CENTRAL BANK OF SAVINGS BANKS FINLAND PLC

Half-year Report for 1 January – 30 June 2016

HALF-YEAR REPORT FOR 1 JANUARY – 30 JUNE 2016

Table of contents

BOARD OF DIRECTORS' REPORT FOR 1 JANUARY – 30 JUNE 2016

Central Bank of Savings Banks Finland Plc (hereinafter SB Central Bank) is a bank owned by savings banks. Its primary task is to provide savings banks with various central credit institution services. These services include payment transfer services and for Savings Banks belonging to the Amalgamation issuance of payment cards, as well as services related to funding and asset and liability management.

In the first half of 2016, the main focus of SB Central Bank's funding activities was on securing funding for the banks belonging to the Savings Banks Amalgamation and for Sp Mortgage Bank Plc, which started its operations during the review period.

During the review period, SB Central Bank issued two-year senior unsecured bonds with a total value of EUR 450 million under the Euro Medium Term Note (EMTN) programme listed on the Irish Stock Exchange. In addition, private placement bonds amounting to EUR 170 million have been issued under the programme. The balance sheet total at the end of the review period amounted to EUR 2,2 billion.

In May 2016, Standard & Poor's Rating Services (S&P) confirmed SB Central Bank a credit rating of 'BBB+' for long-term investment grade and a rating of 'A-2' for short-term investment grade. The outlook remained stable. The previous S&P's rating report was from December 2015.

No significant changes took place in the other business areas during the review period. Payment transaction operations continued as planned and the payment card issuing services for the Amalgamation banks, launched at the end of 2015, proceeded as expected.

SB Central Bank's operating profit for January–June amounted to EUR 1,2 million.

The Savings Banks' Group and Amalgamation of Savings Banks

SB Central Bank is part of the Savings Banks Group and the Savings Banks Amalgamation, and its financial statements are consolidated into Savings Banks Group's consolidated financial statements.

The Savings Banks Group (hereinafter Group) is the most longstanding banking group in Finland. It comprises of Savings Banks that formed the Savings Banks Amalgamation, the Savings Banks' Union Coop, which acts as the Central Institution and the subsidiaries and associated companies owned by Savings Banks.

The member organizations of the Savings Banks Amalgamation (hereafter Amalgamation) form a financial entity as defined in the Act on Amalgamations, in which the Savings Banks' Union Coop and its member credit institutions are jointly liable for each other's liabilities and commitments. The Amalgamation comprises the Savings Banks' Union Coop, which acts as the Central Institution of the Amalgamation, 23 Savings Banks, the Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc, as well as the companies within the consolidation groups of the above-mentioned entities and Sp-Fund Management Company Ltd. The structure of the Group differs from that of the Amalgamation so that the Group also includes organizations other than credit and financial institutions or service companies. The most significant of these are Sp-Life Insurance Ltd and Sp-Koti Ltd.

Sp Mortgage Bank Plc, a part of the Savings Banks Amalgamation founded by the Savings Banks, received authorisation from the European Central Bank to operate as a mortgage credit bank in March 2016, and the Bank's operations were started immediately. Sp Mortgage Bank belongs to the Savings Banks Amalgamation and has been Savings Banks' Union Coop's member credit institution starting from March 2016.

Additional information on the group structure of the Savings Banks Group is available online at www.saastopankki.fi/saastopankkiryhma.

Description of the operational environment

During the first half of 2016, the central banks continued to engage in exceptionally strong stimulating monetary policy. The main risk factors for economic stability were created by the slow in China's economic growth, the credibility of the central banks' measures from the perspective of the markets, the increase in political risks in Europe and the strong fall in raw material prices. Of the political risks, the most significant factor was the departure of the UK from the European Union. The departure will have a negative impact on economic growth and the development of the investment markets during the last half of the year. If the uncertainty continues for long, it is possible that the global economy will once again plunge into a recession. Global economic growth and world trade have slowed down significantly since the 2008 financial crisis, and the growth outlooks for the coming years remain at a low level. The growth of the global economy will remain close to the 3.5 per cent level in the coming years, with the slowdown in growth being strongest in China and the euro zone. This will have significant impacts on Europe and especially Finland.

In March 2016, the European Central Bank announced a significant recovery programme through which it aims to increase inflation expectations and increase lending in the euro zone. The ECB has committed to continuing its stimulating monetary policy, which, in the future, will focus stronger on recovery occurring by increasing the balance sheet rather than decreasing interest rates. In June 2016, the Central Bank began purchasing bonds issued by companies for the first time. At the same time, the Federal Reserve has been gradually normalising its monetary policy and increasing its key interest rate. This divergence of monetary policy is also reflected in changes in base price inflation in the euro zone and the United States. From the perspective of the euro zone and specifically the Central Bank, one of the largest problems has been deflationary pressure and low inflation expectations.

In the United States, improved outlooks for the labour markets and higher economic growth compared to the euro zone have created conditions for an increase in inflation. This places the Federal Reserve in a challenging situation, wherein it is trying to raise the key interest rate while at the same, the risks facing global economic growth are significant. From the perspective of investment markets, this increases uncertainty and leads to quick fluctuations in share prices. The increase in political risks in the euro zone is also a factor leading to uncertainty. The departure of the UK from the European Union may force the Central Banks to increase recovery measures in order to stabilise the investment markets and the economy. The European Union is living through the largest crisis in its history, and there is strong opposition to the integration process in several member states.

On the investment markets, the first quarter of the year was characterised by uncertainty, and the stock and corporate loan market saw a significant drop in total return index levels. Long-term interest rates dropped to a historical low due to market uncertainty and the ECB's securities purchases. Short-term interest rates also dropped strongly to a negative level, and it is unlikely that they will see an increase in the near future. Risk premiums on corporate loans saw growth in February due to uncertainty in the investment markets, but as a result of the strong demand and measures taken by the ECB, risk premiums had already dropped by the end of the first quarter. For the investment markets, the most significant change could be seen in the raw material markets. The price of crude oil dropped to its lowest rate since 2003. During the second quarter, levels of returns increased in all asset categories, and prices on the raw material markets also increased as investors' confidence improved.

For the second half of the year, uncertainty in the investment markets will remain at a high level and the focus will remain on the acknowledged risk factors for the global economy, such as China's economic development, political risks in Europe and the success of the Central Banks' monetary policy. The dependence of the investment markets on the stimulating monetary policy of the Central Banks poses a great risk, as the economic growth of companies is at a low level and there is little leeway when it comes to the drop in interest rates.

The challenges to the Finnish economy have grown at a stronger rate than in the rest of the euro zone. Efforts to improve competitiveness and profitability have been delayed, while at the same time, the outlooks for the public economy have become weaker. The recently signed competitiveness pact is a step in the right direction in terms of restructuring, but the content of the measures agreed upon is insufficient. From the perspective of credit rating agencies, it is worrisome how difficult a process it was to reach this agreement, and there is little time left for implementing the next measures. Adapting to the sanctions placed on Russian trade is still under way, and the slowdown in global demand has forced the export industry to take adaptive measures and make reductions in the number of employees. The departure of the UK from the European Union will also increase uncertainty regarding the future of the Finnish export sector. The service and construction sectors are areas that have shown signs of recovery, which can be seen in the form of increased salary levels in those sectors. However, the indebtedness of the public economy is growing strongly, and the slow economic growth is not enough to bring enough tax revenue to cover the deficit. Deflation pressures can clearly be seen in the Finnish economy as inflation remains nearly at zero. Finland's credit rating continues to face pressure.

The Savings Bank Group expects the housing market to grow this year by a total of 2–5% and for prices to increase by 1–2% throughout the country. New construction is still expected to pick up. In the first half of the year, prices of old apartments in terraced houses and apartment blocks have been on the rise in the Helsinki Metropolitan Area, whereas prices in the rest of Finland saw a slight decrease.

The most significant positive drivers for housing trade were affordable loans and the improvement of their availability, as well as the slight recovery in consumer confidence. First-time home buyers have also returned to the markets. For the Finnish economy, construction activity represents a light at the end of the tunnel, and it is clearly growing brighter: according to Statistics Finland, the construction sector grew by 2.7 per cent from the previous quarter in January–March, and by as much as 8.0 per cent from the previous year. Housing construction has clearly been on the rise.

The optimism about the near future of the housing markets is tempered by the general development of the employment situation as well as volume of construction, which continues to be relatively low.

According to the views of the Savings Banks Group, however, the Finnish housing markets are, in any case, becoming more established. For the housing market, last year was a considerably more uniform year than the two preceding years, and the fluctuations within the year were also more normal.

Financial position

Financial highlights

(1 000 euros)	6/2016	12/2015	6/2015
Revenue	18 620	16 088	5 945
Net interest income	2 503	-205	388
% of revenue	13,4 %	-1.3 %	6.5 %
Operating profit	1 185	-942	-233
% of revenue	6.4 %	-5.9 %	-3.9 %
Total operating revenue	7 949	5 105	2 744
Total operating expenses (excluding depreciations)	-5 859	-5 616	-2 812
Cost to income ratio	0.7	1.1	1.1
Total assets	2 192 118	1 547 912	1 427 209
Total equity	47 622	46 643	47 353
Return on equity %	2.0 %	0.7 %	2.2 %
Return on assets %	0.1 %	0.0 %	0.1 %
Equity/assets ratio %	2.2 %	3.0 %	3.3 %
Solvency ratio %	40.9 %	40.9 %	39.0 %
Impairment losses on loans and other receivables	-650	-61	0

Profit trends (comparison figures 1–6/2015)

SB Central Bank's operating profit for the review period 1–6/2016 was EUR 1,185 thousand and 6.4 % of revenue (EUR -233 thousand and -3.9%, respectively, for the comparison period 1–6/2015). The result for the review period is not directly comparable with the result of the comparison period, because the issuance of payment cards had not started in the comparison period and other operations have been developed further during the review period.

SB Central Bank's operating revenue for the review period increased to EUR 7,949 thousand (EUR 2,744 thousand). Of the operating revenue, net interest income increased to EUR 2,503 thousand (EUR 388 thousand), net fee and commission income to EUR 3,923 thousand (EUR 798 thousand), net trading income to EUR 828 thousand (EUR -655 thousand) and other operating income decreased to EUR 695 thousand (EUR 2,214 thousand). The most significant items of the interest income of EUR 9,630 thousand (EUR 2,722 thousand) were interest income from credit institutions and credits cards of private customers, whereas the most significant items of the interest expenses of EUR 7,127 thousand (EUR 2,335 thousand) consisted of interest expenses from debts to credit institutions and issued bonds. The fair value hedging carried out to mitigate the interest rate risk improved the net interest income by EUR 517 thousand (EUR 678 thousand). Net interest income in the review period was still affected by low interest rates and the negative interest rate on central bank deposits.

Fee and commission income in the reporting period increased to EUR 7,467 thousand (EUR 1,664 thousand) and fee and commission expenses to EUR 3,544 thousand (EUR 866 thousand). The issuance of payment cards constituted the most significant item of the increase in net fee and commission income.

In the review period, SB Central Bank received non-recurring returns from the Visa Europe transaction. Towards the end of 2015, the Board of Directors of Visa Europe agreed, in accordance with the authorisation from the owners of the company, to sell the company to the United States Visa Inc. The transaction was completed on 21 June 2016. Other operating income includes SB Central Bank's share of the income from the Visa Europe transaction, EUR 363 thousand.

Net profit from hedge accounting during the review period was EUR 828 thousand (EUR -655 thousand). It is presented under Net trading income on the income statement.

Operating expenses in the review period were EUR 5,859 (2,812) thousand. EUR 650 thousand (EUR 0 thousand) of impairment and credit losses were recognised on financial assets during the review period, resulting from the credit cards of private customers. Items related to card issuance and business development costs substantially contributed to the increase of expenses. The cost to income ratio was 0.7.

Balance sheet and financing (comparison figures 31 December 2015)

SB Central Bank's balance sheet once again increased significantly in the review period and was EUR 2,192 million on 30 June 2016 (EUR 1,548 million in 31 December 2015). The increase of the balance sheet value was mainly a result of the issued bonds totaling to EUR 1,324 million (EUR 771 million) at the end of the review period.

During the review period, SB Central Bank issued two-year senior unsecured bonds with a total value of EUR 450 million under the EMTN programme listed on the Irish Stock Exchange. In addition, private placement bonds amounting to EUR 170 million have been issued under the programme.

The amount of loans granted to Savings Banks in the Amalgamation and Sp Mortgage Bank increased, amounting to EUR 1,111 million (EUR 747 million).

SB Central Bank's equity was EUR 48 million (EUR 47 million) showing an increase of 2.1 %. The change is due to the profit for the period (profit after tax). Return on equity was 2.0 % (0.7%). Return on assets was 0.1 % (0.0%).

Capital adequacy and risk position

Capital adequacy (comparative information 31 December 2015)

SB Central Bank's capital adequacy is strong and in line with the 8% minimum level requirement and the capital conservation and countercyclical capital buffers. The capital conservation buffer, 2.5%, and countercyclical capital buffer were imposed at the beginning of 2015. When necessary, the authorities may set the countercyclical capital buffer to 0–2.5%. In the beginning of 2016, no countercyclical capital buffer was set.

The standard method is used to calculate the capital requirement to the credit risk of the SB Central Bank. The capital requirement to the operational risk is calculated by the basic method. 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 (Half-year Report) issued half-yearly.

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 own funds totaled EUR 46.1 million (EUR 44.9 million), while the minimum requirement for own funds was EUR 9.0 million (EUR 8.8 million). The Tier 1 capital consisted wholly of Common Equity Tier 1 (CET1) capital, amounting to EUR 46.1 million. The capital and reserves consist of common equity tier 1 capital. SB Central Bank's capital ratio was high, standing at 40.9 per cent at the end of the review period (40.9 per cent).

SB Central Bank's capital adequacy information is included in the consolidated financial statements of the Savings Banks Amalgamation. The Savings Banks Group publishes the Pillar III capital adequacy information in its financial statements. The Savings Banks Group's financial statements are available online at www.saastopankki.fi.

CAPITAL ADEQUACY

Own Funds (1 000 euros)	30.6.2016	31.12.2015
Common Equity Tier 1 (CET1) capital before regulatory adjustments	47 622	46 643
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-1 540	-1 742
Common Equity Tier 1 (CET1) capital	**46 082**	**44 902**
Tier 1 capital (T1 = CET1 + AT1)	**46 082**	**44 902**
Total capital (TC = T1 + T2)	**46 082**	**44 902**
Risk-weighted assets total	**112 788**	**109 699**
of which credit and counterparty risk	98 609	101 177
of which credit valuation adjustment (CVA)	7 653	1 996
of which operational risk	6 526	6 526
Common Equity Tier 1 (as a percentage of total risk exposure amount)	**40.9**	**40.9**
Tier 1 (as a percentage of total risk exposure amount)	**40.9**	**40.9**
Total capital (as a percentage of total risk exposure amount)	**40.9**	**40.9**

Leverage ratio

The leverage ratio of SB Central Bank was 2.0 % (2.7). The leverage ratio has been calculated according to the known regulation, and it describes the ratio of the Bank's Tier 1 capital to total liability.

Tier 1 capital	46 082	44 902
Total liability	2 351 216	1 661 573
Leverage ratio	2.0	2.7

Risk management

The objectives, principles and organization of risk management in SB Central Bank are the same as those presented in the 2015 financial statements.

SB Central Bank's LCR ratio was 147,2 % on the 30 June 2016 and 99.9 % respectively in the comparison period.

More specific information on the risks and risk management of SB Central Bank is presented on the financial statements of 31 December 2015.

Credit rating

In May 2016, Standard & Poor's Rating Services (S&P) confirmed SB Central Bank a credit rating of 'BBB+' for long-term investment grade and a rating of 'A-2' for short-term investment grade. The outlook remained stable. The previous S&P's rating report was from December 2015.

SB Central Bank's management and personnel

SB Central Bank carried out internal restructuring during the review period. During the review period, the Board of Directors of Savings Banks' Union and the Board of Directors of the companies jointly owned by Savings Banks decided that Savings Banks' Union Coop, which acts as the Central Institution of the Savings Banks Group, and the product and service companies SB Central Bank, Sp Mortgage Bank, Sp-Fund Management Company, Sb Life Insurance and Sp-Koti will constitute the Savings Bank Centre as of 1 May 2016. The objective continues to be the promotion of the Group's competitiveness and performance through more compact operations. As regards SB Central Bank, its treasury and asset and liability management roles were particularly strengthened. The changes have no effect on the company's legal structure or contractual relationships.

In relation with the restructuring, Hannu Lanteri left his position as Managing Director on 23 February 2016 and Deputy Managing Director Kai Brander became interim Managing Director. Kirsi Autiosalo, M.Sc. (Econ.) was appointed as the company's new Managing Director on 1 May 2016.

During the review period, EUR 110 thousand were recognised as expenses related to the restructuring.

Significant events after the interim report date

The Board of Directors of SB Central Bank is not aware of any factors that would materially influence the financial position after the half-year report date.

Outlook for the year

The ongoing changes and growth of business together with the general economic situation and low interest rate level, as described under Description of the Operational Environment, have an impact on SB Central Bank's operations and the development of funding activities.

SB Central Bank's result before tax is expected to be profitable.

Further information

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The figures presented in the half-year report are unaudited.

Releases and other corporate information are available on the SB Central Bank's website at www.spkeskuspankki.fi

The corresponding information on Savings Banks Group is available online at www.saastopankki.fi.

Formulas used in calculating the financial highlights:

Revenues:	Interest income, fee income, net trading income, other operating revenue
Total operating revenue:	Net interest income, net fee and commission income, net trading income, other operating revenue
Total operating expenses:	Personnel expenses, other operating expenses (excluding depreciations)

Cost to income ratio:

$$\frac{\text{Total operating expenses}}{\text{Total operating revenue}}$$

Return on equity %:

$$\frac{\text{Profit}}{\text{Equity, incl. non-controlling interests (average)}} * 100$$

Return on assets %:

$$\frac{\text{Profit}}{\text{Total assets (average)}} * 100$$

Equity/assets ratio %:

$$\frac{\text{Equity (incl. non-controlling interests)}}{\text{Total assets}} * 100$$

Solvency ratio, %:

$$\frac{\text{Own Funds total}}{\text{Risk-weighted assets total}} * 100$$

HALF-YEAR REPORT (IFRS)

Income statement

(1 000 euros)	Note	1.1-30.6.2016	1.1-30.6.2015
Interest income		9 630	2 722
Interest expense		-7 127	-2 335
Net interest income	4	**2 503**	**388**
Net fee and commission income	5	3 923	798
Net trading income	6	828	-655
Other operating revenue		695	2 214
Total operating revenue		7 949	2 744
Personnel expenses		-1 355	-1 094
Other operating expenses		-4 504	-1 718
Depreciation and amortisation of property, plant and equipment and intangible assets		-256	-166
Total operating expenses		-6 114	-2 978
Net impairment loss on financial assets		-650	-
Operating profit		**1 185**	**-233**
Taxes		-237	1 269
PROFIT		**947**	**1 036**

Statement of comprehensive income

(1 000 euros)	1.1-30.6.2016	1.1-30.6.2015
PROFIT	**947**	**1 036**
OTHER COMPREHENSIVE INCOME		
Items that are or may be reclassified to profit or loss		
Changes in fair value reserve		
Fair value measurements	32	12
Total	**32**	**12**
TOTAL COMPREHENSIVE INCOME	**979**	**1 047**

Statement of financial position

(1 000 euros)	Note	30.06.2016	31.12.2015
ASSETS			
Cash and cash equivalents		837 634	526 993
Loans and advances to credit institutions	8	1 174 787	830 367
Loans and advances to customers	8	77 453	82 073
Derivatives	9	7 256	-
Investment assets	10	85 183	96 738
Property, plant and equipment		266	214
Intangible assets		1 540	1 742
Tax assets	11	1 011	1 253
Other assets		6 987	8 532
TOTAL ASSETS		**2 192 118**	**1 547 912**
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions	12	790 628	692 385
Liabilities to customers	12	20 284	20 293
Derivatives	9	-	366
Debt securities issued	13	1 324 231	770 947
Tax liabilities	11	79	76
Other liabilities		9 274	17 202
Total liabilities		**2 144 495**	**1 501 269**
Equity			
Share capital		40 000	40 000
Reserves		19 094	19 062
Retained earnings		-11 471	-12 418
Total equity		**47 622**	**46 643**
TOTAL LIABILITIES AND EQUITY		**2 192 118**	**1 547 912**

Statement of cash flows

(1 000 euros)	1-6/2016	1-6/2015
Cash flows from operating activities		
Profit	947	1 036
Adjustments for items without cash flow effect	-244	802
Change in deferred tax	237	-1 250
Income taxes paid	0	-3
Cash flows from operating activities before changes in assets and liabilities	**961**	**584**
Increase (-) or decrease (+) in operating assets	**-327 132**	**-411 697**
Available-for-sale financial assets	11 441	-28 638
Loans and advances to credit institutions	-344 544	-379 863
Loans and advances to customers	4 426	-56
Other assets	1 544	-3 140
Increase (-) or decrease (+) in operating liabilities	**636 795**	**711 461**
Liabilities to credit institutions	98 243	8 353
Liabilities to customers	-9	19 623
Debt securities issued	546 490	681 826
Other liabilities	-7 929	1 659
Total cash flows from operating activities	**310 624**	**300 348**
Cash flows from investing activities		
Investments in investment property and in tangible and intangible assets	-107	-395
Total cash flows from investing activities	**-107**	**-395**
Change in cash and cash equivalents	**310 517**	**299 954**
Cash and cash equivalents at the beginning of the period	**537 723**	**517 649**
Cash and cash equivalents at the end of the period	**848 239**	**817 603**
Cash and cash equivalents comprise the following items:		
Cash	837 634	814 662
Receivables from central banks repayable on demand	10 605	2 941
Total cash and cash equivalents	**848 239**	**817 603**
Interest received	12 093	814
Interest paid	9 048	757

Statement of changes in equity

(1 000 euros)	Share capital	Reserve for invested non-restricted equity	Fair value reserve (available for sale)	Total reserves	Retained earnings	Total
Equity 1 January 2015	**40 000**	**19 000**	**64**	**19 064**	**-12 758**	**46 306**
Comprehensive income						
Profit					1 036	1 036
Other comprehensive income			12	12		12
Total comprehensive income	**0**	**0**	**12**	**12**	**1 036**	**1 048**
Total equity 30 June 2015	**40 000**	**19 000**	**76**	**19 076**	**-11 722**	**47 354**
Equity 1 January 2015	**40 000**	**19 000**	**64**	**19 064**	**-12 758**	**46 306**
Comprehensive income						
Profit					339	339
Other comprehensive income			-2	-2		-2
Total comprehensive income	**0**	**0**	**-2**	**-2**	**339**	**337**
Total equity 31 December 2015	**40 000**	**19 000**	**62**	**19 062**	**-12 418**	**46 643**
Equity 1 January 2016	**40 000**	**19 000**	**62**	**19 062**	**-12 418**	**46 643**
Comprehensive income						
Profit					947	947
Other comprehensive income			32	32		32
Total comprehensive income	**0**	**0**	**32**	**32**	**947**	**979**
Total equity 30 June 2016	**40 000**	**19 000**	**94**	**19 094**	**-11 471**	**47 622**

BASIS OF PREPARATION

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

Central Bank of Savings Banks Finland Plc (hereinafter SB Central Bank) is a Finnish deposit bank wholly owned by savings banks. Its primary task is to provide savings banks with various central credit institution services. These services include payment transfer services and for Savings Banks belonging to the Amalgamation issuance of payment cards, as well as services related to funding and asset and liability management. SB Central Bank's principal owners are the 23 Savings Banks belonging to the Amalgamation, plus one savings bank outside the Amalgamation.

SB Central Bank is part of the Savings Banks Group and the Savings Banks Amalgamation, and its financial statements are consolidated into Savings Banks Group's consolidated financial statements.

The Savings Banks Group (hereinafter Group) is the most longstanding banking group in Finland. It comprises of Savings Banks that formed the Savings Banks Amalgamation, the Savings Banks' Union Coop, which acts as the Central Institution and the subsidiaries and associated companies owned by Savings Banks.

The member organizations of the Savings Banks Amalgamation (hereafter Amalgamation) form a financial entity as defined in the Act on Amalgamations, in which the Savings Banks' Union Coop and its member credit institutions are jointly liable for each other's liabilities and commitments. The Amalgamation comprises the Savings Banks' Union Coop, which acts as the Central Institution of the Amalgamation, 23 Savings Banks, the Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc, as well as the companies within the consolidation groups of the above-mentioned entities and Sp-Fund Management Company Ltd. The structure of the Group differs from that of the Amalgamation so that the Group also includes organizations other than credit and financial institutions or service companies. The most significant of these are Sp-Life Insurance Ltd and Sp-Koti Ltd.

In March 2016, Sp Mortgage Bank Plc, founded by the Savings Banks of the Savings Banks Amalgamation, received authorisation from the European Central Bank to operate as a mortgage credit bank. The Bank's operations were started immediately. The goal of Sp Mortgage Bank is to issue euro-denominated, mortgage-secured covered bonds (CB). Sp Mortgage Bank belongs to the Savings Banks Amalgamation and is a member credit institution of Savings Banks' Union Coop from March 2016. Savings Banks belonging to the Savings Banks Amalgamation can act as intermediary banks for Sp Mortgage Bank.

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.

The half-year report has been prepared in accordance with the IAS 34 Interim Financial Reporting standard. Accounting principles applied in the half-year report are essentially the same as in the financial statement of 2015. A complete description of the accounting policy can be found in the notes to the financial statements of 2015.

SB Central Bank's half-year report is presented in euros, which is the Bank's functional currency.

Assets denominated in a foreign currency outside the euro zone are converted into euros at the European Central Bank's average rate on the date of the financial statements. Exchange rate differences taking place during valuation are recognised as Net income from foreign exchange operations under Net trading income in the income statement.

The Savings Banks Group will publish one half-year report during the year 2016.

The figures presented in the half-year report are unaudited.

SB Central Bank's financial statements and half-year reports are available at the website www.spkeskuspankki.fi or at the premises, address Hevosenkenkä 3, FI-02600 Espoo.

The Group's financial statements and half-year reports are available at the website www.saastopankki.fi/saastopankkiryhma or at the premises of Savings Banks' Union Coop, address Linnoitustie 9, FI-02600 Espoo.

2. Critical accounting estimates and judgements

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

The critical estimates of SB Central Bank concern the future and key uncertainties related to estimates at the reporting date, and they relate in particular to determining fair value, impairment of financial assets and recognition of deferred tax on confirmed tax losses.

NOTE 3. SEGMENT INFORMATION

SB Central Bank's management reviews the performance of the company as one individual segment and therefore separate segment information, as defined in IFRS 8, is not presented.

PROFIT FOR THE PERIOD

NOTE 4. NET INTEREST INCOME

(1 000 euros)	1-6/2016	1-6/2015
Interest income		
Debts eligible for refinancing with Central Bank	83	1
Loans and advances to credit institutions	3 243	1 014
Loans and advances to customers*	2 161	47
Debt securities	105	75
Derivative contracts		
Hedging	2 200	1 312
Other **)	1 838	275
Total	**9 630**	**2 722**
* of which interest income from impaired loans	-3	-
Interest expense		
Liabilities to credit institutions ***	-1 309	-572
Liabilities to customers	-76	-64
Debt securities issued	-4 059	-1 065
Derivative contracts		
Hedging	-1 683	-634
Other	0	-
Total	**-7 127**	**-2 335**
Net interest income	**2 503**	**388**

**) Other interest income consists of interest income and limit commission based on account agreements.

***) The interest expense from Liabilities to credit institutions consists mainly of the negative interest on central bank deposits.

NOTE 5. NET FEE AND COMMISSION INCOME

(1 000 euros)	1-6/2016	1-6/2015
Fee and commission income		
Lending	5 506	41
Deposits	0	0
Payment transfers	1 847	1 267
Other	114	356
Total	**7 467**	**1 664**
Fee and commission expense		
Payment transfers	-1 122	-857
Securities	-22	-9
Other*	-2 400	-1
Total	**-3 544**	**-866**
Net fee and comission income	**3 923**	**798**

* of which the most significant were lending-related expenses of EUR 2,390 thousand.

NOTE 6. NET TRADING INCOME

(1 000 euros)	1-6/2016	1-6/2015
Net income from foreign exchange operation	0	-
Net income from hedge accounting		
Change in hedging instruments' fair value	7 622	-6 077
Change in hedged items' fair value	-6 794	5 423
Total	**828**	**-655**

ASSETS

NOTE 7. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

30.06.2016 (1 000 euros)	Loans and other receivables	Available -for-sale	Held-to-maturity	Financial assets at fair value through profit or loss	Total
Cash and cash equivalents	837 634				837 634
Loans and advances to credit institutions	1 174 787				1 174 787
Loans and advances to customers	77 453				77 453
Derivatives					
hedging derivatives					
of which fair value				7 256	7 256
Investment assets	-	58 904	26 279		85 183
Total assets	**2 089 873**	**58 904**	**26 279**	**7 256**	**2 182 312**

	Other financial liabilities	Financial assets at fair value through profit or loss	Total
Liabilities to credit institutions	790 628		790 628
Liabilities to customers	20 284		20 284
Derivatives			
hedging derivatives			
of which fair value		-	-
Debt securities issued	1 324 231		1 324 231
Total liabilities	**2 135 143**	**-**	**2 135 143**

31.12.2015 (1 000 euros)	Loans and other receivables	Available -for-sale	Held-to-maturity	Financial assets at fair value through profit or loss	Total
Cash and cash equivalents	526 993				526 993
Loans and advances to credit institutions	830 367				830 367
Loans and advances to customers	82 073				82 073
Derivatives					
hedging derivatives					
of which fair value				-	-
Investment assets		70 306	26 433		96 739
Total assets	**1 439 433**	**70 306**	**26 433**	**-**	**1 536 172**

	Other financial liabilities	Financial assets at fair value through profit or loss	Total
Liabilities to credit institutions	692 385		692 385
Liabilities to customers	20 293		20 293
Derivatives			
hedging derivatives			
of which fair value		366	366
Debt securities issued	770 947		770 947
Total liabilities	**1 483 625**	**366**	**1 483 991**

NOTE 8. LOANS AND ADVANCES

(1 000 euros)	30.6.2016	31.12.2015
Loans and advances to credit institutions		
Deposits	10 605	10 729
Loans and other receivables*	1 164 181	819 638
Total	**1 174 787**	**830 367**
Loans and receivables to customers		
Account credits in use **	319	893
Loans	77 361	81 213
Impairment losses	-228	-33
Total	**77 453**	**82 073**

* Granted to banks belonging to the Savings Banks Amalgamation based on the Act on Amalgamations.

** Credit rating agency's rating A or better

Impairment losses on loans and other receivables 2016	Measured by individual contract	Measured by group	Total
Impairments 1 January 2016	**0**	**33**	**33**
+ increase in impairment losses	0	194	194
Impairments 30 June 2016	**0**	**227**	**227**
Impaired loans and receivables 1 January 2016	**0**	**110**	**110**
Loans and receivables classified as impaired during the year	-	648	648
Impaired loans and receivables 30 June 2016	**0**	**758**	**758**

Impairment losses on loans and other receivables 2015	Measured by individual contract	Measured by group	Total
Impairments 1 January 2015	**10**	**-**	**10**
+ increase in impairment losses	**0**	**33**	33
- reversal of impairment losses	**-10**	-	-10
Impairments 31 December 2015	**0**	**33**	**33**
Impaired loans and receivables 1 January 2015	**10**	**-**	**10**
Loans and receivables classified as impaired during the year		110	110
Reversals for impaired receivables during the year	-10	-	-10
Impaired loans and receivables 31 December 2015	**0**	**110**	**110**

NOTE 9. DERIVATIVES AND HEDGE ACCOUNTING

SB Central Bank hedges its interest rate risk against changes in fair value and applies hedge accounting on hedging relationships. Fair value hedging is applied to fixed interest rate funding transaction. Changes in the fair value of the hedging derivatives recognised in the income statement under Net trading income. When applying fair value hedging, also the hedged item is measured at fair value during the hedging period even if the item is otherwise measured at amortised cost. Changes in the fair value of the hedged item are recognized in the balance sheet as an adjustment to the corresponding balance sheet item and in the income statement under Net trading income. Interests arising from hedging derivatives are presented in interest expenses and income.

(1 000 euros)	Nominal value / remaining maturity		Fair values	
30.6.2016	1 - 5 years	Total	Assets	Liabilities
Hedging derivatives				
Fair value hedging	450 000	450 000		
Interest rate derivatives	450 000	450 000	7 256	-
Total	**450 000**	**450 000**	**7 256**	**-**

(1 000 euros)	Nominal value / remaining maturity		Fair values	
31.12.2015	1 - 5 years	Total	Assets	Liabilities
Hedging derivatives				
Fair value hedging	450 000	450 000		
Interest rate derivatives	450 000	450 000	-	366
Total	**450 000**	**450 000**	**-**	**366**

NOTE 10. INVESTMENT ASSETS

(1 000 euros)	30.6.2016	31.12.2015
Available-for-sale financial assets		
Debt securities *	58 880	70 306
Shares and participations	24	-
Total	**58 904**	**70 306**
Held-to-maturity assets		
Debt securities *	26 279	26 433
Total	**26 279**	**26 433**
Total investment assets	**85 183**	**96 738**

* Credit ratings for year 2016:

- AAA: EUR 6 008 thousand
- AA+: EUR 33 752 thousand
- BBB+: EUR 16 040 thousand
- BB+: EUR 10 239 thousand
- Banks belonging to Savings Banks Amalgamation EUR 19 121 thousand

Available-for-sale and Held-to-maturity financial assets 30 June 2016 (1 000 euros)				
	Available-for-sale Debt securities	**Available-for-sale Shares and participations**	**Held-to-maturity**	
	At fair value	At fair value	At amortised cost	**Total**
Quoted				
From public entities	39 760		26 279	66 039
Other				
From others	19 121	24		19 145
Total	**58 880**	**24**	**26 279**	**85 183**

Available-for-sale and Held-to-maturity financial assets 31 December 2015 (1 000 euroa)				
	Available-for-sale Debt securities	**Available-for-sale Shares and participations**	**Held-to-maturity**	
	At fair value	At fair value	At amortised cost	**Total**
Quoted				
From public entities	31 168	-	26 433	57 601
Other				
From others	39 138	-	-	39 138
Total	**70 306**		**26 433**	**96 738**

NOTE 11. DEFERRED TAXES

(1 000 euros)	30.6.2016	31.12.2015
Deferred tax assets	1 011	1 253
Tax assets	**1 011**	**1 253**
Deferred tax liabilities	79	76
Tax liability	**79**	**76**

(1 000 euros)	30.6.2016	31.12.2015
Deferred tax assets		
Impairment	46	7
Financial assets	2	2
Approved tax losses	963	1 244
Total	**1 011**	**1 253**

(1 000 euros)	30.6.2016	31.12.2015
Deferred tax liabilities		
Financial assets	26	18
Intangible assets	53	58
Total	**79**	**76**

(1 000 euros)	1.1.2016	Change recognised in profit or loss	Financial assets	30.6.2016
Deferred tax assets				
Impairment	7	39		46
Financial assets	2			2
Approved tax losses	1 244	-281		963
Total	**1 253**	**-242**	**0**	**1 011**

Tax assets arising from confirmed unused tax losses are recognized to the extent that it is probable that future taxable profit will be available and the assets can be utilized.

SB Central Bank's losses have mainly arisen from significant business development projects during the time of Itella Bank and with the objective that taxable income would accrue in the coming years.

When determining the recognition principle for deferred tax assets, the management of SB Central Bank has assessed the SB Central Bank's future operations, taking into account the general market circumstances, the development prospects of Savings Banks Group, particularly with respect to funding, and changes in SB Central Bank's own operations. Evaluation of the future of the new business launched during the financial year, the issuance of payment cards, is based on the historical development of and realised data for the purchased credit card portfolio. According to the forecasts prepared, the result is expected to improve and start showing profit on a permanent basis.

Based on management's estimate on the probability and the amount of future taxable profits, EUR 1 374 thousand of deferred tax assets have not been recognized. They relate to an amount of EUR 6 874 thousand of losses, which can be utilized against the future taxable profit. The tax losses will expire from 2019 to 2023.

(1 000 euros)	1.1.2016	Change recognised in profit or loss	Financial assets	30.6.2016
Deferred tax liabilities				
Financial assets	18		8	26
Intangible assets	49	-6		43
Other	9	1		10
Total	**76**	**-5**	**8**	**79**

2015 (1 000 euros)	1.1.2015	Change recognised in profit or loss	Financial assets	31.12.2015
Deferred tax assets				
Impairment	-	7	0	7
Financial assets	0		2	2
Approved tax losses	-	1 244	-	1 244
Total	**0**	**1 251**	**2**	**1 253**

2015 (1 000 euros)	1.1.2015	Change recognised in profit or loss	Financial assets	31.12.2015
Deferred tax liabilities				
Financial assets	16		1	18
Intangible assets	62	-12		49
Other	9	0		9
Total	**87**	**-12**	**1**	**76**

LIABILITIES

NOTE 12. LIABILITIES TO CREDIT INSTITUTIONS AND CUSTOMERS

(1 000 euros)	30.6.2016	31.12.2015
Liabilities to credit institutions		
Liabilities to central banks	60 000	90 000
Liabilities to credit institutions	730 628	603 385
Total	**790 628**	**692 385**

(1 000 euros)	30.6.2016	31.12.2015
Liabilities to customers		
Deposits	284	293
Other financial liabilities	20 000	20 000
Total	**20 284**	**20 293**
Total liabilities to credit institutions and customers	**810 912**	**712 678**

NOTE 13. DEBT SECURITIES ISSUED

(1 000 euros)	30.6.2016	31.12.2015
Measured at amortised cost		
Bonds	1 099 452	668 048
Other		
Certificates of deposits	224 779	102 898
Total	**1 324 231**	**770 947**
Of which		
Variable interest rate	524 434	99 956
Fixed interest rate	799 797	600 991
Total	**1 324 231**	**700 947**

During the review period, SB Central Bank issued two-year senior unsecured bonds with a total value of EUR 450 million under the EMTN programme listed on the Irish Stock Exchange. In addition, private placement bonds amounting to EUR 170 million have been issued under the programme.

OTHER NOTES

NOTE 14. FAIR VALUES BY VALUATION TECHNIQUE

Fair value measurement

Financial instruments are carried in the SB Central Bank's balance sheet at fair value or at amortised cost. The accounting policies of the annual report (NOTES 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.

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

Fair value hierarchy

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 certificates of deposits.

Level 3 includes financial assets whose fair value cannot be derived from public market quotations or through valuation techniques or models which are based on observable market data. Level 3 comprises unquoted equity instruments, structured investments and other securities for which there is currently no binding market quotation available. The fair value at level 3 is often based on price information received from a third party.

Transfers between the levels

Transfers between the levels of fair value hierarchy are considered to take place on the date when the event or change in circumstances causing the transfer occurred.

SB Central Bank has made no transfers between the levels during reporting period January to June 2016.

30.6.2016	Carrying amount	Fair values by valuation technique			Fair value
Financial assets (1 000 euros)		**Level 1**	**Level 2**	**Level 3**	**Total**
Measured at fair value					
Derivative contracts	7 256		7 256		7 256
Available-for-sale financial assets	58 904	57 388	1 493	24	58 904
Measured at amortised cost					
Held-to-maturity assets	26 279				26 651
Loans and other receivables	2 089 873				2 090 259
Total financial assets	**2 182 312**	**57 388**	**8 749**	**24**	**2 183 070**

	Carrying amount	Fair values by valuation technique			Fair value
Financial liabilities (1 000 euros)		**Level 1**	**Level 2**	**Level 3**	**Total**
Measured at fair value					
Derivative contracts	-				-
Measured at amortised cost					
Other financial liabilities	2 135 143				2 137 735
Total financial liabilities	**2 135 143**	**0**	**0**	**0**	**2 137 735**

31.12.2015	Carrying amount	Fair values by valuation technique			Fair value
Financial assets (1 000 euros)		**Level 1**	**Level 2**	**Level 3**	**Total**
Measured at fair value					
Available-for-sale financial assets	70 306	54 772	15 533		70 306
Measured at amortised cost					
Held-to-maturity assets	26 433				26 685
Loans and other receivables	1 439 433				1 436 157
Total financial assets	**1 536 172**	**54 772**	**15 533**	**0**	**1 533 148**

	Carrying amount	Fair values by valuation technique			Fair value
Financial liabilities (1 000 euros)		**Level 1**	**Level 2**	**Level 3**	**Total**
Measured at fair value					
Derivative contracts	366		366		366
Measured at amortised cost					
Other financial liabilities	1 483 625				1 483 613
Total financial liabilities	**1 483 991**	**0**	**366**	**0**	**1 483 979**

Changes at level 3

Reconciliation of changes in financial assets at level 3.

Available-for-sale financial assets	
Carrying amount 1 January 2016	**0**
Purchases	24
Carrying amount 30 June 2016	**24**

Sensitivity analysis of financial assets at level 3	Effect of hypothetical changes' on profit		
30.6.2016	Carrying amount	Positive	Negative
Available-for-sale financial assets	24	4	-4
Total	**24**	**4**	**-4**

The above table shows the sensitivity of fair value for level 3 instruments in the event of assumed market change by 15 percentage.

NOTE 15. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

30.6.2016				Amounts which are not offset but are subject to enforceable master netting arrangements or similar agreements		
(1 000 euros)	Recognised financial assets, gross	Recognised financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Financial instruments	Financial instruments held as collateral	Net amount
Assets						
Derivative contracts	-	-	-	7 256	7 300	-44
Total	**-**	**-**	**-**	**7 256**	**7 300**	**-44**

31.12.2015				Amounts which are not offset but are subject to enforceable master netting arrangements or similar agreements		
(1 000 euros)	Recognised financial assets, gross	Recognised financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Financial instruments	Financial instruments held as collateral	Net amount
Liabilities						
Derivative contracts	-	-	-	366	1 500	1 866
Total	**-**	**-**	**-**	**366**	**1 500**	**1 866**

The derivative contracts of the SB Central Bank are subject to ISDA Master agreement. Under these agreements, derivative payments may be offset by payment transaction on each payment date as well as in the event of counterparty default or bankruptcy. In addition, it is possible to agree on collateral on a counterparty-specific basis in the terms and conditions of the agreement. These derivatives are presented in the statement of financial position on a gross basis.

NOTE 16. COLLATERAL GIVEN AND RECEIVED

(1 000 euros)	30.6.2016	31.12.2015
Given on behalf of Sb Central Bank's own liabilities and commitments		
Securities	66 350	101 760
Total collateral given	**66 350**	**101 760**
Securities	54 550	79 509
Other	7 300	1 500
Total collateral received	**61 850**	**81 009**

Collateral given and held are related to participating in ECB funding operations and margin deposits related to derivatives.

NOTE 17. OFF BALANCE-SHEET COMMITMENTS

(1 000 euros)	30.6.2016	31.12.2015
Loan commitments	198 446	173 871
Off balance-sheet commitments	**198 446**	**173 871**

NOTE 18. RELATED PARTIES

Related party refers to SB Central Bank's key management personnel and their close family members. SB Central Bank's related parties include the members of the Board of Directors, Managing Director and Deputy Managing Director.

In connection with the internal restructuring carried out by SB Central Bank, Hannu Lanteri left his position as Managing Director on 23 February 2016 and Deputy Managing Director Kai Brander became interim Managing Director. Kirsi Autiosalo, M.Sc. (Econ.) was appointed as the company's new Managing Director on 1 May 2016. During the review period, EUR 110 thousand were recognised as expenses related to the restructuring.

No significant changes have taken place in key personnel compensation during the review period.

With the exception of uncollateralised credit cards, SB Central Bank has granted no related party loans or investments and has no related party business activities. Credit cards granted to related parties are subject to the same general terms and conditions that apply to corresponding customer credits.

PILLAR III DISCLOSURES

SB Central Bank is part of the Savings Banks Amalgamation and the Savings Banks Group. SB Central Bank's capital adequacy information is included in the information concerning the capital adequacy of the Savings Banks Amalgamation, presented in the consolidated financial statements of the Savings Banks Group. The Financial Supervisory Authority has granted a permission not to deduct internal holdings of credit institutions included in the Amalgamation from own funds instruments when calculating own funds at the individual institution level and sub-consolidation group level. In addition, the Financial Supervisory Authority has granted a permission to apply a 0 per cent risk weight to internal credit institution liabilities included within the scope of the Amalgamation's joint and several liability. These permissions are based on the European Union Capital Requirements Regulation (EU 575/2013) and the Act on the Amalgamation of Deposit Banks (599/2010). 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.

Central Bank
of Savings Banks

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