**0**	**56 327**

Reconciliation of Statement of loss from FAS to IFRS for financial year 1.1.-31.12.2013

(1 000 euros)	Note	FAS 1.1.–31.12.2013	Recognition and measurement changes	IFRS 1.1.–31.12.2013
Net interest income		101		101
Net fee and commission income		869		869
Other operating revenue		6		6
Total operating revenue		976		976
Personnel expenses		-2 117		-2 117
Other operating expenses	b)	-1 907	104	-1 803
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets		-10		-10
Total operating expenses		-4 034		-3 930
Net impairment loss on financial assets		-10		-10
Appropriations	d)	-16	16	0
Loss before tax		-3 084	16	-2 964
Income tax expense	c)	0	-15	-15
Loss		-3 084	2	-2 979
Other comprehensive income				
Loss for the financial year				-2 979
Items that are or may be reclassified to profit or loss				
Available-for-sale financial assets	f)			-1
Total comprehensive income				-2 980

Impact of the transitions to IFRS reporting on SB Central Banks retained earnings

(1 000 euros)	1 January 2013	31 December 2013
Retained earnings according to FAS	-10 013	-13 097
Corrections:		
Reversal of appropriations (incl. deferred tax)	0	13
Intangible assets (incl. deferred tax)	154	246
Retained earnings according to IFRS	-9 859	-12 838

Reconciliation of Statement of cash flows from FAS to IFRS for financial year 1.1.-31.12.2013

(1 000 euros)	Note	FAS 1.1.-31.12.2013	Recognition and measurement changes	IFRS 1.1.-31.12.2013
Cash flows from operating activities				
Profit	b), c), d)	-3 084	105	-2 797
Periods corrections	g)	50	9	59
Increase (-) or decrease (+) in operating assets		**-11 275**		**-11 275**
Available-for-sale financial assets		-15 189		-15 189
Loans and advances to credit institutions		-10 000		-10 000
Loans and advances to customers		-22		-22
Increase in held-to-maturity financial assets		-15 162		-15 162
Decrease in held-to-maturity financial assets		29 318		29 318
Other assets		-218		-218
Increase (-) or decrease (+) in operating liabilities		38 391		38 391
Liabilities to credit institutions		42 910		42 910
Liabilities to customers		-3 340		-3 340
Other liabilities		-1 180		-1 180
Total		24 082		24 196
Cash flows from investing activities				
Decrease in investments to shares		0		0
Investments in tangible and intangible assets	b)	-107	-104	-210
Total		-107		-210
Cash flows from financing activities				
Other monetary increases in equity items		3 000		3 000
Total		3 000		3 000
Change in cash and cash equivalents		**26 985**		**26 985**
Cash and cash equivalents at the beginning of financial period		603		603
Cash and cash equivalents at the end of financial period		27 588		27 588
Cash and cash equivalents comprise the following items:				
Cash		27 574		27 574
Receivables from central banks repayable on demand		14		14
Total		27 588		27 588

Explanation of significant adjustments of transition to IFRSs

a) Reclassifications

On transition to IFRSs, SB Central Bank has reclassified several items within assets and liabilities differently from the FAS financial statement.

b) Intangible assets

SB Central Bank's core banking system is outsourced to Samlink Ltd. The development work carried out by Samlink for the benefit of SB Central Bank and the entire Savings Banks Group is classified as a separately purchased intangible asset (in accordance with IAS 38). Due to these adjustments, the balance sheet value of intangible assets increased by EUR 204,432.00 on 1 January 2013. The additional capitalisations in 2013 resulted in a further increase of EUR 103,621.00 in balance sheet value, making the total effect of the above-mentioned capitalisations on the balance sheet value of intangible assets at 31 December 2013 to increase by EUR 308,053.00. The other operating expenses for the financial year 2013 were reduced by EUR 103,621.00 as the result of the adjustments.

c) Income Taxes (IAS 12)

After adoption of IFRSs SB Central Bank's taxable profits increased and entity has recognised deferred taxes as follows:

Deferred tax liabilities (1 000 euros)	1 January 2013	31 December 2013
Intangible assets (see item a) above)	50	62
Reversal of appropriations (see item d) below)	0	3
Increase in deferred tax liabilities total	50	65

Adoption of IFRSs increased income tax expense in the financial year 2013:

(1 000 euros)	1.1.-31.12.2013
Intangible assets (see item a) above)	12
Reversal of appropriations (see item d) below)	3
Increase in Income Tax on earnings total	15

d) Reversal of appropriations

The depreciation difference was reversed, as IAS 37 does not recognise voluntary provisions.

e) Changes in equity

Adoption of IFRS standards affected SB Central Bank's equity as follows:

(1 000 euros)	1 January 2013	31 December 2013
Intangible assets (see item a) above)	154	246
Reversal of appropriations (see item d) above)	0	13
Changes in equity total	154	259

f) Other comprehensive income

IAS 1 provides guidelines on the items in other comprehensive income and as a result a new line item has been added showing gains and losses arising from the measurement of available for sale assets (IAS 39).

g) Adjustments to cash flows at the end of the comparative financial period

Impairment losses (correction of error in presentation under FAS)	10
Reversal of appropriations (see item d) above)	-16
Deferred tax from reversal of appropriations and capitalisations of intangible rights (see item c) above)	15
Adjustments total	9

ACCOUNTING POLICIES

NOTE 1: INFORMATION ON THE REPORTING COMPANY AND DESCRIPTION OF THE SAVINGS BANKS GROUP

Central Bank of Savings Banks Finland Ltd (hereinafter "SB Central Bank", "company", "entity") is a depository bank owned by Finnish Savings Banks. SB Central Bank's primary function is to provide the Savings Banks with various central credit institution services. The central credit institution services focus on payment services and bolstering the refinancing of the Amalgamation Banks. SB Central Bank's principal owners are the 25 Savings Banks of the Amalgamation, plus one Savings Bank outside the Amalgamation.

SB Central Bank belongs to the Savings Banks Group, which is a finance group formed by the Savings Banks and the Savings Banks Union Coop, which acts as the central institution, and their subsidiaries and associated organizations. The Savings Banks are independent regional and local banks. Combined, the Savings Banks form the fourth largest bank group in Finland, providing a blend of local and national services. The core task of the Savings Banks is to promote thrift and their customers' economic well-being close to the customer.

The organizations belonging to the Amalgamation form a financial entity as defined in the Finnish Act on the Amalgamation of Deposit Banks, in which the Savings Banks Union Coop and its member credit institutions ultimately assume mutual liability for each other's borrowings and commitments. The Savings Banks Amalgamation is formed by the Savings Banks Union Coop acting as the Amalgamation's central institution, 25 Savings Banks, Central Bank of Savings Banks Finland Ltd, and the companies belonging to the above consolidation groups. An additional member of the Amalgamation is Sp-Fund Management Company Ltd.

The structure of the Savings Banks Group differs from that of the Savings Banks Amalgamation so that the Savings Banks Group also includes other institutions than credit and financial institutions or service companies. The most significant of these are Sp-Life Insurance Ltd, Sp-Koti Ltd, Sp-Holding Ltd, and Savings Bank Guarantee Fund. The Savings Banks Group does not constitute a company as defined in the Accounting Act or a consolidation group as defined in the Act on Credit Institutions. The Savings Banks' Union Coop and its member Savings Banks do not have control over each other as referred to in the general consolidation accounting principles and therefore it is not possible to define a parent company for the Savings Banks Group.

The Savings Banks Union Coop operates as the central institution responsible for the group steering and supervision of the whole Savings Banks Group. The Act on the Amalgamation of Deposit Banks stipulates that the central institution of the Savings Banks Amalgamation, the Savings Banks Union Coop, is obliged to prepare a consolidated financial statement for the Savings Banks Group, including also SB Central Bank in proportion with the Amalgamation Banks' shareholdings. The financial statement is prepared on the financial entity formed by the Savings Banks Group, to which SB Central Bank also belongs.

The head office of Central Bank of Savings Banks Finland Ltd is in Espoo, and its registered address is Hevosenkenkä 3, 02600 Espoo, Finland. A copy of SB Central Bank's financial statement is available online from www.spkeskuspankki.fi or from the Bank's offices at Hevosenkenkä 3, 02600 Espoo, Finland.

Similarly, a copy of the financial statement of the Savings Banks Group is available online at www.saastopankki.fi or from the Savings Banks Union Coop offices at Linnoitustie 9, 02600 Espoo, Finland.

SB Central Bank's Board of Directors has approved the Bank's financial statement 2014 on 11 February 2015, and the financial statement will be presented to the Annual General Meeting of 2015 for approval. The Annual General Meeting has the choice of approving or not approving the financial statement.

The SB Central Bank financial statement is prepared in accordance with the International Financial Reporting Standards ("IFRS"). SB Central Bank converted from the Finnish Accounting Standards ("FAS") to the International Financial Reporting Standards (IFRS) on 1 January 2014. The transition date to IFRSs was 1 January 2013. The financial statement have been prepared in accordance with the IAS and IFRS standards and SIC and IFRIC interpretations that are effective on 31 December 2014. "International Financial Reporting Standards" refers to the standards and interpretations adopted by the EU with Regulation (EC) No. 1606/2012 of the European Parliament and of the Council. Transition to IFRS reporting changed the accounting policies and financial statements. Nevertheless, the transition has no significant impact on SB Central Bank's result or balance sheet in the financial year 2014 or in the comparative year.

NOTE 2: ACCOUNTING POLICIES

1. Overview

SB Central Bank's financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU.

In accordance with the principles of the the Act on the Amalgamation of Deposit Banks and the IAS 8 standard concerning accounting policies, adjustments and errors in accounting estimates, the Board of the Savings Banks Association Cooperative confirms any accounting policy for which no guidance is available in the IFRSs.

SB Central Bank's financial statements are presented in euros, which is the Bank's functional currency.

SB Central Bank's financial statements are prepared under the historical cost convention, except for the available-for-sale financial assets, which are measured at fair value.

The IFRS 10 Standard is not applicable in the preparation of the opening IFRS balance sheets at 1 January 2013 or in the first IFRS financial statement, as SB Central Bank has no significant investments in other companies or agreements that establish control over the investee as defined in IFRS 10. The applicability of IFRS 10 must be continuously assessed when SB Central Bank enters into new investments and/or agreements.

The IFRS 11 Standard is not applicable in the preparation of the opening IFRS balance sheets at 1 January 2013 or in the first IFRS financial statement, as SB Central Bank has no significant investments in other companies or agreements that establish joint control over the investee as defined in IFRS 11. The applicability of IFRS 11 must be continuously assessed when SB Central Bank enters into new investments and/or agreements.

2. Financial instruments

Classification and recognition

In accordance with IAS 39, SB Central Bank's financial assets are classified into three categories for valuation:

- Available-for-sale financial assets
- Held-to–maturity financial investments
- Loans and receivables

SB Central Bank's financial liabilities are classified into following category for valuation:

- Other financial liabilities

Classification in the SB Central Bank's balance sheet is independent of the IAS 39 categories. Different valuation method may therefore apply to assets and liabilities presented on the same line in the balance sheet. Financial assets and liabilities by valuation category is presented in the Note 14.

Purchase and sale of financial instruments is recognised on the trade date.

Upon initial recognition, all financial assets and financial liabilities are recognised at fair value. Transaction costs are included in the acquisition cost for the financial instruments.

Financial assets are derecognised when the contractual rights to the cash flows of the financial item in the financial assets have expired or when the rights have been transferred to a third party so that substantially all risks and rewards have been transferred. Financial liabilities are derecognised when they are extinguished or when obligations is discharged or expired.

Held-to-maturity financial investments

Held-to-maturity financial assets include interest-bearing financial assets with fixed or determinable payments which mature on a specified date and are owned by SB Central Bank and which the Bank is able to and firmly intends to hold to maturity.

Financial assets classified as held-to-maturity are measured at amortised cost or at cost less impairment losses, if there is objective evidence of impairment.

Loans and receivables

Financial assets classified as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognised at fair value net of directly attributable transaction costs. After initial recognition, loans and receivables are measured at amortised cost.

Available for sale financial assets

Financial assets that are not classified in the above categories are classified as available for-sale financial assets. Available for-sale financial assets are measured at fair value. However, investments in unquoted equity instruments are carried at acquisition cost or at acquisition cost less provision for impairment. Fair value changes of available for sale financial assets are recognised in other comprehensive income in the fair value reserve within shareholders' equity net of deferred taxes. Gains or losses are reclassified from equity to the income statement within "Net investment income" upon transfer, sale or impairment.

Other financial liabilities

Other financial liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. All financial liabilities are measured at amortised cost.

Determining the fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of a financial instrument traded in active markets is based on quoted market prices or, based on company's own valuation techniques if an active market does not exist. A market is considered active if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted bid price is used as the current market price of financial assets. If the market has a well-established valuation practice for a financial instrument, for which a quoted market price is not available, the fair value is based on a commonly used model for calculating the market price and the market quotation of inputs used in the valuation model.

If the valuation technique is not well established in the market, a valuation model created for the product in question is used to determine its fair value. Valuation models are based on widely used techniques, incorporating all factors that market participants would consider in setting a price. Used valuation prices consist of market transaction prices, discounted cash flow method and the current a fair value of another substantially similar instrument at the reporting date. The valuation techniques take into account estimated credit risk, applicable discount rates, early repayment option, and other such factors that may impact the fair value of the financial instrument to be determined reliably.

The fair values of financial instruments are divided into three hierarchical levels, depending on how the fair value is defined:

- Quoted prices in active markets for identical assets or liabilities (Level 1)
- Fair values that are determined using inputs other than Level 1 quoted prices that are observable for assets or liabilities, either directly (e.g. as prices) or indirectly (e.g. derived from prices) (Level 2)
- Fair values that are determined using input data which is essentially not based on observable market data (Level 3)

The fair value hierarchy level to which an item measured at fair value is classified in its entirety is determined at the lowest level of input information for the whole item. The significance of the input data is evaluated in its entirety in the case of the item which is valued at fair value.

Impairment losses of financial assets

Loans and receivables

The impairment losses of loans and other receivables are recognised on an individual basis.

Impairment losses on loans and other receivables are recognised when objective evidence has occurred that the principal or interest of the loan or receivable won't be received. Evaluation of objective evidence is based on sufficient evaluation of the client's failure of payment. The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. Estimated future cash flows are discounted using the receivable's original effective interest rate.

Impairment losses on loans and receivables are recognised in the allowance account and netted against loans and receivables. In the income statement the impairment losses are recognised under impairment losses on loans and other receivables. If in a subsequent period appears that the impairment is not permanent it is reversed.

Loans and receivables, whose collection is deemed impossible, are recognised as credit losses. Credit losses are recorded in the allowance account. Non-recoverable loans and receivables are recorded as a permanent credit loss, and the impairment loss is reversed when the normal collection process is completed and the final amount of the individual loan or receivable can be measured.

Held-to-maturity financial investments

If at the balance sheet date there is objective evidence that the carrying amount of a debt instrument classified as held to maturity is decreased, the debt instrument is subjected to an impairment test.

If the impairment assessment provides evidence that a debt instrument is impaired the impairment loss is recognised in the income statement under "Net investment income". The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. Estimated future cash flows are discounted using the receivable's original effective interest rate.

Available for sale financial assets

If at the balance sheet date there is objective evidence that the carrying amount of a security classified as available for sale is decreased, the security is subjected to an impairment test. If the impairment assessment provides evidence that the security is impaired, the impairment loss is recognised in the income statement under "Net investment income".

Impairment assessment of a available for sale debt instrument is mainly based on the estimated future cash flows. Reduction in fair value, which is solely due to the increase in risk-free market interest rates, does not give rise to recognise an impairment loss. Instead, an increase in the counterparty's credit risk premium may be an evidence of deteriorated ability to pay.

The impairment loss of debt securities is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The reversal of previously recognised impairment loss is recognised in the income statement.

3. Leases

A lease is an agreement whereby the lessor conveys to the lessee the right to use an asset for the agreed period for a payment or a series of payments. Leases are classified as finance leases or operating leases depending on the substance of the business transaction. A lease is a finance lease if it transfers substantially all the risks and rewards to the lessee. Otherwise, it is an operating lease.

SB Central Bank does not have leased assets under financial lease. Payments made under operating leases are charged to the income statement under other operating expenses on a straight-line basis over the period of the lease. SB Central Bank is the lessee in office premises, printers and laptops, among others.

4. Employee benefits

Employee benefits include short-term employee benefits, termination of employment-related benefits, post-employment benefits and other long-term employee benefits. Short-term employee benefits include salaries and benefits, annual leave and bonuses. Short-term employee benefits are expected to be paid in full within 12 months of the financial year, during which the employees perform the work concerned.

A defined contribution plan is a pension plan under which SB Central Bank pays fixed pension contributions into pension insurance companies, and SB Central Bank has no legal or constructive obligations to pay further contributions if the pension insurance company is not able to pay employees the benefits. The most significant defined contribution plan is the basic insurance (TyEL), as stipulated by the Pensions Act. An independent pension insurance company is responsible for this pension security in SB Central Bank.

5. Intangible assets

An intangible asset is an identifiable asset that has no physical substance. In SB Central Bank, intangible assets include computer software and software licences.

An intangible asset is recognised only when it is probable that economic benefits from the asset are likely to flow to the company and the acquisition cost of the asset can be reliably measured. Future economic benefits may include services or goods, sales revenue, cost savings or other benefits resulting from SB Central Bank exercising the asset.

Intangible assets are initially measured at cost. The cost comprises the purchase price, including all costs that are directly attributable to the asset from acquisition to preparing it to its intended use. The acquisition cost does not include costs attributable to the asset's use, staff training expenses incurred and administrative expenses and other general overheads.

After initial recognition, an intangible asset is carried at its cost less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised on a straight-line basis over their known or estimated useful lives. The useful life of intangible assets is reviewed annually.

An asset is amortised from the date when it is ready for use. An intangible asset that is not yet ready for use is tested annually for impairment.

The estimated useful lives are mainly as follows:

Information systems purchased from external companies	3–5 years
Other intangible assets	2–5 years

Intangible assets are recognised in the "Intangible Assets" line item within the balance sheet. Amortisation and impairment losses are recognised in the income statement under "Depreciation, amortisation and impairment losses on tangible and intangible assets".

6. Property, plant and equipment and investment properties

SB Central Bank's tangible fixed assets comprise machinery and equipment. Depreciation and impairment losses are recognised in the income statement under "Depreciation, amortisation and impairment losses on tangible and intangible assets".

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. The acquisition cost includes all costs that are directly attributable to the acquisition of the asset. Assets are depreciated on a straight-line basis over their estimated useful lives. Costs generated after the original acquisition are capitalised in the carrying amount only when it is probable that the asset will generate greater economic benefits than was initially estimated.

The estimated useful lives are mainly as follows:

Machinery and equipment	3–10 years

The residual value and the useful life of an asset is reviewed at each balance sheet date and adjusted to reflect the expected changes in economic benefit.

Gains and losses on retirement and disposal of tangible fixed assets are recognised in income statement and are presented under other operating income and expenses. The capital gain or loss is determined by the difference between the selling price and the remaining acquisition cost.

7. Income taxes

SB Central Bank's income tax for the period comprises current tax, previous years' tax adjustments and changes in deferred taxes. Tax is recognised in income statement except when they relate directly to items recognised directly in equity or in other comprehensive income. In these circumstances the tax is also recognised directly in equity or in other comprehensive income, respectively.

Deferred income tax is recognised on temporary differences between the carrying amount of an asset or liability and its tax base. Deferred tax is determined using tax rates that have been enacted at the balance sheet date and are expected to apply when the related deferred income tax is realised. A change in deferred tax resulting from changing tax rates is recognised in the income statement or other comprehensive income if the tax was recorded there during earlier financial periods.

A deferred tax asset is recognised for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be probable and unused tax credits can be utilised.

8. Revenue recognition

Interest income and expenses

Interest income and expenses are amortised using the effective interest rate method over the contractual period of the loan and receivable or the liability. With this method, the income and expenses of the instrument are amortised in proportion to the remaining carrying amount of the loan and receivable or the liability in the balance sheet.

When a financial asset is impaired, the original effective interest rate is used to calculate the interest income to the carrying amount of the receivable reduced by impairment loss.

Fees and commissions

Fees and commissions income and expense are generally recognised on an accrual basis. Fees and commissions for performing a service are recognised when the related services are performed. Fees relating to services performed over several years are amortised over the service period. Fees that are directly attributable to a financial instrument are treated as part of an effective interest and accounted for as an adjustment to the effective interest of that financial instrument. Fees, relating to financial instruments classified at fair value through profit or loss are expensed in the income statement on initial recognition.

9. New IFRS standards and interpretations

SB Central Bank has not yet adopted the following new and amended standards and interpretations already issued by the IASB. SB Central Bank will apply them on the effective date or after if the effective date is other than the beginning of company's financial year.

Annual Improvements to IFRSs (2011-2013 cycle and 2010-2012 cycle*, December 2013) (effective for financial years beginning on or after 1 July 2014): The annual improvements provides minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments cover in total four (2011-2013 cycle) and seven (2010-2012 cycle) standards. Their impacts vary standard by standard but are not significant to SB Central Bank.

Annual Improvements to IFRSs, 2012-2014 cycle*) (effective for financial years beginning on or after 1 January 2016): The annual improvements provides minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments cover in four standards. Their impacts vary standard by standard but are not significant to SB Central Bank.

New IFRS 9 Financial Instruments* (effective for financial years beginning on or after 1 January 2018): IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. SB Central Bank is assessing the impact of IFRS 9.

* = not yet endorsed for use by the European Union as of 31 December 2014.

NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Significant accounting principles requiring management's judgment and uncertainty factors affecting estimates

IFRS-compliant financial statements require the company's management to exercise judgment and make estimates and assumptions that affect the reported amounts of assets and liabilities and other information such as income and expenses. Although these estimates are based on the best current knowledge of the management, it is possible that actual results could differ from those used in the estimates.

SB Central Bank's main estimates concern the future and key uncertainties related to balance sheet estimates.

Fair value measurement

The management should consider whether an individual financial instrument is actively traded and whether the market price obtained is a reliable indication of the financial instrument's fair value. In addition, the management must determine when the financial instruments market is not active. The management's judgment is required in cases where the financial instrument's fair value is determined using valuation techniques. If observable inputs are not available in the market for the valuation, the management must assess what other inputs should be used in measuring the fair value. Fair value measurement is discussed in more detail in section "Fair Value Measurement".

Impairment of financial assets

The management must also regularly assess whether there is objective evidence of the impairment of loans and receivables. Impairment testing is performed on a single receivable or a group of receivables. Impairment is based on the management's estimate of future cash flows of the receivable. Recognising objective evidences and evaluation of future cash flows require management's judgment. The impairment principles are explained in more detail in section "Impairment losses on financial assets" in the accounting policies.

Impairment testing of other financial assets not fair valued through profit or loss is carried out at each balance sheet date. Impairment losses are recognised in profit or loss if there is objective evidence. In the case of available for sale equity instruments, impairment is recognised if the impairment is assessed to be significant or prolonged. The management must assess when the impairment is significant or prolonged. More detailed principles for impairment losses of other financial instruments are presented under "Impairment losses of financial assets".

RISK MANAGEMENT

NOTE 4: RISK MANAGEMENT AND GOVERNANCE

Objective of risk management

The objective of risk management is to secure the bank's risk-bearing capacity and ensure the continuity of its operation. The risk-bearing capacity comprises adequate and effective risk management proportionate to the scale and demands of the operation, as well as a sufficient degree of liquidity and solvency based on profitable business operations.

Principles and organization of risk management

Risk management is defined as identification, assessment, quantification, limitation and monitoring of risks arising from business activities and other closely associated risks. The purpose of risk management is to reduce the likelihood of unanticipated losses or threats to the subject's reputation and thus ensure the implementation of group strategy. Risk and solvency management are part of internal control. SB Central Bank has a risk management office that is independent of business operations.

Risk and solvency management create the conditions for risk identification, assessment, quantification, and the limitation of risks at a safe level for SB Central Bank. The capital requirements necessitated by various risk areas and business activities are defined reliably and independently, and the capital is allocated systematically in accordance with current and planned risk-taking and correctly from the point of view of SB Central Bank's liquidity management.

Risk management is part of SB Central Bank's internal control and an integral part of its operational activities. SB Central Bank's risk management strategy is based on its mission and business strategy, risk management guidelines, authority system, and the risk and deviation reporting concerning the principal elements of the business activities, approved by the Board of Directors.

In accordance with its strategy, SB Central Bank provides the Savings Banks with various central credit institution services, such as those related to payment transactions, funding for the Amalgamation, and in the future also those related to card issuing. SB Central Bank does not have excessively large client or investment risk concentrations in relation to its financial bearing capacity, and in accordance with its strategy, SB Central Bank will take no such risks. SB Central Bank maintains its solvency at a safe level.

The Board of Directors is regularly informed on the various risks affecting SB Central Bank and their levels. The Board also approves the authorizations and circumstances of risk-taking by determining the accepted credit risk limits. Within the authority system, the responsibility for daily risk monitoring and control rests with the executive management. The systems and practices intended for risk reporting and monitoring fulfil the criteria set for risk management, taking into account the nature and scope of SB Central Bank's operation.

In its operations in 2014, SB Central Bank was exposed to credit, market and operational risks, as well as business and liquidity risks.

Credit risks

Credit risk refers to a situation where a counterparty is unable to fulfil its commitments as agreed. The main source of credit risks is lending, but credit risks (counterparty risk) may also arise from other types of receivables, such as bonds, short-term debt instruments and derivative contracts, as well as off balance-sheet liabilities, such as unused credit arrangements and limits.

The objective of credit risk management is to limit the impacts on profit and loss or solvency of risks arising from client liabilities at an acceptable level. The business strategy and guidelines on lending approved by the Board set the maximum limits to risk exposures and steer the directing of lending in accordance with the strategy to client banks and in a limited degree to other strategic partners in the Savings Banks Group.

SB Central Bank's funding, which in 2014 mostly consisted of the Savings Banks' deposits or payment transaction and minimum reserve account funds, is principally in the form of cash reserves and granted loans to the Amalgamation Savings Banks.

The decisions on loans granted to the Savings Banks are made at SB Central Bank in accordance with the policies approved by the Savings Banks Union Coop and the Board of SB Central Bank. The decisions to lend to Savings Banks Group's strategic partners are made by the Board of SB Central Bank. During the operational year, SB Central Bank has invested in debt instruments acceptable as security for central bank financing, in accordance with the investment policies approved by the SB Central Bank Board.

SB Central Bank granted credit institution loans only to the Savings Banks that had committed to joining the Amalgamation. The commitment to join the Amalgamation also included joint liability. In 2014, the responsibility for monitoring the Savings Banks' credit risk and solvency rested with the Savings Banks Union and the Savings Banks' audit office operating under its auspices. Due to the joint liability, SB Central Bank has not prepared a separate schedule on the impairments applied to the loans granted to the Savings Banks.

Monitoring of the credit risk of unsecured loans granted to the Savings Banks Group's strategic partners is based partly on the daily monitoring of the credit account usage as part of the reconciliation process. The monitoring system takes into account the fact that the companies are owned by credit institutions operating in Finland, and there is interaction with them at least once a month.

Loans granted to strategic partners are called in according to the agreed terms and conditions. The bank subsequently records an impairment on the called-in loan.

SB Central Bank has no non-credit institution client entities with liabilities exceeding the cap set by the Act on Credit Institutions of 10 per cent of the banks' equity (so-called major exposures). The Board of SB Central Bank made a decision on 13 February 2014 that the maximum client liability for a Savings Bank committed to join the Amalgamation should be 100 per cent of SB Central Bank's equity (CRR Article 395). This limit has not been exceeded. Investigations show that risks in the SB Central Bank's loan portfolio are at a low level in relation to the Bank's annual profit levels and risk-bearing capacity.

Maturity distribution of financial liabilities:

Financial liabilities (1 000 euros)	2014 under 12 months	1 - 5 years	Total
Liabilities to credit institutions	563 140	89 624	652 764
Liabilities to customers	700	0	700
Debt securities issued	12 985	0	12 985
Off balance-sheet commitments	5 195		5 195
Total	582 021	89 624	671 645

Financial liabilities (1 000 euros)	2013 under 12 months	1 - 5 years	Total
Liabilities to credit institutions	42 926	-	42 926
Liabilities to customers	1 725	-	1 725
Debt securities issued	0	-	0
Off balance-sheet commitments	3	-	3
Total	44 654	-	44 654

Liquidity risk

Liquidity risk refers to a bank's ability to fulfil its commitments. Liquidity risk may arise from the lack of control and/or anticipation of incoming and outgoing cash flows. An uncontrolled rise of required refinancing costs may also be defined as liquidity risk. Liquidity risk can be more precisely divided into short-term liquidity risk and long-term financing risk.

Liquidity risk is managed e.g. by maintaining sufficient liquid funds to guarantee liquidity. During 2014, with the significant and rapid changes in the nature of its operation, SB Central Bank has kept a large liquidity buffer. Liquidity risk is monitored at SB Central Bank on a daily basis, and a daily report of the liquidity status of SB Central Bank and the Amalgamation member banks is also provided to the central institution's risk management office. Financial risk is managed by ensuring adequate long-term finance in relation to long-term receivables.

During the reporting period 2014, SB Central Bank has obtained the required refinancing mainly as deposits from its client banks. In accordance with the account terms and conditions, a significant part of the refinancing is spot deposits. SB Central Bank aims to increase the maturity of its refinancing and to increase its funding base according to the needs of the Amalgamation banks. In the future, rating and the EMTN programme to be established will ensure sufficient long-term financing in relation to the loans granted to the Amalgamation banks.

Market risk

Market risk refers to the impact of interests rates and market prices on the bank's income statement and equity. Of the market risks, SB Central Bank was only exposed to interest rate risk in the reporting period 2014, as described below.

Interest rate risk

Interest rate risk is the effect of interest rates on the market value and net interest income of the bank's balance sheet items and off balance-sheet items. Interest rate risk arises from the differences in the interest terms of receivables and liabilities and the differences in interest reset or maturity dates. Due to its balance sheet structure, SB Central Bank did not apply hedging strategies or use derivatives in the financial year 2014.

SB Central Bank applied the present value method to monitor its interest rate risks during the reporting period 2014. At the end of the reporting period 31 December 2014, the fair value change to the SB Central Bank's balance sheet caused by a parallel shift of one percentage point of the interest curve would be EUR 493,000.00. In order to manage interest rate risk in the reporting period 2015, SB Central Bank will also implement the income risk approach, which predicts the future net interest income within a selected time scale, as market interest rates change.

Operational risk

Operational risks refer to a danger of loss caused by inadequate or failed internal processes, personnel, systems, or external factors. Judicial risks are also included in operational risks.

SB Central Bank identifies and documents operational risks associated with products, services, functions, processes, and systems. Through the identification of operational risks, the monitoring and control measures are determined. Some of the losses caused by operational risks are covered by insurance. In addition, preparedness for significant operational disruptions is ensured through continuity plans. Regular reports are submitted to SB Central Bank's executive management on operational risks and actual losses, as well as near-miss situations.

In the reporting period 2014, there were no operational risks resulting in financial losses or impairment of the corporate image. During the year, 18 disruption reports were recorded. Most of the disruptions arose from malfunctioning of data systems and caused manual investigations at SB Central Bank.

NOTE 5: CAPITAL ADEQUACY MANAGEMENT

SB Central Bank has drawn up a capital adequacy management process, the aim of which is to ensure the bank's risk-bearing capacity is sufficient in relation to all the main risks in its operation. To this end, SB Central Bank identifies and comprehensively assesses the risks inherent in its operation and matches its risk-bearing capacity to the total sum of SB Central Bank's exposures. To ensure its capital adequacy, SB Central Bank sets risk-based capital targets and draws up a capital plan in order to reach the targets. One of the aims of the capital adequacy management process is also to maintain and develop the risk management procedure.

In accordance with its strategy, SB Central Bank provides the Savings Banks with various central credit institution services, such as those related to payment transactions, payment card issues, and funding for the Amalgamation. By operating only in this business sector, the Bank is able to maintain its operational risks at a manageable level. SB Central Bank's capital adequacy management is the responsibility of the Bank's Board of Directors, which also sets the operational risk limits. The SB Central Bank Board carries out an annual review of the risks associated with the Bank's capital adequacy, capital plan and set exposure limits.

As part of its capital adequacy management process, SB Central Bank prepares forecasts on items such as profit and loss, growth and solvency. SB Central Bank uses the forecasts in mapping the necessary measures in order to secure the level of capital adequacy required by the business strategy.

Equity and capital adequacy

The new European Union Capital Requirement Directive and Regulation was published on 27 June 2013. The new rules came into force on 1 January 2014 and are based on the 2010 recommendations of the Basel Committee on Banking Supervision, or the so-called Basel III standards. The new capital adequacy regulation is legislation directly mandatory to the member states, and when it came into force, a large part of the Financial Supervisory Authority's standards on capital adequacy calculation was rescinded. The European Banking Authority (EBA) issues standards to clarify the regulation, which are mandatory in common with the regulation.

The Basel III capital adequacy reporting under the new regulation started from the situation on 31 March 2014. With it, the capital requirements of banks are tightened both through the conditions set on capital instruments and additional capital buffers. New requirements are set on liquidity, and a new benchmark, the minimum equity ratio, is adopted in monitoring the debt position.

The capital adequacy of SB Central Bank is expected to fulfil the required 8 per cent minimum level also in the future. As well as the minimum capital adequacy requirement, a fixed additional capital requirement of 2.5 per cent was adopted from 1 January 2015, as well as a variable additional capital requirement, which the authorities can set at 0 - 2.5 per cent as required. SB Central Bank has set its internal monitoring minimum capital adequacy at 13.5 per cent in readiness for any forthcoming additional capital requirement.

The most important risk barometers in SB Central Bank's capital planning are capital adequacy as provided by the Act on Credit Institutions and the risk buffer of EUR three (3) million minimum set for the equity capital over and above the Bank's Internal Capital Adequacy Assessment Process (ICAAP). Various scenario analyses are prepared as part of capital planning. The scenario analyses are used to assess how various exceptionally serious, but possible, situations can impact on SB Central Bank's and the Savings Banks Group's liquidity and SB Central Bank's profitability and capital adequacy. The analysis results show that SB Central Bank's loss-absorption capacity is sufficient and its capital adequacy in the next few years would fulfil the requirements of current legislation, even in the event of a serious recession.

In its capital adequacy calculation, SB Central Bank applies the standard method of credit risk calculation and the basic method in calculating operational risk. SB Central Bank has published the relevant information with regard to capital adequacy calculation each year as part of its Annual Report and Notes to the Financial Statement. The main capital adequacy information has been published in the Interim Report issued half-yearly.

SB Central Bank's own funds totalled EUR 44,882 (10,915) thousand, while the minimum own funds requirement was EUR 2,463 (1,236) thousand. The Common Equity Tier 1 (CET1) stood at EUR 44,816 thousand. Tier 1 capital amounted to EUR 44,816 (10,916) thousand. The capital and reserves consist entirely of common equity tier 1 capital, core capital, and SB Central Bank has no equity classified as Tier 2 or other capital.

The information concerning SB Central Bank's capital adequacy is included in the consolidated financial statement of the Savings Banks Amalgamation. The exemptions referred to in Sections 21 and 21a of the Act on the Amalgamation of Deposit Banks do not apply to SB Central Bank.

SB Central Bank's capital adequacy ratio was high, standing at 145.55 per cent at the year end. The high capital adequacy figure is due to the minimum capital requirements while the operation is at the launch stage and the nature of the operation.

The information concerning SB Central Bank's capital adequacy is included in the consolidated financial statement of the Savings Banks Amalgamation. The exemptions referred to in Sections 21 and 21a of the Act on the Amalgamation of Deposit Banks are not applied to SB Central Bank. The Savings Banks Group publishes the so-called Pillar III capital adequacy information in its financial statement. The Savings Banks Group financial statement is available online at www.saastopankki.fi or from the Savings Banks Union Coop offices at Linnoitustie 9, 02600 Espoo, Finland.

Statement of Capital Adequacy

Own funds (1 000 euros)	2014	2013*
Common Equity Tier 1 before regulatory adjustments	46 306	10 916
Share capital	40 000	5 000
Retained earnings	-12 838	-10 013
Profit (loss) for the period	80	-3 084
Regulatory adjustments to Common Equity Tier 1	-1 490	0
Common Equity Tier 1 (CET1) total	44 816	10 916
Tier 1 Capital (T1=CET1 + AT1) total	44 816	10 916
Tier 2 capital before regulatory adjustments	66	-1
Adjustments to Tier 2 capital	0	0
Tier 2 Capital (T2) total	66	-1
Own funds (TC = T1 + T2) total	44 882	10 915
Risk-weighted assets		
Credit and counterparty risk	26 289	13 220
Items in balance sheet	23 774	13 218
Off balance-sheet commitments	2 515	2
Credit valuation adjustment		
Market risk	0	0
Currency risk	0	0
Operational risk	4 501	2 224
Risk-weighted assets total	30 790	15 444
Minimum standard of Own funds	2 463	1 236
Amount which exceeds minimum standard of Own funds	42 419	9 680
Common Equity Tier 1 (CET1) as a percentage of risk-weighted assets	145.6	70.7
Tier 1 Capital (T1) as a percentage of risk-weighted assets	145.6	70.7
Own funds (TC) as a percentage of risk-weighted assets	145.8	70.7

* Figures are based on Basel II

NOTES TO THE INCOME STATEMENT

NOTE 6: NET INTEREST INCOME

Interest income (1 000 euros)	2014	2013
Debt securities entitling to funding from Central Bank	-13	-
Receivables from credit institutions	350	42
Receivables from customers	1	1
Debt securities	157	105
Other	0	0
Total	496	149

Interest expense (1 000 euros)	2014	2013
Liabilities to credit institutions	-305	-19
Liabilities to customers	0	-30
Debt securities issued	-37	-
Other	0	0
Total	-342	-48

Net interest income	154	101

NOTE 7: FEES AND COMMISSIONS INCOME AND EXPENSE

(1 000 euros)	2014	2013
Fee and commission income		
Lending	4	0
Deposits	0	0
Payment transfers	453	21
Other	446	915
Total	903	936
Fee and commission expense		
Payment transfers	-181	-17
Securities	-4	0
Other	0	-50
Total	-185	-67

NOTE 8: INCOME AND EXPENSES FROM FINANCIAL INSTRUMENTS

(1 000 euros)	2014	2013
Interest income on:		
- Unimpaired held-to-maturity investments	1	59
- Loans and receivables	351	44
- Available-for-sale financial assets	144	46
Total interest income arising from financial assets not measured at fair value through profit or loss	495	149
Finance income	495	149
Financial liabilities measured at amortised cost - interest expense	-253	-48
Loans and receivables - interest expence	-89	-
Finance expenses	-342	-48
Net financial expenses recognised in profit or loss	153	101

NOTE 9: OTHER OPERATING INCOME

(1 000 euros)	2014	2013
Other income from Banking*	3 489	6
Total	3 489	6

* The other income from Banking consists mainly of sales income received from client banks for expertise services related to the deployment and development of central credit institution services. Services have been fully rendered and there is no future income expected.

NOTE 10: PERSONNEL EXPENSES

(1 000 euros)	2014	2013
Wages and salaries	-1 583	-1 760
Pension expenses	-271	-308
- Defined contribution plans	-271	-308
Other personnel related costs	-60	-49
Total	-1 915	-2 117

Full-time	20.0	14.0
Part-time	-	1.0
Total	20.0	15.0

Number of employees converted to FTEs	19.50	14.60
Average number of FTEs during the financial year	16.50	21.28

NOTE 11: OTHER OPERATING EXPENSES

(1 000 euros)	2014	2013
Other administrative expenses	-1 279	-1 239
Other personnel expenses	-157	-124
Office expenses	-295	-67
ICT expenses	-798	-960
Telecommunications	-27	-17
Representation expenses	-1	0
Marketing	0	-35
Other administrative expenses	0	-37
Other operating expenses	-820	-564
Rental expenses	-262	-302
Expenses arising from owner-occupied property	-14	-5
Other operating expenses*	-543	-256
Total	-2 098	-1 803

***Audit fees**		
Statutory audit	17	21
Audit related services	9	0
Other services	0	30
Total	27	51

NOTE 12: DEPRECIATION, AMORTISATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

(1 000 euros)	2014	2013
Depreciation and amortisation of machinery and equipment	-20	-10
Amortisation of intangible assets	-223	-
Total depreciation and amortisation	-243	-10

NOTE 13: INCOME TAXES

(1 000 euros)	2014	2013
Current tax	-19	-
Change in deferred tax liabilities	-6	-15
Income taxes	-24	-15
Reconciliation of effective tax rate		
Accounting profit before tax	104	-2 964
Differences between accounting and taxable profit	-11	-16
Taxable profit	93	-2 980
Tax using the domestic corporation tax rate	-21	726
Tax-exempt income	-	0
Tax-exempt income	-4	0
Unrecognised deductible expenses (educationdeduction)	1	-
Recognition of previously unrecognised tax losses	-	-726
Transfer to distributable funds	0	-25
Effect of tax rate change on deferred tax balances (year 2013)	-	11
Tax expense	-24	-15

NOTES TO THE ASSETS

NOTE 14: CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

2014 (1 000 euros)	Loans and other receivables	Available-for-sale	Total
Cash and cash equivalents	513 509	-	513 509
Loans and advances to credit institutions	141 697	-	141 697
Loans and advances to customers	305	-	305
Investment assets	-	54 872	54 872
Total assets	655 511	54 872	710 383

2014 (1 000 euros)	Other financial liabilities	Total
Liabilities to credit institutions	653 096	653 096
Liabilities to customers	700	700
Debt securities issued	12 979	12 979
Total liabilities	666 775	666 775

2013 (1 000 euros)	Loans and other receivables	Available-for-sale	Held-to-maturity	Total
Cash and cash equivalents	27 574	-	-	27 574
Loans and advances to credit institutions	10 014	-	-	10 014
Loans and advances to customers	12	-	-	12
Investment assets	-	16 985	999	17 984
Total assets	37 600	16 985	999	55 584

2013 (1 000 euros)	Other financial liabilities	Total
Liabilities to credit institutions	42 910	42 910
Liabilities to customers	1 725	1 725
Total liabilities	44 635	44 635

NOTE 15: CASH AND CASH EQUIVALENTS

(1 000 euros)	2014	2013
Receivables from central banks repayable on demand	513 509	27 574
Total	513 509	27 574

Cash and cash equivalents are specified in the cash flow statement.

NOTE 16: LOANS AND RECEIVABLES

(1 000 euros)	2014	2013
Loans and receivables from customers		
By product		
Account credits in use*	305	12
Total	305	12
Loans and advances to credit institutions		
Deposits	16 140	10 014
Loans and other receivables**	125 557	-
Total	141 697	10 014

* Credit rating A or better

** EUR 125,557,308.81 granted to banks within the Savings Banks Amalgamation based on the Act on Amalgamations.

Impairment losses on loans and other receivables

2014	Measured by individual contract
Impairments 1 January 2014	10
Impairments 31 December 2014	10

2013	Measured by individual contract
Impairments 1 January 2013 + increase in impairment losses	10
Impairments 31 December 2013	10

Changes in the carrying amount of impaired financial assets

	2014	2013
Impaired financial assets 1 January	10	-
Classified as impaired during the year	-	10
Impaired financial assets 31 December	10	10

NOTE 17: INVESTMENT ASSETS

(1 000 euros)	2014	2013
Available-for-sale financial assets		
Debt securities*	54 872	16 985
Total	54 872	16 985
Held-to-maturity investments		
Debt securities	0	999
Total	0	999
Total investment assets	54 872	17 984

* Credit ratings for year 2014:
- AAA: EUR 40,750,950.00
- not credit rated: EUR 14,120,575.20

Available-for-sale financial assets and held-to-maturity investments

2014	Available-for-sale Debt securities	
(1 000 euros)	At fair value	Total
Quoted		
From public entities	40 751	40 751
Other		
From others	14 121	14 121
Total	54 872	54 872

Available-for-sale financial assets and held-to-maturity investments

2013	Available-for-sale Debt securities		Held-to-maturity investments	
(1 000 euros)	At fair value	Total	At amortised cost	Total
Other				
From Others	16 985	16 985	999	17 984
Total	16 985	16 985	999	17 984

NOTE 18: PROPERTY, PLANT AND EQUIPMENT

(1 000 euros)	2014	2013
Machinery and equipment	89	96
Total plant and equipment	89	96

2014 (1 000 euros)	Machinery and equipment	Total
Changes in plant and equipment		
Acquisition cost 1 January	107	107
Increases	12	12
Acquisition cost 31 December	119	119
Accumulated depreciation and impairments 1 January	-10	-10
Depreciation for the financial year	-20	-20
Accumulated depreciation and impairments 31 December	-30	-30
Carrying amount 31 December	89	89

2013 (1 000 euros)	Machinery and equipment	Total
Changes in plant and equipment		
Acquisition cost 1 January	-	-
Increases	107	107
Acquisition cost 31 December	107	107
Accumulated depreciation and impairments 1 January	0	0
Depreciation for the financial year	-10	-10
Accumulated depreciation and impairments 31 December	-10	-10
Carrying amount 31 December	96	96

NOTE 19: INTANGIBLE ASSETS

(1 000 euros)	2014	2013
Intangible rights	1 322	308
Intangible assets under development	101	-
Total	1 424	308

In 2013 project Next initiated for improving the banking system was recognised in intangible asset. The amortisations have not yet begun. In 2014 costs of EUR 1,116 tousand relating to development project of central credit institution service were recognised in intangible assets.

Amortisations have begun for implemented project relating to central credit institution service development.In 2014 entity has recognised the treasury system development as work in process.

2014 Changes in intangible assets (1 000 euros)	Intangible rights	Intangible assets under development	Total
Acquisition cost 1 January	308	0	308
Increases	1 238	101	1 339
Acquisition cost 31 December	1 546	101	1 647
Accumulated depreciation and impairments 1 January	0	0	0
Amortisations for the financial year	-223	0	-223
Accumulated amortisation and impairments 31 December	-223	0	-223
Carrying amount 31 December	1 322	101	1 424

2013 Changes in intangible assets (1 000 euros)	Intangible rights	Total
Acquisition cost 1 January	204	204
Increases	104	104
Acquisition cost 31 December	308	308
Accumulated amortisation and impairments 1 January	0	0
Accumulated amortisation and impairments 31 December	-	-
Carrying amount 31 December	308	308

NOTE 20: INCOME TAX ASSETS AND LIABILITIES

Deferred tax assets (1 000 euros)	Investment assets
Deferred tax assets 1 January 2013	-
Other comprehensive income	0
Deferred tax assets 31 December 2013	**0**
Other comprehensive income	0
Deferred tax assets 31 December 2014	**0**

SB Central Bank has applied for exception permission for deduction of losses accumulated during years 2009-2013. Permission has not yet been admitted so deferred tax asset has not been booked.

Tax years for the losses:	(1 000 euros)
Tax year 2009	545
Tax year 2010	1 019
Tax year 2011	3 211
Tax year 2012	5 235
Tax year 2013	3 084
Total	13 094

Deferred tax liabilities (1 000 euros)	Investment assets	Intangible assets	Other	Total
Deferred tax liabilities 1 Januari 2013	**0**	**50**		**50**
Income statement		12	3	15
Other comprehensive income	0			0
Deferred tax liabilities 31 December 2013	**0**	**62**	**3**	**65**
Income statement			6	6
Other comprehensive income	16	-	-	16
Deferred tax liabilities 31 December 2014	**16**	**62**	**9**	**87**

Corporate tax liabilities	(1 000 euros)
Corporate tax liabilities 1 Januari 2014	**0**
Based on profit of the current year	19
Corporate tax liabilities 31 December 2014	**19**

NOTE 21: OTHER ASSETS

(1 000 euros)	2014	2013
Payment transfer receivables	2	-
Accrued income and prepaid expenses	2 069	235
Interest	889	25
Other accrued income and prepaid expenses	1 180	210
Other	100	103
Total	2 171	338

NOTES RELATING TO LIABILITIES AND EQUITY

NOTE 22: LIABILITIES TO CREDIT INSTITUTIONS AND CUSTOMERS

(1 000 euros)	2014	2013
Liabilities to credit institutions		
Liabilities to central banks	90 000	-
Liabilities to credit institutions	563 096	42 910
Total	653 096	42 910
Liabilities to customers		
Deposits	700	1 725
Total	700	1 725
Total liabilities to credit institutions and customers	**653 796**	**44 635**

NOTE 23: ISSUED DEBT INSTRUMENTS

(1 000 euros)	2014	2013
Other		
Certificates of deposit	12 979	-
Total	12 979	0

NOTE 24: OTHER LIABILITIES

(1 000 euros)	2014	2013
Other liabilities	170	71
Accrued expenses	711	394
Total	881	465

SB Central Bank has not booked any provisions.

NOTE 25: CAPITAL AND RESERVES

(1 000 euros)	2014	2013
Share capital	40 000	5 000
Reserves		
Reserve for invested non-restricted equity	19 000	19 000
Fair value reserve	64	-1
Retained earnings		
Profit (loss) for previous financial years	-12 838	-9 859
Profit (loss) for the period	80	-2 979
Total capital and reserves	46 306	11 162

Share capital

This item includes the paid share capital, cooperative capital and basic capital. If share capital is wholly or partly not entered in trade register, the unregistered amount must be presented in the balance sheet separately as a sub-item of this item.

SB Central Bank has in total 17.391 shares without nominal value.

Reserve for invested non-restricted equity

Reserve for invested non-restricted equity includes the portion of subscription price which is not recognised in share capital and, according to the Accounting Act, is not recognised in liabilities, as well as other equity investments which are not recognised in other reserves. Furthermore, the reserve includes the amount by which share capital is reduced and which is not used to cover confirmed loss nor is distributed to shareholders.

Fair value reserve

Fair value reserve includes items arising from fair value measurements and translation differences.

Retained earnings

This item includes the profit for the period as indicated by the income statement, as well as profit for prior periods to the extent that it has not been transferred to other equity items or distributed to shareholders.

Specification of changes in fair value reserve (1 000 euros)	2014	2013
Fair value reserve 1 January	-1	0
Profit/loss from fair value measurements, shares and participations	81	-1
Deferred tax from fair value measurements	-16	0
Reclassified to income statement	0	0
Fair value reserve 31 December	64	-1

SB Central Bank's distributable funds amount to EUR 6,242,084.74. The SB Central Bank Board of Directors proposes to the Annual General Meeting that the profit for the financial year of EUR 79,715.22 is entered as accumulated retained earnings with no dividend paid.

OTHER NOTES

NOTE 26: COLLATERAL GIVEN AND HELD

Given on behalf of own liabilities and commitments (1 000 euros)	2014	2013
Debt securities	95 272	-
Total collateral given	95 272	-
Debt securities	67 100	-
Other	38 150	-
Total collateralised loans	105 250	-

Collateral given and held are related to participation of ECB:s funding operation and to deposits required for ECB TARGET2-account.

NOTE 27: OFF BALANCE-SHEET COMMITMENTS

(1 000 euros)	2014	2013
Loan commitments	5 195	3
Total	5 195	3

NOTE 28: FAIR VALUES BY VALUATION TECHNIQUE

Financial assets (1 000 euros)	Fair value		
2014	Level 1	Level 2	Total
Measured at fair value			
Available-for-sale financial assets	51 339	3 533	54 872
Measured at amortised cost			
Loans and other receivables	-	655 788	655 788
Total financial assets	51 339	659 321	710 660

Financial assets (1 000 euros)	Booking value		
2014	Level 1	Level 2	Total
Measured at fair value			
Available-for-sale financial assets	51 339	3 533	54 872
Measured at amortised cost			
Loans and other receivables		655 511	655 511
Total financial assets	51 339	659 044	710 383

Financial liabilities (1 000 euros)	Fair value		
2014	Level 1	Level 2	Total
Measured at amortised cost			
Other financial liabilities	-	666 450	666 450
Total financial liabilities	-	666 450	666 450

Financial liabilities (1 000 euros)	Booking value		
2014	Level 1	Level 2	Total
Measured at amortised cost			
Other financial liabilities	-	666 775	666 775
Total financial liabilities	-	666 775	666 775

Assessment of fair value

Financial instruments are carried in the Group's balance sheet at fair value or at amortised cost. The accounting policies (Note 2) describe the classification of financial assets and liabilities according to their valuation method, together with the criteria for the valuation techniques and fair value measurement.

The fair values of financial instruments are primarily determined by using publicly quoted prices or from market prices obtained from third parties. If no market quotation is available, the balance sheet items have mostly been measured by discounting future cash flows using the market interest rates on the reporting date. In the case of cash assets, the nominal value equals the fair value. Similarly, in the case of deposits repayable on demand the nominal value is deemed to correspond to fair value.

Fair value hierarchies

Level 1 contains financial assets whose fair value is determined by quotations obtainable from active markets. A market is considered to be active, if the prices are readily and regularly available. Level 1 includes quoted bonds, other securities, stocks and derivatives with quoted prices.

Level 2 includes financial assets that are not traded in an active market, and whose fair value is determined by using valuation techniques or models. These are based on assumptions supported by observable market data, such as the quoted interest rates or prices of similar instruments. This group includes e.g. currency and interest rate derivatives, commercial papers and deposit certificates.

SB Central Bank has no financial assets in Level 3.

Transfers between levels

SB Central Bank has made no transfers between the levels during 2013 and 2014.

SB Central Bank has no non-recurring fair value measurements of assets.

Financial assets (1 000 euros)	Fair value		
2013	Level 1	Level 2	Total
Measured at fair value			
Available-for-sale financial assets	16 985	-	16 985
Measured at amortised cost			
Investments held-to-maturity	-	999	999
Loans and other receivables	-	37 633	37 633
Total financial assets	16 985	38 633	55 618

Financial assets (1 000 euros)	Booking value		
2013	Level 1	Level 2	Total
Measured at fair value			
Available-for-sale financial assets	16 985	-	16 985
Measured at amortised cost			
Investments held-to-maturity	-	999	999
Loans and other receivables	-	37 600	37 600
Total financial assets	16 985	38 599	55 584

Financial liabilities (1 000 euros)	Fair value		
2013	Level 1	Level 2	Total
Measured at amortised cost			
Other financial liabilities	-	44 651	44 651
Total financial liabilities	-	44 651	44 651

Financial liabilities (1 000 euros)	Booking value		
2013	Level 1	Level 2	Total
Measured at amortised cost			
Other financial liabilities	-	44 635	44 635
Total financial liabilities	-	44 635	44 635

NOTE 29: OPERATING LEASES

Sb Central Bank acts as a lessee of office space.

(1 000 euros)	2014	2013
Future minimum lease payments under non-cancellable operating leases payable		
Less than one year	255	20
Between one and five years	407	833
Total	662	854

NOTE 30: RELATED PARTIES

The related party refers to the key persons holding leading positions at SB Central Bank and their family members. SB Central Bank's related party includes the Board members, CEO and Deputy CEO. The changes during the financial year are related to the changes of Board members and change of the principal auditor.

SB Central Bank has granted no related party loans and has no related party business activities.

Key management personnel compensation (1 000 euros)	2014	2013
Short-term employee benefits	351	414
Total	351	414

NOTE 31: EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period, SB Central Bank held an extraordinary General Meeting on 21 January 2015, which decided on changing the form of the company from a limited company to a public limited company. SB Central Bank became a public limited company on 30 January 2015. In addition, SB Central Bank has continued, as scheduled, the production and development functions belonging to the central credit institution role.

PILLAR III DISCLOSURES

SB Central Bank is a member of the Savings Banks Amalgamation. The information concerning SB Central Bank's capital adequacy is included in the consolidated financial statement of the Savings Banks Amalgamation. The exemptions referred to in Sections 21 and 21a of the Act on the Amalgamation of Deposit Banks do not apply to SB Central Bank. A copy of the financial statement of the Savings Banks Amalgamation is available online at www.saastopankki.fi or from the Savings Banks Union Coop offices at Linnoitustie 9, 02600 Espoo, Finland.

The original Annual Report is in Finnish. This is an English version thereof.