Sp Mortgage Bank Plc

BOARD OF DIRECTORS' REPORT AND IFRS FINANCIAL STATEMENTS 31 December 2020

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Table of contents

SP MORTGAGE BANK PLC'S BOARD OF DIRECTORS' REPORT 1 JANUARY – 31 DECEMBER 2020

Sp Mortgage Bank Plc's (henceforth also "Sp Mortgage Bank") objective is to strengthen the competitiveness of the Savings Banks Group through competitive funding and to promote the strategy of the Savings Banks Group through its own activity. Sp Mortgage Bank is responsible for the Savings Banks Group's covered bond issuance.

Sp Mortgage Bank does not have its own customer business operations or a service network; instead, the Savings Banks that belong to the Savings Banks Amalgamation intermediate and sell residential mortgage loans for Sp Mortgage Bank. The Savings Banks also see to the local customer relationship management.

During the financial year, Sp Mortgage Bank's operations proceeded as planned and the loan portfolio reached at the end of the year the amount of EUR 2,146 million. The COVID-19 pandemic, which started in the beginning of the year, had no significant impacts on Sp Mortgage Bank's profit.

During the financial year, a targeted share issue to the owner banks was carried out, which amounted to EUR 8 million.

Sp Mortgage Bank's operating profit during the financial year amounted to EUR 6.6 million, and the balance sheet total amounted to EUR 2,255 million.

The Savings Banks Group and the Savings Banks Amalgamation

Sp Mortgage Bank belongs to the Savings Banks Group and the Savings Banks Amalgamation. The Bank's financial statements are consolidated with the Savings Banks Group's consolidated financial statements.

The Savings Banks Group is the most longstanding banking group in Finland. It is comprised of Savings Banks forming the Savings Banks Amalgamation, the Savings Banks' Union Coop which acts as their Central Institution, as well as the subsidiaries and associated companies owned by the Savings Banks.

The member organisations of the Savings Banks 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 ultimately are jointly liable for each other's liabilities and commitments. The Savings Banks Amalgamation comprises the Savings Banks' Union Coop which acts as the Central Institution of the Amalgamation, 18 Savings Banks, Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc and the companies within the consolidation groups of the above-mentioned entities, as well as Sp-Fund Management Company Ltd and Savings Bank Services Ltd. The coverage of the Savings Banks Group differs from that of the Savings Banks Amalgamation in that the Savings Banks Group also includes institutions other than credit and financial institutions or service companies. The most notable of these are Sb Life Insurance Ltd and Sp-Koti Oy.

During the financial year, two savings bank mergers were completed. Huittisten Säästöpankki merged with Aito Säästöpankki and Sysmän Säästöpankki merged with Helmi Säästöpankki. Due to these mergers, the number of savings banks in the Savings Banks Amalgamation and in the Savings Banks Group declined from 20 to 18 banks.

As previously announced, on 6 November 2020 the Savings Banks Group acquired Oma Savings Bank Plc's shares in Nooa Savings Bank Ltd, Sb Life Insurance Ltd, Sp-Fund Management Company Ltd, Säästöpankkien Holding Oy and Central Bank of Savings Banks Finland Plc. The acquisition of the minority interests did not have an effect on the Savings Banks Group's result.

Further information about the structure of the Savings Banks Group can be found at *www.saastopankki.fi/saastopankkiryhma*.

Description of the operational environment

Global economic outlook

The year 2020 started in an atmosphere of emerging economic optimism. The International Monetary Fund (IMF) predicted that the global economy would grow by 3.3 per cent in 2020, in other words: slightly more than last year. Then, during the first weeks of the year, the world became aware of a new coronavirus spreading in China. When the virus began spreading elsewhere, it became evident that it was a global pandemic. Various countries introduced shutdowns and restrictions on movement aimed at preventing the spread of the virus. The restrictions and caution among people also had an unprecedented negative impact on the economy.

The most significant economic shock was seen in the second quarter, with many countries seeing historically sharp declines in GDP. The situation with infections improved in the summer, leading to a rapid economic recovery. COVID-19 case numbers began to increase again in the autumn, which was reflected in economic indicators. However, the economic impacts of the second wave of the pandemic were less severe, as societies had learned to live with the virus to some extent and the restrictions on economic activity were not as strict as in the first wave of the pandemic in the spring.

In response to the COVID-19 crisis, governments around the world have introduced various financial policy stimulus measures aimed at helping businesses and households overcome the economic crisis caused by the pandemic. In Europe, the focus of stimulus measures has been on preserving jobs, while in the USA the emphasis has been on direct payments to consumers. National debt has risen quickly in many countries due to the stimulus measures. Central banks have also been alerted and supported the financial markets through massive support measures.

The world economy as a whole is expected to contract by approximately 4% in 2020. Economic development during the year was characterised by fluctuations that reflected the spread of the virus. When COVID-19 case numbers grew, the economy suffered. Conversely, when the number of cases declined, the economy began to recover. The development of the economy was dictated by COVID-19, but there were also other significant events in 2020. The most significant of these were the US presidential election and the Brexit deal in December.

The industry that was the hardest hit by the COVID-19 crisis was naturally the service sector, where social contact is frequent. The industrial sector has also suffered from the pandemic, although the impact has not been as severe as feared. Indeed, the industrial sector turned out to be surprisingly resilient during the second wave of the pandemic late in the year.

Although COVID-19 has had an adverse impact on the economy across the world, there are significant differences between countries. In China, the disease has been kept under control after the first wave and the Chinese GDP has already exceeded the pre-crisis level. In addition to the successful management of the situation with infections, China has benefited from manufacturing products that have been in high demand due to the pandemic, such as health and hygiene products as well as IT products to support the increase in remote work. U.S. GDP is expected to have decreased by just under 4%, while a decline in excess of 7% is expected in the euro zone. There are also significant differences between countries within the euro zone. Among large European countries, Italy, Spain and France have suffered the most from COVID-19. Finland is among the countries that have coped with the pandemic the best.

Excellent news broke in late 2020 when multiple pharmaceutical companies announced they had developed effective COVID-19 vaccines and several companies were also in the final stages of development. Consequently, vaccinations began at the end of the year. The start of vaccinations also improves the outlook for 2021 and the way out of the COVID-19 crisis is already on the horizon.

Interest rate environment

Interest rates in the euro zone continued to decrease during the financial year. Both short-term and long-term interest rates initially increased in March–April in response to the COVID-19 crisis, but the declining trend that began in June brought interest rates to a lower level than at the beginning of the year. No near-term changes in interest rates are expected in spite of the start of COVID-19 vaccination programmes,

Refinancing costs in the wholesale market have fluctuated almost identically with the development of the underlying interest rates. Margins rose sharply in March–April but subsequently began to decline, reaching a level that was even lower than at the beginning of the year. This trend was particularly influenced by the ECB's substantial support for the refinancing market, which in turn has reduced debt emission operations and narrowed credit risk margins due to the low supply.

In the sovereign debt market, differences in returns narrowed as the European Central Bank continued its purchase programme. The recovery of investors' risk appetite contributed to the narrowing of differences in the returns of sovereign bonds in the second half of 2020.

Investment markets

The global pandemic and its impacts on the economy also characterised the development of returns in the investment markets. In the first half of the year, the global stock markets dropped very sharply, and the risk margins of corporate bonds increased due to higher uncertainty. Central banks reacted very quickly, and their stimulus measures restored investor confidence. The impacts of the COVID-19 crisis on companies and industries varied substantially, which was reflected in large differences in returns within the stock market. On the whole, the stock markets recovered towards the end of the year and approached pre-pandemic levels and the development of returns in fixed income markets in the euro zone was positive as risk margins narrowed.

The Finnish economy

The Finnish economy has coped with the COVID-19 crisis better than other European countries. Finnish GDP is expected to have declined by about 3% in 2020, which is substantially less than in the euro zone on average. Finland's success in managing the situation is the sum of many factors. The virus reached Finland a little later than other countries, which gave the government time to react. The management of the situation regarding infections has also proved to be relatively successful. The less dramatic decline in GDP is also attributable to the structure of the Finnish economy, with the service sector and tourism, for example, playing a smaller role than in many other countries. The transition to remote work was also smooth in Finland thanks to the high level of digital preparedness.

As in other countries, the decline in economic activity has been the sharpest in the service sector in Finland. There are also substantial differences within the service sector. The hardest-hit segments have been the hotel and restaurant industry, transport, entertainment and recreational services. At the same time, the information and communication sector has even grown during the COVID-19 pandemic. Industry and construction have held up fairly well during COVID-19 and the retail trade has even benefited from the pandemic. The effects of the pandemic vary between companies in different industries. Nevertheless, the number of bankruptcies was actually lower than usual in 2020. This is largely due to amendments to bankruptcy legislation that temporarily made it more difficult for businesses to declare bankruptcy.

On the whole, households have coped with the COVID-19 crisis relatively well. Temporary lay-offs grew quickly in the spring, but most of the temporarily laid-off employees have already returned to work. Unemployment has increased by more than one percentage point, but the feared mass unemployment did not materialise. By the late autumn 2020, household wages had already returned close to the previous year's levels. One manifestation of the COVID-19 crisis is an increase in the household savings rate. This will enable the quick recovery of consumption when the situation regarding infections improves.

The Finnish housing market has been surprisingly resilient during the pandemic. Housing transaction volumes declined by about one-third in the spring but activity in the market picked up thereafter. Housing prices have also increased slightly, although there are substantial regional differences.

The housing market in Finland

In the housing market, the year started on a positive note. The expected decrease in the trading of old and newly constructed housing did not take place; instead, the number of transactions rose in the first quarter. The number of transactions grew by 5.3 per cent in the old housing market and by 23.8 per cent in the new housing market (source: the price monitoring service of the Central Federation of Finnish Real Estate Agencies HSP). Factors behind the positive sentiment in the housing market included demand that increased already in December 2019, new collective agreements that brought along salary increases and strong consumer confidence in economy.

The impact of the coronavirus started to show in the housing market already in mid-March as demand plummeted. Major underlying reasons for this were the provisions of the Emergency Powers Act and the restrictions on movement to and from the Uusimaa region. Despite this, March was still a strong month in the housing market as most transactions had been agreed on in early March. Demand remained low until mid-April, after which it started to pick up again. The number of visitors to real estate portals (Etuovi.com and Oikotie.fi) grew steadily in April and contact requests from these portals started to increase in mid-April. However, the number of transactions was clearly lower than in the preceding months and in last year's April: the number of transactions decreased by 33 per cent in the old housing market and by 51 per cent in the new housing market. The year-on-year decrease was 31 per cent in Helsinki, 34 per cent in Espoo, 31 per cent in Tampere, 40 per cent in Vantaa, 46 per cent in Turku and 46 per cent in Joensuu. The corresponding figures for May were -31.5% for old housing and -25% for new housing. The year-on-year decrease was 29 per cent in Helsinki, 23 per cent in Espoo, 33 per cent in Tampere, 47 per cent in Vantaa, 36 per cent in Turku and 53 per cent in Joensuu.

As demand picked up, the sellers' unwillingness to put their apartments and houses on sale became an obstacle to the increase in the number of housing transactions. The year-on-year decrease in the number of new properties for sale was approximately 40 per cent in April and approximately 30 per cent in May. For the full year, the number of properties for sale was approximately 20% (over 10,000 properties) lower than in 2019.

The transaction volume for holiday homes was higher than in the previous year. Based on HSP's data, the number of holiday home transactions in 2020 increased by about 35 per cent year-on-year.

The slowing down of trading in the new housing market and banks' decreased willingness to be involved in RS financing arrangements have raised construction firms' threshold to start building new properties significantly and consequently decreased the number of new housing units in the market. According to HSP, the transaction volume for new housing decreased by about 6% year-on-year.

The COVID-19 pandemic did not influence housing prices. The prices of old apartments increased by 5.7% in the Helsinki Metropolitan Area in 2020 and decreased by 0.4% in the rest of Finland. Among the other large cities, prices increased by 3% in Tampere, 2.4% in Turku and 0.1% in Oulu. However, the sales prices of old apartments in these cities vary substantially even in normal market conditions. The average price of old apartments in apartment blocks was EUR 5,069 per sq.m. in the Helsinki Metropolitan Area and EUR 2,417 per sq.m. elsewhere in Finland (Turku: EUR 2,790, Tampere EUR 3,198, Oulu EUR 2,222).

Activity in the housing market picked up significantly after the COVID-19 restrictions were lifted in June as the legislative provisions introduced under the Emergency Powers Act were withdrawn and normal operating methods were resumed for the most part. Furthermore, approximately one million Finns worked from home in April–May, which led many to renovate their home or buy a new home. The second half of the year was strong in the housing market, although the second wave of COVID-19 brought increased uncertainty towards the end of the year. In November, the overall transaction volume was 11.5% higher than in the previous year. The total transaction volume grew by 0.8% in the Helsinki Metropolitan Area and by 6.6% in the municipalities surrounding the Helsinki Metropolitan Area. Elsewhere in Finland, the total transaction volume declined by -3%. The transaction volume would have been even higher in the autumn if supply had increased. For the year as a whole, the transaction volume for old housing was nearly on par with the previous year.

Sp Mortgage Bank's profit and balance sheet

Sp Mortgage Bank's financial highlights

(EUR 1,000)	1.1.-31.12.2020	1.1.-31.12.2019	1.1.-31.12.2018	1.1.-31.12.2017	1.1.-31.12.2016 *
Revenue	30,275	25,162	21,838	18,544	4,083
Net interest income	21,854	19,216	17,157	9,622	-48
% of revenue	72.2 %	76.4 %	78.6 %	51.9 %	-1.2 %
Operating profit before taxes	6,561	2,766	2 686	5,097	-2,692
% of revenue	21.7 %	11.0 %	12.3 %	27.5 %	-65.9 %
Total operating revenue	8,292	5,014	4,723	6,904	-1 925
Total operating expenses	-1,689	-2,224	-2,056	-1,808	-768
Cost to income ratio %	0.20	0.44	0.44	0.26	-0.40
Total assets	2,255,494	2,066,789	1,906,481	1,598,072	808,008
Total equity	111,646	98,397	88,184	74,695	42,768
Return on equity %	5.0 %	2.4 %	2.7 %	6.9 %	-8.2 %
Return on assets %	0.1 %	0.1 %	0.1 %	0.3 %	-0.5 %
Equity/assets ratio %	4.9 %	4.8 %	4.6 %	4.7 %	5.3 %
Solvency ratio %	14.2 %	13.7 %	13.4 %	13.5 %	16.4 %
Impairment losses on loans and other receivables	-42	-24	20	0	0

*Actual mortgage banking operation was initiated on 29 March 2016..

Profit trends (comparison period 1-12/2019)

The Interest income increased to EUR 26.8 (24.7) million and consisted mostly of housing loan Interest payments. Growth in Interest income comes from in housing loans and interest income from hedging derivatives. The Interest expenses were EUR 5.0 (5.5) million consisted mostly of Interest expenses from liabilities to credit institutions and Interest expenses from covered bonds. The net interest income amounted to EUR 21.9 (19.2) million.

The net fee and commission income mainly consisted of fees paid to the intermediating banks amounted to EUR -16.2 (-14.0) million.

Net profit from hedge accounting for the financial year was EUR -

2.7 (-0.2) million and it is presented under Net trading income on the income statement.

Operating expenses were EUR 1.7 (2.2) million. Operating expenses mainly consisted of other operating expenses.

Operating profit for the financial year was EUR 5.2 (2.2) million.

Balance sheet and funding (comparison figures 31 December 2019)

The loan portfolio of Sp Mortgage Bank grew to EUR 2,146 (1,957) million during the financial year.

Sp Mortgage Bank funds its operations with covered bonds. Financial credit from Central Bank of Savings Banks Finland Plc is used as short-term bridge financing. The value of the covered bonds was EUR 1,512 (1,505) million at the end of the financial year. The amount of short-term funding drawn from Central Bank of the Savings Banks Finland Plc was EUR 609 (452) million.

During the financial year a targeted share issue to the owner banks was carried out, which amounted to EUR 8 million. At the end of the financial year equity amounted to EUR 112 (98) million.

Capital adequacy and risk position

Capital adequacy (comparison figures 31 December 2019)

Sp Mortgage Bank has adopted a capital adequacy management process, the objective of which is to ensure that the bank's risk-bearing capacity is sufficient in relation to all the major risks resulting from its business operations. Sp Mortgage Bank identifies and comprehensively assesses the risks associated with its business operations and ensures that its risk-bearing capacity is adequate when compared to the sum of all risks. The internal capital requirements specified through the capital adequacy management are based on the capital requirements under Pillar I and risks outside Pillar I, such as interest rate risk of the banking book, market risk of the investment portfolio and business risk. In the internal assessment process, Sp Mortgage Bank estimates the amount of capital that will also be sufficient for covering unexpected losses arising from risks outside Pillar I.

The Board of Directors of the bank has the overall responsibility for capital adequacy management. It approves the basis, objectives and principles of capital adequacy management. Moreover, it confirms the general requirements for the measurement and assessment of capital adequacy and the general principles for the capital adequacy management process. In practice this means that the Board of Directors approves the risk strategies and defines target levels for the capital needed to cover all material risks caused by the business operations and changes in the operating environment. The capital adequacy, liquidity and risk positions of the entities belonging to the Savings Bank Amalgamation are monitored and consolidated at the Amalgamation level. The Board of Directors of the Central Institution has set target levels for the capital adequacy of the Amalgamation and banks, which are monitored quarterly.

Stress tests

As part of the capital adequacy management process, Sp Mortgage Bank uses stress tests to assess its own risk position and the adequacy of its capital. Stress tests are used when assessing how various exceptionally severe but possible scenarios may affect profitability, capital adequacy and adequacy of own funds. Stress tests are designed to identify the key risks to Sp Mortgage Bank and assess how vulnerable the structure of the Bank is in relation to the occurrence of those risks. The objective of the capital adequacy management is also to maintain and develop the quality of risk management framework.

Capital contingency plan

The capital contingency plan of Sp Mortgage Bank is made in order to be prepared for unforeseeable events that may threaten the bank's capital adequacy. The capital contingency plan includes target levels and thresholds set by the Board of Directors for the quantity and quality of the capital, which are monitored quarterly. The capital contingency plan describes the actions to be taken by the management and the Board of Directors in the event that the capital adequacy ratio falls below the monitoring threshold.

Pillar I capital requirements

The biggest capital requirements of Sp Mortgage Bank are comprised of mortgage loan receivables. The standard method is applied to calculate the capital requirement for credit risk of the Bank. The capital requirement for operational risk is calculated by the basic method.

Own funds and capital adequacy

At the end of the financial year, the Sp Mortgage Bank had a strong capital structure, consisting of CET1 capital. Own funds were EUR 112 (98) million. Risk-weighted assets amounted to EUR 785 (715) million. The capital ratio of Sp Mortgage Bank was 14.2 (13.7) % and the CET1 capital ratio was 14.2 (13.7) %.

The capital requirement of Sp Mortgage Bank was EUR 82 (75) million that equals to 10.5% of risk-weighted assets. The components of the capital requirement have remained unchanged compared to the previous year. The capital requirement is formed by:

- 8 % minimum capital requirements set by Capital Requirement Regulation (CRR),
- 2.5% CET1 capital conservation buffer of according to the Act on Credit Institutions, and
- The country specific countercyclical CET1 capital requirements of foreign exposures.

Finnish Financial Supervisory Authority made decision on pillar 2 requirement for the Savings Bank Amalgamation on 4 July 2019 and it came into force on 31 March 2020. As a result, pillar 2 requirement for the Savings Bank Amalgamation increased from 0.5% to 1.25 % of total risk amount. The requirement percentage is based on the methodology of SREP (Supervisory Review and Evaluation Process) for LSI banks from ECB, where the percentage of additional capital requirement is determined from the overall rating of FSA's assessment. The requirement shall be met at the amalgamation level with CET1 capital. The requirement is valid maximum 3 years until 31 March 2023.

The Finnish Financial Supervisory Authority is responsible for domestic macroprudential decision making after hearing the Bank of Finland, Ministry of Finance and Ministry of Social Affairs and Health. Decisions on the activation of macro prudential instruments are taken on a quarterly basis expect for decisions on O-SII buffers, risk weights for loans secured by mortgages on immovable property (CRR Article 124 and 164) and systematic risk buffer. Decisions on the activation of these instruments have taken at least once a year.

At its meeting on 6 April 2020, the Board of the Financial Supervisory Authority decided to remove the systemic risk buffer, which lowered the Saving Bank Amalgamation's capital requirement by one percentage point. The aim of the decision is to mitigate the negative effects of the coronavirus pandemic on the stability of financial markets and on credit institutions' ability to finance the economy.

At its meeting on 29 June 2020, the Board of the Financial Supervision Authority decided that the maximum LTC ratio for residential mortgage loans will be adjusted and brought back to the statutory standard level of 90 %. The Board of the Financial Supervision Authority also decided that countercyclical capital buffer (CCyB) requirement will remain at 0 %. Countercyclical buffer requirement can vary from 0-2.5 % of risk weighted assets. FIN-FSA has not imposed additional O-SII capital requirement for Savings Banks Amalgamation.

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 permission to apply a 0 per cent risk weight to internal credit institution liabilities included within the scope of the Amalgamation's joint 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).

The Financial Supervisory Authority has granted permission to the Central Institution of the Amalgamation to waive fully the application of the requirements regarding liquidity set out in part six of Regulation (EU) No 575/2013 and its amending and supplementing acts to the Amalgamation's member credit institutions.

Sp Mortgage Bank publishes 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 Half-year Report.

The most significant regulatory changes influencing capital requirements in 2021 will be the implementation of the new definition of default and the amendments to the EU Capital Requirements Regulation (CRR2). The implementation of the new definition of default, which is broader than the previous definition, will increase the total amount of risk-weighted receivables effective from 1 January 2021. A binding 3% minimum leverage ratio and a 100% minimum requirement for the net stable funding ratio (NSFR) will enter into effect on 28 June 2021 as part of the amendments to the Capital Requirements Regulation. CRR2 also includes amendments related to the capital requirements concerning investments in investment funds, derivatives and lending to SMEs.

Sp Mortgage Bank's capital adequacy information is included in the consolidated fi nancial statements and the half-year report of the Savings Banks Amalgamation. The Savings Banks Group publishes the so-called Pillar III capital adequacy information separately at the same time with its financial statements. The Savings Banks Group's financial statements and the Pillar III information are available online at *www.saastopankki.fi*.

Sp Mortgage Bank's capital adequacy's main items

Own funds (EUR 1,000)	31.12.2020	31.12.2019
Common Equity Tier 1 (CET1) capital before regulatory adjustments	111,646	98,397
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-16	-39
Common Equity Tier 1 (CET1) capital	111,630	98,358
Additional Tier 1 (AT1) capital before regulatory adjustments	0	0
Total regulatory adjustments to Additional Tier 1 (AT1) capital	0	0
Additional Tier 1 (AT1) capital	0	0
Tier 1 capital (T1 = CET1 + AT1)	111,630	98,358
Tier 2 (T2) capital before regulatory adjustments	0	0
Total regulatory adjustments to Tier 2 (T2) capital	0	0
Tier 2 (T2) capital	0	0
Total capital (TC = T1 + T2)	111,630	98,358
Risk weighted assets	784,525	715,469
of which: credit and counterparty risk	746,409	683,047
of which: credit valuation adjustment (CVA)	26,849	22,022
of which: market risk		
of which: operational risk	11,268	10,400
Common Equity Tier 1 (as a percentage of total risk exposure amount)	14.2 %	13.7 %
Tier 1 (as a percentage of total risk exposure amount)	14.2 %	13.7 %
Total capital (as a percentage of total risk exposure)	14.2 %	13.7 %
Capital requirement		
Total capital requirement	111,630	98,358
Capital requirement total*	82,375	75,130
Capital buffer	29,255	23,228

* The capital requirement of 10.5% is formed by the statutory minimum capital adequacy requirement of 8%, the capital conservation buffer of 2.5% according to the Act on Credit Institutions, and the country-specific countercyclical capital requirements of foreign exposures.

Leverage ratio

The leverage ratio of Sp Mortgage Bank was 4.9 % (4.7 %). 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.

Leverage ratio

(EUR 1,000)	31.12.2020	31.12.2019
Tier 1 capital	111,630	98,358
Leverage ratio exposure	2,266,774	2,081,645
Levarage ratio	4.9 %	4.7 %

Resolution plan

The Directive of the European Parliament and of the Union 2014/59/EU on the recovery and resolution framework of credit institutions and investment service firms was brought nationally into force as of 1 January 2015 (the Act on the crisis solution of credit institutions and investment service firms). To implement the resolution act, the Financial Stability Authority was established (the Act on the Financial Stability Authority, 1995/2014). Financial Stability Authority decided in August 2019 that the MREL requirement applicable for Savings Banks Amalgamation is 10.3 percentage of total liabilities and own funds. MREL requirement is not applicable for member Savings Banks, Sp Central Bank Plc nor for the Sp Mortgage Bank Plc MREL requirement is a Pillar 2 type requirement to be fulfilled at all times.

Risk Position

Objective of risk management

The objective of risk management is to secure the bank's risk-bearing capacity and ensure the continuity of its operations. The risk-bearing capacity comprises adequate and effective risk management based on the nature and scale of the operations, as well as a sufficient degree of liquidity and capitalisation for 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 operations and closely related risks. The purpose of risk management is to minimize the likelihood of unforeseeable losses or reputational risk in order to ensure the implementation of the Group's strategy. Risk and capital adequacy management are part of internal control. Sp Mortgage Bank has a risk control function that is independent of business operations.

Risk and capital adequacy management enables the identification, assessment and measurement of risks, limiting them to a level of Sp Mortgage Bank's risk appetite. The capital needed for the various risk areas and business lines is determined in a reliable and independent manner and allocated systematically. This is done based on current and planned risk-taking and taking into account the requirements of appropriate liquidity management.

In its operations, Sp Mortgage Bank is exposed to credit, market and operational risks, as well as business and liquidity risks.

Credit and counterparty risks

Credit risk is defined as a possibility that counterparty may not meet its contractual obligations. The main source of credit risk is lending, but credit risks (counterparty risk) may also arise from other types of assets, such as bank deposits, securities in the portfolio and derivative contracts, as well as off balance-sheet liabilities, such as undrawn credit facilities and limits as well as granted guarantees.

The business of Sp Mortgage Bank is to issue euro-denominated covered bonds with residential mortgage loans as collateral under the Act on Mortgage Credit Banks and grant residential mortgage loans referred to in the Act on Mortgage Credit Banks. Sp Mortgage Bank finances only retail customers, i.e. are private persons and entrepreneurs. The main target groups according to the Savings Banks Group's strategy are active-age households. The mortgage lending is focused on the private customer sector. The Savings Banks distributing residential mortgage loans comply with the lending goals set and approved by each Savings Bank.

Liquidity risk

Liquidity risk is the risk that the bank is unable to meet its present or future expected or unexpected obligations as they are due or is unable to do so without incurring unacceptable losses.

Sp Mortgage Bank does not take deposits from the public. Sp Mortgage Bank has an agreement on the use of liquid assets with the Central Bank of Savings Banks Finland Plc. A distributing Savings Bank or the Central Bank of Savings Banks Finland Plc representing it will finance the loans it has distributed with the amount that corresponds to the collateral requirement set by the rating agency. The overcollateralization amount is funded through the credit facility granted by the Central Bank of Savings Banks Finland Plc.

Market risk management

Limits and thresholds have been set for market risk measurement. The capital adequacy management process (ICAAP), which allocates capital to cover market risks of the banking book in normal and stress scenarios, is the main tool for measuring and monitoring market risks included in the banking book.

Operational risk

Operational risk refers to the risk of loss arising from inadequate or failed internal processes, personnel, systems or external factors. Legal and compliance risks are also included in the operational risks. In addition, reputational risks are managed as a part of operational risks.

Sp Mortgage Bank has identified the operational risks associated with the most important products, services, operations, processes and systems. Identifying operational risks helps determine their monitoring and controls. Some of the losses caused by operational risks are covered by insurance. The continuity plan of the bank also helps prepare for significant interruptions in operations.

Business risk

Business risk describes the impact of uncertainties caused by the operating environment on Sp Mortgage Bank's business. Business risks arise from competition, from changes in markets and customer behavior as well as from unexpected income fluctuations. Business risks may also be caused by choosing a wrong strategy, ineffective management or slow response to changes in the operating environment.

Business risks are managed and minimized through strategic and business planning.

Sp Mortgage Bank's Board of Directors and Auditors

The bank's Board of Directors includes at least three and at most five members according to the Articles of Association.

The Board of Directors consists of the following:

Tomi Närhinen, Chairman
Hannu Syvänen
Jussi Hakala as of 11.3.2020
Monika Mangs as of 11.3.2020
Anne Toivonen as of 11.3.2020
Pirkko Ahonen until 11.3.2020
Petri Siviranta until 11.3.2020

Tero Kangas acts as Managing Director of Sp Mortgage Bank .

At the annual general meeting of the Sp Mortgage Bank Plc on 11 March 2020, KPMG Oy Ab, Author ised Public Accountants, was elected as the auditor of Savings Banks' Union Coop. The chief auditor designated by the firm is Petri Kettunen, Authorised Public Accountant.

Personnel

Sp Mortgage Bank does not have own personnel, all the necessary functions and support services are bought from the companies in the Savings Banks Amalgamation or from companies offering services to the Savings Banks Amalgamation.

Owners

Sp Mortgage Bank is wholly owned by the 18 Savings Banks belonging to the Savings Banks Amalgamation.

Main outsourced functions

Sp Mortgage Bank's key information systems have been outsourced to Samlink Ltd. The bank's accounting operations are carried out by Figure Taloushallinto Oy, whose shares are owned by Savings Banks' Union Coop and three other banking groups in equal proportions.

Social responsibility

The social responsibility policy report of the Savings Banks Group is published during the year 2020 and is available after publishing on the Savings Banks Group website at www.saastopankki.fi or from the Savings Banks Union Coop offices at Teollisuuskatu 33, 00530 Helsinki, Finland. Sp Mortgage 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, Sp Mortgage Bank in its part supports the social responsibility of the local Savings Banks.

Material events after the closing date

Sp Mortgage Bank's Board of Directors are not aware of any facts that would materially influence the financial position of the Sp Mortgage Bank after the completion of the Financial statement.

Outlook for the year 2021

Outlook for the operational environment

COVID-19 will continue to dictate the development of the global economy in 2021. Thanks to the vaccines, there is light at the end of the tunnel. Restrictions will be gradually lifted as progress is made with vaccinations. Of course, this massive global logistics operation will take some time. At the same time, new and more infectious mutations of the virus may lead to a sharp rise in COVID-19 cases before the vaccinations improve the situation significantly. This means that the early part of the year will be characterised by a tug-of-war between vaccinations and new infections.

As the year goes on and the vaccination effort progresses, it will be possible to gradually lift the restrictions. This is likely to take place at different times in different countries. Economic recovery will begin in earnest in the second half of the year, and the rate of recovery may be quite fast. The savings rate among consumers has increased around the world, which means that consumers have disposable funds and there may be a sharp increase in consumption when the COVID-19 pandemic eases.

Financial policy stimulus measures will continue in 2021. For example, the newly elected US President Joe Biden intends to introduce a massive economic stimulus package, although it is still unclear how much of it will be implemented. In Europe, funds from the COVID-19 recovery package will start to be spent and individual countries will also continue to implement stimulus measures as needed. However, the focus will gradually shift to the normalisation of economic policy. Central bank monetary policy will also continue to focus on recovery and interest rates will stay low. However, when the recovery begins, there will be discussions about the phasing out of purchase programmes, which may lead to nervousness in the markets.

The year 2021 will be characterised by development in two different directions: the economy will continue to suffer from the COVID-19 pandemic during the first half of the year, but recovery will begin in earnest in the latter half of the year. China will continue to be the engine of growth, with economic growth as high as 8–10% expected. The growth forecasts for the U.S. economy and Europe are approximately 5%.

The Finnish economy will also recover from the slump caused by COVID-19. The Savings Banks Group's growth forecast for 2021 is 2.5%. Economic growth in Finland will be lower than in many other countries because the downturn in 2020 was not as dramatic. The economy will still be affected by COVID-19 in the early part of the year, but the recovery will start in earnest in the second half of the year.

Consumers have accumulated savings which they will start to spend when the situation regarding infections improves. This will enable the potentially rapid recovery of private consumption. Unemployment will still increase slightly in the early part of the year before turning to a decrease in the latter part of the year once the recovery begins in earnest.

Confidence among businesses has also improved from the lows seen during 2020. When the recovery begins in earnest, it will be particularly evident in the service sector, where capacity has been substantially underutilised during the pandemic. Orders in the industrial sector turned to a slight increase in late 2020 after several months of decline and confidence among European industrial companies has remained at a good level, which supports a moderate outlook for industry. The start of a global recovery and the progress of COVID-19 vaccinations play a key role in this respect.

The number of bankruptcies among Finnish businesses was lower than usual in 2020 due to a temporary amendment to bankruptcy legislation. The expiration of the temporary amendment is likely to be followed by a short-term increase in bankruptcies. The COVID-19 crisis may also have triggered a broader structural transformation in the business sector, but its impact is difficult to assess at this stage.

The biggest risks are still related to the situation with infections. If, for example, new and more dangerous mutations of the virus were to emerge, if the progress of vaccinations were slow or if serious side effects were to occur, the economic situation could quickly take a turn for the worse. If the recovery of the global economy were to be delayed, it would also be reflected in the economic outlook of Finland. A crisis in the financial markets could also lead to a decline in the real economy.

Business outlook

Sp Mortgage Bank expects the loan portfolio to continue to grow through sales of new contracts and the quality of the loan portfolio to remain at a high level. The capital adequacy of Sp Mortgage Bank is estimated to remain strong and the risk position to remain stable. The covered bond programme established in 2016 allows for covered bond issuances 2021.

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

Sp Mortgage Bank's distributable funds amount to EUR 44.4 million.

The Board of Directors of Sp Mortgage Bank proposes to the Annual General Meeting that the profit for the financial year EUR 5.2 million is entered as accumulated retained earnings with no dividend paid.

Information

Managing Director, Tero Kangas
tel. +358 50 420 1022

Releases and other corporate information are available on the Savings Banks Group's website at *www.saastopankki.fi/saastopankkiryhma*

Formulas used in calculating the financial highlights:

Revenues:	Interest income, fee income, net trading income, net investment income, other operating revenue
Total operating revenue:	Net interest income, net fee and commission income, net trading income, net investment income, net life insurance income, other operating revenue
Total operating expenses:	Personnel expenses, other operating expenses, depreciation and amortisation of plant and equipment and intangible assets
Cost to income ratio %:	$\frac{\text{Total operating expenses}}{\text{Total operating revenue}}$
Return on equity %:	$\frac{\text{Profit}}{\text{Total operating revenue}}$
Return on assets %:	$\frac{\text{Profit}}{\text{Total assets (average)}}$
Equity/assets ratio %:	$\frac{\text{Equity}}{\text{Total assets}}$

Alternative Performance Measures

European Securities and Markets Authority's Guidelines on Alternative Performance measures came into effect on 3 July 2016. An alternative performance measure is a financial measure of historical or future financial performance, financial position or cash flows, other than a financial measure defined or specified in the IFRS framework. Alternative Performance Measures are used to reflect financial development and enhance comparability between different reporting periods.

Sp Mortgage Bank is not using any alternative performance measures that are not directly calculated using the information presented in the financial statement, nor have any changes occurred in the financial highlights.

SP MORTAGE BANK: IFRS FINANCIAL STATEMENTS

Sp Mortgage Bank's income statement

(EUR 1,000)	Note	1-12/2020	1-12/2019
Interest income		26,843	24,710
Interest expense		-4,989	-5,495
Net interest income	**6**	**21,854**	**19,216**
Net fee and commission income	7	-16,242	-13,974
Net trading income	8	2,680	-228
Total operating revenue		**8,292**	**5,014**
Personnel expenses	10	-26	-21
Other operating expenses	11	-1,635	-1,842
Depreciation of intangible assets	12	-29	-361
Total operating expenses		**-1,689**	**-2,224**
Net impairment loss on financial assets	13	-42	-24
Profit before tax		**6,561**	**2,766**
Taxes	14	-1,312	-553
Profit		**5,249**	**2,213**

Sp Mortgage Bank's statement of comprehensive income

(EUR 1,000)	1-12/2020	1-12/2019
Profit	**5,249**	**2,213**
Total comprehensive income	**5,249**	**2,213**

Sp Mortgage Bank's statement of financial position

(EUR 1,000)	Note	31.12.2020	31.12.2019
Assets			
Loans and advances to credit institutions	16	85,309	94,318
Loans and advances to customers	16	2,145,433	1,956,315
Derivatives	17	20,712	12,412
Intangible assets	18		29
Other assets	19	4,040	3,714
Total assets		**2,255,494**	**2,066,789**
Liabilities and equity			
Liabilities			
Liabilities to credit institutions	20	627,830	460,300
Debt securities issued	21	1,511,782	1,505,074
Tax liabilities		944	89
Provisions and other liabilities	22	3,292	2,928
Total liabilities		**2,143,848**	**1,968,392**
Equity			
Share capital	23	67,273	61,937
Reserves		33,586	30,922
Retained earnings		10,787	5,538
Total equity		**111,646**	**98,397**
Total liabilities and equity		**2,255,494**	**2,066,789**

Sp Mortgage Bank's statement of cash flows

(EUR 1,000)	1-12/2020	1-12/2019
Cash flows from operating activities		
Profit	5,249	2,213
Adjustments for items without cash flow effect	-1,296	1,167
Change in deferred tax		
Cash flows from operating activities before changes in assets and liabilities	**3,952**	**3,379**
Increase (-) or decrease (+) in operating assets	**-189,498**	**-103,952**
Loans and advances to customers	-189,172	-103,313
Other assets	-326	-640
Increase (-) or decrease (+) in operating liabilities	**168,994**	**143,109**
Liabilities at fair value through profit or loss		
Liabilities to credit institutions	167,530	-354,940
Liabilities to customers		
Debt securities issued	1,088	497,967
Other liabilities	376	82
Paid income taxes	-457	-368
Total cash flows from operating activities	**-17,010**	**42,168**
Cash flows from financing activities		
Increase in basic capital	5,336	5,336
Other monetary increases in equity items	2,664	2,664
Total cash flows from financing activities	**8,000**	**8,000**
Change in cash and cash equivalents	**-9,010**	**50,168**
Cash and cash equivalents at the beginning of the period	**94,318**	**44,151**
Cash and cash equivalents at the end of the period	**85,309**	**94,318**
Cash and cash equivalents comprise the following items:		
Receivables from central banks repayable on demand	85,309	94,318
Total cash and cash equivalents	**85,309**	**94,318**
Adjustments for items without cash flow effect		
Impairment losses on financial assets	42	24
Changes in fair value	-2,680	228
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	29	361
Other adjustments	1,312	553
Total	**-1,296**	**1,167**
Interest received	26,458	24,327
Interest paid	4,735	5,867
Dividends received		0

Sp Mortgage Bank's statement of changes in equity

(EUR 1,000)	Share capital	Share premium	Retained earnings	Total equity
Equity 1 January 2019	56,601	28,258	3,325	88,184
Comprehensive income				
Profit			2,213	2,213
Total comprehensive income			2,213	2,213
Transactions with owners				
Subscription issue	5,336	2,664		8,000
Total equity 31 December 2019	61,937	30,922	5,538	98 397

Equity 1 January 2019	61,937	30,922	5,538	98,397
Comprehensive income				
Profit			5,249	
Total comprehensive income			5,249	5,249
Transactions with owners				
Subscription issue	5,336	2,664		8,000
Total equity 31 December 2019	67,273	33,586	10,787	111,646

BASIS OF PREPARATION

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

Sp Mortgage Bank Plc (henceforth "Sp Mortgage Bank") is a mortgage bank wholly owned by the Savings Banks that belong to the Savings Banks Amalgamation. The role of Sp Mortgage Bank is, together with Central Bank of Savings Banks Finland Plc, to be responsible for obtaining funding for the Savings Banks Group from money and capital markets. Sp Mortgage Bank is responsible for the Savings Banks Group's mortgage-secured funding by issuing covered bonds. Sp Mortgage Bank does not have independent customer business operations or service network; instead, the Savings Banks that belong to the Savings Banks Amalgamation intermediate and sell residential mortgage loans for Sp Mortgage Bank. The Savings Banks also see to the local customer relationship management.

Sp Mortgage Bank received authorisation to operate as a mortgage bank, granted by the European Central Bank, in March 2016, and the Bank's operations began immediately. Sp Mortgage Bank has been Savings Banks' Union Coop's member credit institution starting from March 2016.

Sp Mortgage Bank is part of the Savings Banks Amalgamation and the Savings Banks Group. The Savings Banks Group is the most longstanding banking group in Finland. It comprises of Savings Banks forming the Savings Banks Amalgamation, the Savings Banks' Union Coop which acts as the central institution and the subsidiaries and associated companies owned by the Savings Banks. The Savings Banks are independent regional and local banks. Together the Savings Banks form a banking group that operates locally as well as nationally. The basic objective of the Savings Banks is to promote thrift, the financial wellbeing of their customers and to operate near their customers.

The Savings Banks focus on retail banking, particularly services related to daily business, saving and investments, and lending services. The service and product range offered is complemented with the other financial services and products provided in cooperation with the service and product companies within the Savings Banks Group. The service and product companies within the Savings Banks Group support and promote the operations of the Savings Banks Group via producing centralised services or having responsibility for certain products. The most significant service and product companies of the Savings Banks Group are Sp Mortgage Bank Plc, Central Bank of Savings Banks Finland Plc, Sb Life Insurance Ltd, Sp-Fund Management Company Ltd, Savings Bank Services Ltd and Sp-Koti Oy.

The member organisations of the Savings Banks 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 liabilities and commitments. The Savings Banks Amalgamation comprises the Savings Banks' Union Coop, which acts as the Central Institution of the Amalgamation, 18 Savings Banks, the Central Bank of Savings Banks Finland Plc , Sp Mortgage Bank Plc, Savings Bank Services Ltd and Sp-Fund Management Company Ltd as well as the above-mentioned companies within the consolidation groups.

The coverage of the Savings Banks Group differs from that of the Savings Banks Amalgamation in that the Savings Banks Group also includes institutions other than credit and financial institutions or service companies. The most significant of these are Sb Life Insurance Ltd and Sp-Koti Oy. The Savings Banks Group does not form a consolidated corporation or a consolidation group as defined in the Act on Credit Institutions because 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.

During the financial year, two savings bank mergers were completed. Huittisten Säästöpankki merged with Aito Säästöpankki and Sysmän Säästöpankki merged with Helmi Säästöpankki. Due to these mergers, the number of savings banks in the Amalgamation and in the Savings Banks Group declined from 20 to 18 banks.

As previously announced, on 6 November 2020 the Savings Banks Group acquired Oma Savings Bank Plc's shares in Nooa Savings Bank Ltd, Sb Life Insurance Ltd, Sp-Fund Management Company Ltd, Säästöpankkien Holding Oy and Central Bank of Savings Banks Finland Plc. The acquisition of the minority interests did not have an effect on the Savings Banks Group's result.

The Savings Banks' Union Coop steers the operations of the Savings Banks Group and is the Central Institution responsible for the internal control framework. According to the Act on the Amalgamation of Deposit Banks, the Savings Banks' Union Coop acting as the central institution of the Savings Banks Amalgamation is obligated to prepare consolidated financial statements for the Savings Banks Group. Sp Mortgage Bank is also consolidated into these financial statements. The financial statements are prepared for the financial group formed by the Savings Banks Group.

The head office of Sp Mortgage Bank is in Helsinki, and its registered address is Teollisuuskatu 33, FI-00510 Helsinki, Finland. A copy of Sp Mortgage Bank's Annual Report is available online at *www.saastopankki.fi/saastopankkiryhma* or at Sp Mortgage Bank's offices at Teollisuuskatu 33, FI-00510 Helsinki, Finland.

Similarly, copies of the Savings Banks Group's financial statements and half- year reports are available online at *www.saastopankki.fi/saastopankkiryhma* or at Savings Banks' Union Coop's offices at Teollisuuskatu 33, FI-00510 Helsinki, Finland.

Sp Mortgage Banks Board of Directors has approved the Bank's financial statement 2020 on 3th February 2021, and the financial statement will be presented to the Annual General Meeting of 2020 for approval. The Annual General Meeting has the choice of approving or not approving the financial statement.

NOTE 2 ACCOUNTING POLICIES

1. General

The financial statements of the Sp Mortgage Bank are prepared in accordance with the International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the European Union.

Sp Mortgage Bank is part of the Savings Banks Amalgamation and in accordance with the principles of 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' Union Coop confirms any accounting policy for which no guidance is available in the IFRS.

Sp Mortgage Bank's financial statements are presented in euros, which is the presentation and functional currency of the Bank.

Sp Mortgage Bank's financial statements are prepared under the historical cost convention, except for the derivatives and hedged items in fair value hedges (for hedged risks), which are measured at fair value.

Assets and liabilities are offset with the net amount presented in the balance sheet only if the the Sp Mortgage Bank holds a currently enforceable legal right to set off the recognised amounts and there is intention to settle on net basis or to realize asset and settle the liability simultaneously.

2. Financial instruments

2.1 Financial assets and liabilities

The Sp Mortgage Bank applies IFRS 9 Financial instruments standard on recognition and measurement of financial instruments and for hedging relationships under general hedge accounting.

Classification in the Sp Mortgage Bank's balance sheet is independent of the IFRS 9 categories. Different valuation bases can therefore be applied to assets and liabilities recognised on the same line in the balance sheet. The classification of financial assets and liabilities recognised in the balance sheet into valuation categories is set out in Note 15.

2.1.1 Initial recognition

A financial asset or liability is recognised on the balance sheet when the Sp Mortgage Bank becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of a financial asset is recognised and derecognised using trade date accounting.

Financial assets or liabilities are initially measured at fair value, and in the case of a financial asset or a financial liability not measured at fair value through profit or loss, plus or minus the transaction costs that are directly attributable to the acquisition or issue of that financial asset or financial liability. On subsequent periods transaction costs are recognised through profit or loss as an interest income or expense as a part of the effective interest rate of the financial asset or liability.

2.1.2 Classification of financial assets and the determination of classification

For the purposes of subsequent measurement, the Sp Mortgage Bank classifies financial assets into following measurement categories:

- Amortised cost
- Fair value through other comprehensive income (fair valu reserve)
- Fair value through profit or loss.

Financial assets are classified on initial recognition based on the business model used for managing the group of financial assets in which the financial assets is held and characteristics of the cash flows of the instrument, specifically, whether the contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business model assessment

The business model refers to how Sp Mortgage Bank manages its financial assets in order to generate cash flows. That is, the business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. If cash flows are realised in a way that is different from Sp Mortgage Bank's expectations on the date that Sp Mortgage Bank assessed the business model, that does not give rise to a prior period error in Sp Mortgage Bank's financial statements nor does it change the classification of the remaining financial assets held in that business model.

Assessment of cash flow characteristics

Cash flow characteristics means the characteristics of the contractual cash flows of the financial asset.

When assessing cash flow characteristics, it is determined whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding, for example, interest only consists of consideration for the time value of money, credit risk and other basic lending risks. If the terms of the contract include factors that cannot be considered typical terms for lending, the financial asset is classified as measured at fair value through profit or loss.

Amortised cost

A financial asset is measured at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of interest and payments of principal

Debt instruments are measured at fair value and changes in value, less deferred taxes and expected credit loss, are recognised in the statement of comprehensive income.

For debt instruments, the gain or loss on the transfer or sale of a financial asset measured at fair value through other comprehensive income is recognised through profit or loss.

On initial recognition, the Sp Mortgage Bank may make an irrevocable choice to present the subsequent fair value changes of an equity instrument in other comprehensive income. This election is made on instrument basis. These financial assets are measured at fair value and the change in value is recognised, less deferred taxes, in the statement of other comprehensive income. Dividends from equity instruments are recognised in profit or loss when the right to receive payment is established.

Capital repayments from the share are recognised in the statement of other comprehensive income. For equity instruments, unrealised gains or losses accrued in the fair value reserve are not transferred to be recognised through profit or loss at any stage. Instead, the recognition is made through retained earnings within equity.

Financial assets measured at fair value through profit or loss

All items that are not measured at amortised cost or recognised at fair value through other comprehensive income are recognised at fair value through profit or loss.

However, a financial asset may, at initial recognition, be irrevocably designated as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Also classified as measured at fair value through profit or loss are debt instruments for which the cash flow criteria cannot be considered to be met. Sp Mortgage Bank assesses the cash flow criteria separately for each instrument to determine whether the contractual terms of the item give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Changes in the classification of financial assets

Debt instruments are reclassified only when Sp Mortgage Bank changes the business models applied in the management of financial assets. Sp Mortgage Bank expects such changes to be highly infrequent.

Changes in contractual cash flows

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with IFRS 9, the Sp Mortgage Bank recalculates the gross carrying amount of the financial asset and recognises a modification gain or loss in profit or loss.

2.1.3 Derecognition of financial assets and liabilities

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred and the transfer qualifies for derecognition.

A financial asset is considered to be transferred if the Sp Mortgage Bank either:

- transfers the contractual rights to receive the cash flows of the financial asset; or
- retains the contractual rights to receive the cash flows of the financial asset but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions stipulated by IFRS 9. A contract can be considered to meet the conditions for such an arrangement if:
    - There is no obligation to pay amounts to the eventual recipients unless equivalent amounts are collected from the original asset
    - The selling or pledging of the original asset is prohibited by the terms of the transfer contract

When transferring a financial asset, the transfer qualifies for derecognition only if:

- The significant risks and rewards of ownership are transferred; or
- The significant risks and rewards of ownership are not transferred, or they have been retained, but control has been transferred.

A financial liability is derecognised from the statement of financial position when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires. An exchange between an existing borrower and lender of debt instruments with substantially different terms must be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount and the consideration paid is recognised in profit or loss.

2.2. Determining fair value

Fair value is the price that would be attained if the asset was sold or would be paid to transfer the liability from one market party to another in a standard business transaction taking place on a valuation day.

A financial instrument's fair value is based on price quotations obtained from active markets or, if active markets do not exist, on the company's own valuation methods. A market is consid ered active if price quotations are readily and regularly availa ble and if they reflect real and regularly occurring arm's-length market transactions. Current bid price is used as the quoted market price of financial assets. If the market has a well-established valuation technique for a financial instrument for which there is no direct market price available, the fair value is based on the commonly used valuation model and on the market quotations of the input data used in the model.

If there is no well-established valuation technique in the mar ket, the fair value is determined based on a specific valuation model created for the product in question. The valuation mod els are based on widely used measuring techniques, incorpo rating all the factors that market participants would consider when setting a price. The valuation prices used include market transaction prices, the discounted cash flow method, as well as the fair value of another substantially similar instrument at the reporting date. The valuation methods take into account an estimate of credit risk, applicable discount rates, early repayment option, and other such factors that may impact reliable determination of the fair value of the financial instrument.

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

- Fair values quoted in active markets for identical assets or liabilities (Level 1)

- Fair values that are determined using other input data than the quoted prices at Level 1, which are observable for the assets or liabilities either directly (e.g. 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 into which an item measured at fair value is fully classified is determined by the input data which is at the lowest level and is significant in respect of the whole item. The significance of input data is evaluated considering the whole item which is valued at fair value.

2.3. Impairment

2.3.1 Expected credit lossest

Sp Mortgage Bank determines impairments for financial based on an expected credit loss model. The loss allowance for expected credit loss is measured and recognised for financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income, debt instruments, loan receivables, guarantees and loan commitments.

For the purpose of measuring expected credit losses, the Group applies a three-stage model in which the stage to be applied in the measurement is determined on the basis of the change in the credit risk of the financial asset between the date of initial recognition and the reporting date as follows:

- Stage 1 includes financial assets for which the credit risk has not increased significantly between the date of initial recognition and the reporting date. The measurement of the expected credit loss for stage 1 financial assets is based on the likelihood of the credit loss being incurred within 12 months of the reporting date.
- Stage 2 includes financial assets for which the credit risk has increased significantly after the date of initial recognition. The measurement of the expected credit loss for stage 2 financial assets is based on the likelihood of the credit loss being incurred within the remaining life of the financial asset.
- Stage 3 includes financial assets that are assessed to be impaired. The measurement of the expected credit loss for stage 3 financial assets is based on the likelihood of the credit loss being incurred within the remaining life of the financial asset.

The assessment of potential changes in credit risk between the date of initial recognition and the reporting date takes into consideration all relevant and available information that can be obtained without unreasonable effort and cost. In assessing the significance of change in credit risk, the Savings Banks Group takes into account the following qualitative and quantitative data, amongst others:

- Payment past due: the credit risk associated with a financial asset is assessed to have grown significantly and the contract is migrated from stage 1 to stage 2 when payments are more than 30 days past due. When payments are more than 90 days past due, the financial asset is deemed to be impaired and is migrated from stage 2 to stage 3.
- Forbearance: if the receivable is non-performing, the forbearance concession is interpreted as a significant increase in credit risk and the receivable is migrated from stage 1 to stage 2. If forbearance is applied to a contract that is non-performing, or if a forbearance concession is made for a contract at the time of application, the contract is deemed to be impaired and is migrated to stage 3.
- Default: If a customer is found to be in default, the financial asset is deemed to be impaired and is migrated to stage 3.

A customer is classified as being in default when it is likely that the customer cannot meet their credit obligations under the agreed terms in full without the Savings Banks Group taking action, such as realising the collateral or, at the latest, when payments are more than 90 days past due. In ECL calculation, the Group applies the same definition of default that it applies in its lending rules.

A financial asset can be restored from stage 2 or 3 when its credit risk has improved significantly, and it has fulfilled the criteria for the previous stage continuously for a pre-determined assessment period defined for its migration. For migrating from stage 2 to stage 1, the duration of the assessment period is three months. For migrating from stage 3 to stage 2, the duration of the assessment period is 12 months.

As a rule, the Savings Banks Group's assessment of expected credit loss is based on the PD*LGD*EAD model, the components of which are Probability of Default, Loss Given Default and Exposure at Default. For low-risk counterparties – including the public sector, financial institutions and state-guaranteed student loans – the calculation is based on the Loss Rate model (Loss Rate*LGD*EAD). The calculations are carried out separately for each contract and based on the following parameters:

- PD% (only the PD/LGD model): probability of default based on external and internal credit ratings.
- Loss Rate% (only the Loss Rate model): a percentage figure established for each counterparty based on their sector code.
- LGD %: estimated loss at the time of default, takes into consideration the contract's available collateral.
- EAD: exposure at default is the annual average and takes into consideration instalments and advance repayments, calculated for the term of the contract and for the year, for products for which it has been modelled. Off-balance sheet items are considered to remain fixed until the end of the lifecycle of the contract. The undrawn commitment component is included in the calculation in full.

The calculation takes the time value of money into consideration by discounting the expected credit loss calculated for the contract. The effective interest rate is the contractual interest rate and it is calculated on the gross carrying amount in stages 1 and 2 and on the adjusted carrying amount in stage 3 on the reporting date.

The calculation of expected credit loss includes a forward-looking perspective by incorporating four different economic scenarios based on macroeconomic forecasts prepared by the Savings Banks Group's Chief Economist. The scenarios used in the calculation are the base scenario, a mild downside, a more extreme downside and an optimistic scenario. The scenarios are the same as those used in the Savings Banks Group's financial planning. The weights assigned to the scenarios in ECL calculation are based on the management's view of their probability. The macroeconomic forecasts cover a period of five years and they incorporate the following macroeconomic factors, for example: GDP growth, investment growth, unemployment rate, inflation, 3-month and 6-month Euribor interest rates and the housing price index.

The loss allowance for expected credit loss on a loan is recognised on the balance sheet in a separate account. For loan commitments and financial guarantee contracts, the loss allowance is recognised on the balance sheet as a provision. For debt securities recognised at fair value through other comprehensive income, expected credit loss is recognised as an adjustment to the fair value reserve. Changes in expected credit losses recognised on the balance sheet are presented in the income statement item Impairment losses on financial assets.

2.3.2 Incurred credit losses

Non-recoverable loans and receivables are recorded as a permanent credit loss when the normal collection process is completed and the final amount of the individual loan or receivable can be measured. Credit losses that are deemed permanent are derecognised as a counterpart to the income statement item Impairment losses on financial assets. Any payments received after derecognition are recognised as adjustments to the income statement item Impairment losses on financial assets.

2.4. Hedging and derivatives

Sp Mortgage Bank hedges its interest rate risk from changes in fair value and applies hedge accounting to hedging relationships. The hedged item in the fair value hedge are the issued fixed rate covered bonds.

For hedging relationships under general hedge accounting (fair value hedging), Sp Mortgage Bank has adopted IFRS 9.

Derivative contracts are measured at fair value. The fair value of derivatives that hedge fair value is recognised in the balance sheet as a derivative receivable or liability and the change in fair value is recognised in the income statement under "Net trading income". When hedging fair value, the hedged item is also measured at fair value during hedging even if it would otherwise be measured at amortised cost. A change in the hedged item's fair value is recognised as an adjustment to the balance sheet item in question and in the income statement under "Net trading income". Interest on hedging derivatives is presented as interest income and expense depending on their nature.

When hedge accounting begins, the hedging relationship between the hedged item and the hedging derivative is documented, along with the risk management objectives and the strategy for initiating hedging. The effectiveness of the hedging relationship is assessed regularly and always on reporting dates.

3. Leases

Sp Mortgage Bank as the lessee

At the inception of a contract and when the terms and conditions of a contract are changed, Sp Mortgage Bank assesses whether the contract contains a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement date of a lease, the lease liability is equal to the present value of the lease payments payable during the lease term. The leases consist of fixed payments and variable lease payments, which depend on an index. Lease liabilities are subsequently measured at amortised cost using the effective interest method. Lease liabilities are reassessed if the future considerations change as a result of a contractual change in an index or price, if the lease term or amount of residual value guarantee changes, or if a purchase option is exercised. If the amount of the lease liability is adjusted due to the reassessment, a corresponding adjustment is made to the right-of-use asset.

The lease term begins at the commencement date specified in the lease. The end of the lease term is determined by the lease. The lease term is reassessed if an option to extend the lease is exercised differently than initially assessed. If the lease term is indefinite, the end of the lease term is considered to be the earliest possible date of termination specified in the lease.

The value of a right-of-use asset at the commencement date is the lease liability plus payments made to the lessor at or before the commencement date, estimated restoration costs at the end of the lease term and initial direct costs. A right-of-use asset is subsequently measured at cost and amortised according to the lease term. Sp Mortgage Bank recognises leases as a right-of-use asset under "Right-of-use assets" and a liability under "Provisions and other liabilities".

Short-term leases and assets of low value

IFRS 16 contains two exemptions concerning recognition and measurement. Sp Mortgage Bank has decided that leases with a term of 12 months or less and assets whose value does not exceed EUR 5,000 are not recognised as right-of-use assets and no lease liabilities are recognised for them. Sp Mortgage Bank expenses such short-term leases and assets of low value during the lease term.

Sp Mortgage Bank as the lessor

Sp Mortgage Bank does not act as a lessor.

4. Intangible assets

An intangible asset is an identifiable asset that has no physical substance. In Sp Mortgage Bank, intangible assets include computer software.

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 sales revenue from services, cost savings or other benefits resulting from Sp Mortgage 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 and staff training, 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	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".

5. Taxes

Income taxes comprises tax based on the profit for the financial year, previous financial years' tax adjustments and changes in deferred taxes. Taxes are recognised in the income statement except if 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 taxes are calculated on the basis of temporary taxable differences between accounting and taxation. Deferred tax is determined on the basis of the IAS 12 standard using tax rates that have been enacted at the balance sheet date and that apply when the related deferred tax is expected to be 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 years.

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 accrued and unused tax credits can be utilised.

6. Revenue recognition principles

Interest income and expenses

Interest income and expenses are amortised using the effective interest 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

In accordance with the transfer agreement, Savings Banks are returned a share of the fee income arising from the credit facilities managed by the Sb Mortgage Bank. Fee expenses consist mainly of fee income charged from lending that is paid to Savings Banks.

Fee and commission income and expense are generally recognised on an accrual basis. Fees and commissions for performing an action or a service are recognised when the related actions or services are performed. Fees relating to actions or services performed over several years are amortised over the service period. Fees that are directly attributable to the effective interest of a financial instrument are treated as an adjustment to the effective interest of that financial instrument.

Net Trading Income

Net profit from hedge accounting is recognised as Net Trading Income and consists of changes in fair value of hedged items and hedging instruments.

1. Segment information

Sp Mortgage Bank's management examines its operations as a single segment, meaning that segment-specific information is not provided in accordance with IFRS 8. Sp Mortgage Bank's operations are part of the Savings Banks Group's operations, and its financial statements are included in the consolidated financial statements, which is another reason why Sp Mortgage Bank's operations have not been divided into segments.

8. New IFRS-standards and interpretations

New and amended standards applied in financial year ended

Sp Mortgage Bank has applied as from 1 January 2020 the following new and amended standards that have come into effect.

Amendments to References to Conceptual Framework in IFRS Standards (effective for financial years beginning on or after 1 January 2020)

The revised Framework codifies IASB's thinking adopted in recent standards. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs. The change in the standard did not have an impact on Sp-Mortgage Bank's financial statements.

Definition of a Business – Amendments to IFRS 3 (effective for financial years beginning on or after 1 January 2020)

The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set is a group of assets rather than a business. The change in the standard did not have an impact on Sp-Mortgage Banks's financial statements.

Definition of Material – Amendments to IAS 1 and IAS 8 (effective for financial years beginning on or after 1 January 2020)

The amendments clarify the definition of material and include guidance to help improve consistency in the application of that concept across all IFRS Standards. In addition, the explanations accompanying the definition have been improved. The change in the standards did not have an impact on Sp-Mortgage Bank's financial statements.

Interest Rate Benchmark Reform – Phase 1 – Amendments to IFRS 9, IAS 39 and IFRS 7 (effective for financial years beginning on or after 1 January 2020)

Amendments have been issued to address uncertainties related to the reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform. The change in the standards did not have an impact on Sp-Mortgage Bank's financial statements.

Covid-19-Related Rent Concessions – Amendment to IFRS 16 (effective for financial years beginning on or after 1 June 2020)

The amendment allows the lessees not to account for rent concessions as lease modifications if the concessions are a direct consequence of the covid-19 pandemic and only if certain conditions are met. The change in the standard did not have an impact on Sp-Mortgage Bank's financial statements.

Adoption of new and amended standards in future financial years

Sp Mortgage Bank has not yet adopted the following new and amended standards and interpretations already issued by the IASB. Sp Mortgage Bank will adopt them as of the effective date or, if that date is not the first day of the financial year, from the beginning of the subsequent financial year.

* Not yet endorsed for use by the European Union as of 31 December 2020.

Property, Plant and Equipment — Proceeds before Intended Use – Amendments to IAS 16* (to be applied from 1 January 2022)

Under the amendments, proceeds from selling items before the related item of PPE is available for use should be recognized in profit or loss, together with the costs of producing those items. The change in the standard will have no impact on Sp-Mortgage Bank's financial statement.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37* (to be applied from 1 January 2022)

When an onerous contract is accounted for based on the costs of fulfilling the contract, the amendments clarify that these costs comprise both the incremental costs and an allocation of other direct costs. The change in the standard will have no significant impact on Sp-Mortgage Bank's financial statement.

Annual Improvements to IFRS Standards 2018–2020 * (to be applied from 1 January 2022)

The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments clarify the following standards:

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter: This amendment simplifies the application of IFRS 1 for a subsidiary that becomes a first-time adopter later than its parent – a subsidiary may elect to measure cumulative translation differences at amounts included in the consolidated financial statements of the parent.
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities: This amendment clarifies that – for the purpose of performing the ''10 per cent test' for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
- IFRS 16 Leases – Lease incentives – Example 13. The amendment removes the illustration of payments from the lessor relating to leasehold improvements. The example was not clear as to why such payments are not a lease incentive.

The change in the standards will have no significant impact on Sp-Mortgage Bank's financial statement.

Classification of Liabilities as Current or Non-current - Amendments to IAS 1* (to be applied from 1 January 2023)

The amendments are to promote consistency in application and clarify the requirements on determining if a liability is current or non-current. The change in the standard will have no significant impact on Sp-Mortgage Bank's financial statement.

NOTE 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

IFRS-compliant financial statements require Sp Mortgage 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 Sp Mortgage 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 assets on confirmed tax losses.

In the financial statements dated 31 December 2020, the most significant uncertainty influencing the management's estimates has been the prevailing COVID-19 pandemic. There is considerable uncertainty associated with estimating the economic impacts of the coronavirus pandemic, which particularly influences the assessment of the expected credit losses on financial assets.

Determination of expected credit losses

Sp-Mortgage Bank's expected credit loss calculation models contain several factors that require the management's judgment.

- Selection of the models used in the calculations so that they illustrate the expected credit losses of the contract portfolio as accurately as possible.
- Assumptions and expert assessments included in the models
- Defining the quantitative and qualitative criteria for a significant increase in credit risk
- Selection of the macroeconomic factors describing future economic development used in the calculations so that changes in the selected factors are correlated with the probability of contract default.
- Preparing economic forecasts and predicting the probability of their future realisation.

Sp-Mortgage Bank uses modelling-based calculations for determining expected credit losses but, where necessary, the figures generated by the models are adjusted to reflect the management's judgment. Recognising an adjustment may be based on, for example, newly available information or a new factor that is not included in the parameters or inputs used in the calculation model. The exceptional uncertainty regarding future economic development that prevailed during the financial year and the reduced forecast ability of macroeconomic forecasting models have increased the significance of the management's judgment and estimates.

Based on an analysis of the credit portfolio, Sp-Mortgage Bank does not have significant sector-specific risk concentrations that would necessitate increases to the expected credit losses indicated by the forecasting models by making adjustments based on the management's judgment. In evaluating the quality of the credit portfolio, special attention was given to stage 3 receivables and the number, recurrence and allocation of instalment-free periods granted by the Sp-Mortgage Bank. The instalment-free periods granted in the spring mostly ended in September–October and a significant proportion of them were not extended. The number of forbearance concessions has remained stable.

Sp-Mortgage Bank updated the four macroeconomic scenarios used in the ECL calculation model in November. The macroeconomic variables used in the scenarios and the weights assigned to the different scenarios have not been changed.

On the balance sheet date, the adjustments based on the management's judgment have been associated especially with receivables in stage 3 and, when assessing the need and extent of adjustments, attention has been paid especially to the following factors that influence the expected credit loss amount.

- Considering the nature and value of receivable-related collaterals, the effect of the regional economic situation on the price level of residential properties, for instance.
- Amount and timing of receivables' contractual cash flows, taking into account available counterparty information that is not included in the calculation model. Such information includes, for instance, changes in employment or the number and duration of instalment-free periods that have been applied for.
- Change in the credit risk of the receivable counterparty, resulting from factors such as pandemic-related restrictions that influence business or employment that are not included in the calculation model.

Based on an analysis of the credit portfolio, the Sp-Mortgage Bank does not have significant sector-specific risk concentrations that would necessitate increases to the expected credit losses indicated by the forecasting models by making adjustments based on the management's judgment. In evaluating the quality of the credit portfolio, special attention was given to stage 3 receivables and the number, recurrence and allocation of instalment-free periods granted by the Group. The instalment-free periods granted in the spring mostly ended in September–October and a significant proportion of them were not extended. The number of forbearance concessions has remained stable.

The Sp-Mortgage Bank updated the four macroeconomic scenarios used in the ECL calculation model in November. The macroeconomic variables used in the scenarios and the weights assigned to the different scenarios have not been changed.

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 models used, 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 "Determining the fair value" in the accounting policies.

RISK MANAGEMENT AND PRINCIPLES OF CAPITAL ADEQUACY MANAGEMENT POLICIES

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 business operations. The risk-bearing capacity comprises adequate and effective risk management based on the nature, scale and complexity of Sp Mortgage Bank's business operations, as well as a sufficient amount of liquidity and capitalization 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 closely related risks. The purpose of risk management is to minimize the likelihood of unforeseeable losses or reputational risk in order to ensure the implementation of the Group's strategy. Risk and capital adequacy management are part of internal control.

Risk and capital adequacy management enables the identification, assessment and measurement of risks, limiting them to a level of Sp Mortgage Bank's risk appetite. The capital needed for the various risk areas and business lines is determined in a reliable and independent manner and allocated systematically. This is done based on current and planned risk-taking and taking into account the requirements of appropriate liquidity management.

Risk management is part of Sp Mortgage Bank's internal control and an integral part of its operational activities.

Internal control covers financial and other supervision. Internal control refers to the part of management and operations which aim to ensure:

- the achievement of set objectives and goals;
- economical and efficient processes;
- the management of the risks involved in operations;
- the fairness and accuracy of financial and other management information;
- compliance monitoring;
- the adequate protection of operations, data, as well as the entity's property and customers' assets; and
- adequate and appropriately organised manual and IT systems for the support of operations.

The purpose of internal control at Sp Mortgage Bank is to ensure that the objectives and aims set for different levels at the bank are reached in compliance with the agreed and set internal control guidelines. Internal control is supervision from the inside managed by the administrative organs and the organisation itself, and it primarily concerns the state, quality and results of operations. Internal control is carried out by the Board of Directors, Managing Director, risk control function, supervisors and employees. In addition, employees are required to report deviations and misconduct to those higher up in the organisation.

Sp Mortgage Bank's risk management is based on the business strategy and risk management guidelines confirmed by the Board of Directors and an authorisation system as well as the risk and deviation reports produced in terms of key business areas.

Sp Mortgage Bank does not have excessively large customer or investment portfolio risk concentrations in relation to its financial capacity, and in accordance with its strategy, Sp Mortgage Bank will take no such risks. Sp Mortgage Bank maintains its capital adequacy at adequate level.

The Board of Directors is regularly informed on the risk positions and their changes affecting Sp Mortgage Bank. The Board also approves the authorizations and guidelines of risk-taking by determining risk limits for accepted risk types. The implementation of the risk strategy is monitored through monitoring and reporting of risk limits and thresholds, carried out by risk control unit independent of business operations. The Board of Directors also approves the authorities and framework for risk-taking by specifying the permitted risk thresholds for different risk types. The responsibility for daily risk monitoring and control is with the management according to set authorizations. The systems and procedures regarding risk reporting and monitoring fulfil the criteria set for risk management, taking into account the nature, scale and complexity of Sp Mortgage Bank's business operations.

Sp Mortgage Bank has established the following functions, independent of business operations, to ensure effective and comprehensive internal control system:

- independent risk control
- compliance
- internal audit

The task of the independent Risk Control unit is to ensure and monitor that the risk management framework of the Sp Mortgage Bank is adequate in relation to the nature, scale, complexity and risk level of the Sp Mortgage Bank's business operations. The Risk Control unit assists the Board of Directors and senior management of the Sp Mortgage Bank in their task to arrange adequate risk management framework and monitor the functionality and efficiency of the risk management framework.

The Compliance unit ensures that Sp Mortgage Bank complies with the legislation and authorities' regulation and guidelines. The Compliance unit is responsible for monitoring that Sp Mortgage Bank complies with the internal guidelines, ethical guidelines given to the personnel and other guidelines applied within the financial markets.

The Board of Directors of Sp Mortgage Bank has established internal audit for the bank and approved the internal audit plan and reporting principles.

The task of internal audit is to assess the scope and adequacy of the internal control of the bank's operating organisation and monitor and assess the functioning of the risk management systems. Internal audit reports on its observations to the Managing Director and the Board of Directors.

The Board of Directors of Sp Mortgage Bank is responsible for organizing internal control in accordance with legislation, requirements of the authorities and guidelines issued by the Board of Directors of the Central Institution.

The Managing Director and other executives of Sp Mortgage Bank are responsible for organizing internal control in accordance with legislation, requirements of the authorities and more detailed internal guidelines issued by the Central Institution and the bank's Board of Directors.

The independent functions of Savings Banks' Union Coop are responsible for Sp Mortgage Bank's inde-pendent functions.

The methods of risk management in the Amalgamation are maintained and developed by Central Institution's Risk Control unit. The objective is to ensure that the risk management covers all material risks, including any new and previously unidentified risks.

All significant or risk bearing commitments including significant risk are made in accordance with collegial decision-making processes, and mandates are limited according to a structure. Internal operational guidelines are used to steer business operations and processes. Compliance with the internal guidelines as well as the updating process of the guidelines is monitored. Decisions and significant business operations are documented and archived. An essential part of risk management is executed in daily supervision. The execution of made decisions is monitored through approval and verification process, controls and reconciliations together with adequate follow-up, monitoring and reporting.

In its operations Sp Mortgage Bank is exposed to credit, market and operational risks, as well as business and liquidity risks

Credit and counterparty risks

The credit risk is the most significant risk of the Banking segment. The management and monitoring of the credit risk plays a major role when ensuring the adequacy of capital compared to business risks and losses caused by risk occurrence.

Credit risk is defined as a possibility that counterparty may not meet its contractual obligations. The main source of credit risk is lending, but credit risks (counterparty risk) may also arise from other types of assets, such as bank deposits, securities in investment portfolio and derivative contracts, as well as off balance-sheet liabilities, such as undrawn credit facilities and limits as well as granted guarantees.

The business of Sp Mortgage Bank is to issue euro-denominated covered bonds with residential mortgage loans as collateral under the Act on Mortgage Credit Banks and grant residential mortgage loans referred to in the Act on Mortgage Credit Banks. Sp Mortgage Bank finances only retail customers, which are private persons and entrepreneurs. The main target groups according to the Sav-ings Banks Group's strategy are families and household of active age. The mortgage lending is focused to the private customer sector. The Savings Banks distributing residential mortgage loans comply with the lending goals set and approved by each Savings Bank.

Management of credit risk

The Board of Directors of Sp Mortgage Bank steers the credit risk management, the methods used, as well as the monitoring and reporting by approving the credit risk strategy, other guidelines and by setting the risk limits and other thresholds. Sp Mortgage Banks's Risk Control monitors that the bank comply with the-se principles.

The business strategy of Sp Mortgage Bank and the credit-underwriting policies define the maximum expo-sure limits to risk concentrations and steer the lending by customer groups, industries and credit ratings. Saving Banks distributing residential mortgage loans mainly grant credits within their operational areas ensuring one of the essentials features for the lending of the Savings Banks: local and comprehensive knowledge of the customers.

Sp Mortgage Bank have outsourced main part of the loan processes and operations the loan distributing Savings Banks and to Savings Bank Services Ltd, which is responsible for the back-office operations of Sp Mortgage Bank.

A distribution agreement has been concluded between Sp Mortgage Bank and Savings Banks distributing Sp Mortgage Bank's loans. This distribution agreement determines the right of Savings Banks to grant residen-tial mortgage loans directly on the balance sheet of Sp Mortgage Bank. In the agreement, the Savings bank is defined as having an obligation and right to repurchase a loan from Sp Mortgage Bank which does not qualify for the cover pool of the mortgage credit bank or which has become a defaulted loan.

In the Savings Banks the Board of Directors makes the most significant credit decisions. Each Board of Di-rectors delegates the necessary lending authorities to the banks' senior management, management team, credit committee and other named persons involved in the lending. The credit decisions are made accord-ing to Sp Mortgage bank's credit-underwriting policy as approved by the Board of Directors. The main prin-ciple is decision making by two persons having lending authorization. The credit decisions are based on the customers' credit worthiness, ability to pay and other criteria, for example regarding acceptable collaterals, applied to credit decision making. The collaterals are valued at fair value conservatively and their fair values are regularly monitored using both statistical information and bank's comprehensive knowledge about its operating area. The Board of Directors approves the instructions and guidelines for the valuation of the different collateral types and their collateral value applied in lending. The evaluation of the fair value of the collateral is always done on a case-by-case basis.

The loans to private customers are granted against sufficient residential collateral. Sp Mortgage Bank's loans have to continuously meet the criteria of the Act on Mortgage Credit Bank operations and the separate instructions given by the Board of Directors of Sp Mortgage Bank. The collateral is required to be the first priority residential collateral.

Residential mortgage loan pledged as collateral for a covered bond may not exceed the fair value of the shares or real estate used as collateral. Only 70 per cent of the fair value of the shares or real estate used as collateral for each residential mortgage loan is counted in the total amount of collateral for covered bonds.

The credit risk instructions laid down by the Savings Banks Amalgamation are used to calculate the fair val-ue of the collaterals. Sufficient information is required regarding collaterals when making credit decisions. The fair value of the collateral is approved by the credit decision which is based on the valuation of the collateral. Credit decision is done based on the current and valid Savings Bank's lending authorization.

The fair value of the real estate is measured based on good real estate practice. The value of the collateral is updated when material changes occur which increases Sp Mortgage Bank's risks; e.g. when the fair value of the collateral has decreased materially or when there are changes in the co-debtors.

The loan portfolio of Sp Mortgage Bank increased during 2020 by 189 million and was 31.12.2020 EUR 2,146 (1,957) million. Loans on the balance sheet to private persons are 98 per cent and loans to entrepre-neurs 2 per cent.

Breakdown of loans by customer groups

Customer group (EUR 1,000)	31.12.2020	31.12.2019	change %
Private persons	2,107,416	1,921,177	10 %
Entrepreneurs	38,889	35,956	8 %
Total	**2,146,305**	**1,957,133**	**10 %**

The credit worthiness of a private customer is based on the local Savings Bank's comprehensive customer knowledge and the assessment of the customer's ability to pay. The credit decision is mainly based on the customer's sufficient repayment ability. The customer's ability to pay, earlier repayment behavior, the credit scoring of the application together with the loan-to-value ratio forms the basis for the credit deci-sion and the risk-based pricing.

Following the adoption of IFRS 9 Financial Instruments, liabilities are categorised into nine risk categories. The table below shows the exposures of retail clients by risk classes divided into the stages 1, 2 and 3.

Private lending by rating distribution

(EUR 1,000)		31.12.2020				% of portfolio	
Description	**12 M PD**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**31.12.2020**	**31.12.2019**
1 Excellent	0.0-0.3%	30,332	22		30,354	1 %	1 %
2 Good	0.3-0.4%	319,986	635		320,621	15 %	15 %
3 Good	0.4-1.0%	795,520	5,282		800,802	37 %	35 %
4 Average	1.0-1.9%	681,828	15,880	147	697,855	33 %	34 %
5 Average	1.9-3.7%	229,462	17,282	164	246,908	12 %	13 %
6 Weak	3.7-7.8%	25,642	8,231	100	33,973	2 %	2 %
7 Past due but not impaired	7.8-9.9%	5,934	8,995	77	15,006	1 %	1 %
8 Past due but not impaired	9.9-22.3%	155	425	88	668	0 %	0 %
D Non-performing	100.0 %			118	118	0 %	0 %
Total		**2,088,860**	**56,752**	**694**	**2,146,305**	**100 %**	**100 %**

Retail customer ratings are mainly good. The retail customer's ratings improved during 2020. There are several reasons for improving credit portfolio, the most important of which is the initiation of the debt collection process before customer has more than 30 days past due receivables.

Credit risk is assessed and measured by monitoring payment delays, expected credit losses, troubled exposures and non-performing receivables, for example. The customer-specific amounts of liabilities and collateral are monitored by the persons responsible for the customers based on continuous payment behaviour and monitoring the customers' activities. The Board of Directors receives regular reports on customer liabilities, payment delays, expected credit losses, troubled exposures and non-performing receivables. The concentrations of the credit portfolio are monitored on a customer-specific and industry-specific basis and the reporting includes the amounts and development of risks at the customer and industry levels as well as by credit rating.

Doubtful exposures

Doubtful exposures, delayed payments, forborne exposures and non-performing receivables are monitored regularly at both the member credit institution level and the amalgamation level. Doubtful exposures refer to liabilities for which the customer is classified as being in default either due to significant receivables being more than 90 days past due or due to it being deemed unlikely, for other reasons, that the customer will fulfil their obligations.

Delayed payment refers to the customer's receivables being overdue for 1–3 months and the customer being a potential problem customer. Sp-Mortgage bank's delayed receivables were approximately 0.19 per cent (0.17) of the credit portfolio. The COVID-19 pandemic did not have a significant effect on payment delays in 2020 due to the instalment-free periods granted in the spring, which covered the entire industry.

A non-performing receivable is the remaining principal, reported as a receivable that is more than 90 days past due, of a receivable for which the interest of principal has been due and unpaid for more than three months. Sp-Mortgage bank did not have more than 90 days past due receivables. The average maturity of the loans for which instalment-free periods were granted was seven months and a significant proportion of the instalment-free periods that became due at the end of 2020 were not extended.

The definition and number of non-performing receivables will expand in 2021 when the credit institutions belonging to the Savings Banks Group adopt the thresholds defined pursuant to EU 2018/171 in determining default starting from 1 January 2021.

Receivables whose terms have been renegotiated due to the customer's deteriorated ability to pay are reported as forborne exposures. Concessions are granted on the loan terms of renegotiated receivables due to the customer's financial difficulties by, for example, granting an instalment-free period of 6–12 months. In certain circumstances, when a debtor experiences financial difficulty, the customer is granted a concession on the terms of the loan in the form of an instalment-free period or restructuring the liability. The aim is to ensure the customer's ability to pay and avoid potential credit losses. Granting forbearance is conditional on the customer's financial difficulties being short-term and temporary. The Amalgamation's forborne exposures totaled EUR 35 million (EUR 0 million).

Impairment and expected credit losses are described in the accounting policies section of the financial statements.

Concentration risks

The credit risk concentrations referred to in the credit risk strategy may arise when the loan portfolio contains large amounts of loans and other exposures to the following:

- Single counterparty
- Groups consisting of single counterparties and their interest groups
- Certain industries
- Against certain collateral
- With identical maturity
- Same product/instrument

The total amount of credit granted by Sp Mortgage Bank to a single customer and/or customer group must not exceed the maximum amounts set in the Credit Institutions Act or other acts, or the regulations given by the Financial Supervisory Authority or other regulatory authority. The concentration risks caused by an individual counterparty are restricted with limits and guidelines related to the maximum customer expo-sure.

Market risk

In general, market risk refers to the impact of a change in market prices on the market value of financial assets and liabilities. The most important market risk in banking activities is the interest rate risk in the banking book, which is measured through both net present value and net interest income.

The business of Sp Mortgage Bank is to issue euro-denominated covered bonds with residential mortgage loans as collateral and grant residential mortgage loans as defined in the Act on Mortgage Credit Bank operations.

As defined, Sp Mortgage Bank does not have a trading book. Sp Mortgage Bank may acquire bonds used as temporary supplementary collateral or as a liquidity buffer, but otherwise it will not have an investment portfolio.

Sp Mortgage Bank does not take any equity risk, commodity risk or currency risk. Both the issued covered bonds and the residential mortgage loans used as their collateral and any temporary supplementary col-lateral and other balance sheet items and off-balance sheet items are all euro-denominated.

Market risk management

Limits and thresholds have been set for market risk measurement. The capital adequacy management process (ICAAP), which allocates capital to cover market risks of the banking book in normal and stress scenarios, is the main tool in measuring and monitoring market risks included in the banking book.

Interest rate risk in the banking book

Sp Mortgage Bank's key market risk is the interest rate risk in the banking book, which is monitored using both present value risk and income risk.

Interest rate risk refers to the adverse effect of interest rate changes on the market value (present value risk) or on the net interest income (income risk) of the balance sheet and off-balance sheet items.

In Sp Mortgage Bank interest rate risk arises from the different interest rate bases of lending and funding.

In Sp Mortgage Bank derivative contracts will only be concluded to hedge against risks. Sp Mortgage Bank manages its interest rate risks by pegging both sides of its balance sheet to short-term market interest rates. Any supplementary collateral or bonds in the liquidity buffer will be hedged using short-term market interest rates. Hedge accounting is applied to the hedges implemented. All hedging derivatives will be im-plemented directly from Sp Mortgage Bank with a credit institution outside the Savings Banks Group.

The interest rate risks are measured using both the net interest income and the change in the present value of the balance sheet. The net present value method measures the change of the net present value of the balance sheet resulting from a change in interest rates when each balance sheet item is valued as the present value of its cashflows. The income risk model predicts the future net interest income over one year with changing market interest rates.

The table below shows the net interest income's sensitivity to a 1 percentage point's parallel shift in the interest rate curve.

Net interest income sensitivity to a 1 % -point parallel shift in the ineterest rate curve

(EUR 1,000)	Korkokatteen muutos 31.12.2020		31.12.2019	
Period	Down	Up	Down	Up
Change in the coming 12 months	5,965	-2,304	6,264	-97
Change in 12-24 months	8,432	-3,270	13,623	-1,214

Liquidity risk

Liquidity risk is the risk that the bank is unable to meet its present or future expected or unexpected obligations as they come due or is unable to do so without incurring unacceptable losses.

Sp Mortgage Bank does not take deposits from the public. Sp Mortgage Bank has an agreement on the use of liquid assets with the Central Bank of Savings Banks Finland Plc. A distributing Savings Bank or the Cen-tral Bank of Savings Banks Finland Plc representing it will finance the loans it has distributed with the amount that corresponds to the collateral requirement set by the rating agency. The overcollateralization amount is funded through the credit facility granted by the Central Bank of Savings Banks Finland Plc.

The liquidity reserve and the liquidity requirement

Sp Mortgage Bank has a reserve of free liquid assets in case of a rapid and unexpected weakening of the liquidity situation. The size of the liquidity reserve is determined on the basis of the liquidity coverage requirement. The liquidity reserve, i.e. the liquidity portfolio, consists of assets held in a payment transaction account and an LCR account. The sufficiency of the liquidity reserve will be measured by the LCR ratio defined in the Delegated Regulation.

Assets 31.12.2020 (EUR 1,000)	Total	< 3 months	3-12 months	1-5 years	> 5 years
Loans and advances to credit institutions	85,309	85,309			
Loans and advances to customers	2,146,305	33,970	105,367	560,763	1,446,206
Financial assets total	**2,231,614**	**119,279**	**105,367**	**560,763**	**1,446,206**

Liabilities 31.12.2020 (EUR 1,000)	Total	alle 3 kk	3-12 months	1-5 years	> 5 years
Due to credit institutions and central banks	627,830	95,830	411,000	53,500	**67,500**
Debt securities in issue	1,500,000		500,000	500,000	**500,000**
Financial liabilities total	**2,127,830**	**95,830**	**911,000**	**553,500**	**567,500**

Assets 31.12.2019 (EUR 1,000)	Total	alle 3 kk	3-12 months	1-5 years	> 5 years
Loans and advances to credit institutions	94,318	94,318			
Loans and advances to customers	1,956,315	29,722	94,821	511,020	1,320,753
Financial assets total	**2,050,634**	**124,041**	**94,821**	**511,020**	**1,320,753**

Liabilities 31.12.2019 (EUR 1,000)	Total	alle 3 kk	3-12 months	1-5 years	> 5 years
Due to credit institutions and central banks	460,300	72,800	354,000	12,000	**21,500**
Debt securities in issue	1,500,000			1,000,000	**500,000**
Financial liabilities total	**1,960,300**	**72,800**	**354,000**	**1,012,000**	**521,500**

Operational risk

Operational risk refers to the risk of loss arising from inadequate or failed internal processes, personnel, systems or external factors. Legal and compliance risks are also included in the operational risks. In addition, reputational risks are managed as a part of operational risks. The various stages of lending and trad-ing processes also involve operational risks as well credit, liquidity and market risks, which are assessed in the evaluation of operational risks at the Group and Amalgamation level. Strategic risks have here been excluded from operational risks.

Sp Mortgage Bank's operations comply with the current legislation, government regulations, the rules of good banking practices as confirmed by the Federation of Finnish Financial Services and the principles of the management of operational risks, along with other internal guidelines of Sp Mortgage Bank.

The Board of Directors of Sp Mortgage Bank has the overall responsibility for the operational risks and for defining risk levels and operational risk management procedures related to their identification, measurement, mitigation, monitoring and control. The Board of Directors of Sp Mortgage Bank approves the princi-ples and key operational guidelines of the operational risk management. The risk and compliance function monitors that the operational risk guidelines are implemented and complied with in all operations and functions in Savings Banks Group.

Sp Mortgage has identified the operational risks associated with the most important products, services, operations, processes and systems. Identifying operational risks helps determine their monitoring and controls. Some of the losses caused by operational risks are covered by insurance. The continuity plan of the bank also helps prepare for significant interruptions in operations.

Within Sp Mortgage Bank, operational risks, realized losses and near misses are regularly reported to the management.

Legal risk

Legal risks refer to risk of loss due to an invalid contract or incomplete documentation and the risk of sanc-tions, liability to compensate customers and loss of goodwill due to non-compliance with laws or official regulations. Sp Mortgage Bank complies with standard terms worked out jointly by the banking industry. When finalizing non-standard agreements, legal services are used, and external experts are consulted when needed.

Compliance function has been established to ensure that Sp Mortgage Bank comply with regulations and internal guidelines. Compliance function's responsibility is to ensure that the bank comply with laws, regu-lations and guidelines. Compliance function also monitors that the bank complies with its own internal guidelines, ethical principles for personnel and other instructions. There is no risk tolerance for compliance risks and necessary means are taken to prevent any compliance risks to materialize in Savings Banks Group.

Business risk

Business risk describes the impact of uncertainties caused by the operating environment on Sp Mortgage Bank's business. Business risks arise from competition, from changes in markets and customer behavior as well as from unexpected income fluctuations. Business risks may also be caused by choosing a wrong strategy, ineffective management or slow response to changes in the operating environment.

Business risks are managed and minimized through strategic and business planning.

NOTE 5. CAPITAL ADEQUACY MANAGEMENT

Sp Mortgage Bank has adopted capital adequacy management process, the objective of which is to ensure the bank's risk-bearing capacity is sufficient in relation to all the major risks resulting from its business operations. Sp Mortgage Bank identifies and comprehensively assesses the risks associated with its business operations and ensures that its risk-bearing capacity is adequate when compared to the sum of all risks. The internal capital requirements specified through the capital adequacy management are based on the capital requirements under Pillar I and risks outside Pillar I, such as interest rate risk of the banking book, market risk of the investment portfolio and business risk. In the internal assessment process, Sp Mortgage Bank estimates the amount of capital that will also be sufficient to cover unexpected losses arising from risks outside Pillar I.

The Board of Directors of the bank has overall responsibility for capital adequacy management. The Bank's Board of Directors approves the basis, objectives and principles of capital adequacy management. Moreover, the Board of Directors confirms the general requirements for the measurement and assessment of capital adequacy and the general principles for the capital adequacy management process. In practice this means that the Board of Directors approves the risk strategies and defines target levels for the capital needed to cover all material risks caused by the business operations and changes in the operating environment, The capital adequacy, liquidity and risk positions of the entities belonging to the Savings Bank Amalgamation are monitored and consolidated at the Amalgamation level. The Board of Directors of the Central Institution has set target levels for the capital adequacy of the Amalgamation and banks, which are monitored quarterly.

Stress tests

As part of the capital adequacy management process, Sp Mortgage Bank uses stress tests to assess its own risk position and the adequacy of its capital. Stress tests are used when assessing how various exceptionally severe but possible scenarios may affect profitability, capital adequacy and adequacy of own funds. Stress tests are designed to identify the key risks to Sp Mortgage Bank and assess how vulnerable the structure of the Bank is in relation to the occurrence of those risks. The objective of the capital adequacy management is also to maintain and develop the quality of risk management framework.

Capital contingency plan

The capital contingency plan of Sp Mortgage Bank is made in order to be prepared for unforeseeable events that may threaten the bank's capital adequacy. The capital contingency plan includes target levels and thresholds set by the Board of Directors for the quantity and quality of the capital, which are monitored quarterly. The capital contingency plan describes the actions to be taken by the management and the Board of Directors in the event that the capital adequacy ratio falls below the threshold.

Pillar I capital requirements

The biggest capital requirements of Sp Mortgage Bank are comprised of mortgage loan receivables. The standard method is applied to calculate the capital requirement for credit risk of the Bank. The capital requirement for operational risk is calculated by the basic method.

Own funds and capital adequacy

At the end of the financial year, the Sp Mortgage Bank had a strong capital structure, consisting of CET1 capital. Own funds totaled EUR 112 (88) million. CET1 capital amounted to 112 (88) million euro. Risk-weighted assets amounted to 785 (715) million. The capital ratio of Sp Mortgage Bank was 14.2 (13.7) % and the CET1 capital ratio was 14.2 (13.7) %.

The capital requirement of Sp Mortgage Bank was EUR 82 (75) million that equals to 10.5% of risk-weighted assets. The components of the capital requirement have remained unchanged compared to the previous year. The capital requirement is formed by:

- 8 % minimum capital requirements set by Capital Requirement Regulation (CRR),
- 2.5% CET1 capital conservation buffer of according to the Act on Credit Institutions
- The country specific countercyclical CET1 capital requirements of foreign exposures.

Finnish Financial Supervisory Authority made decision on pillar 2 requirement for the Savings Bank Amal-gamation on 4 July 2019 and it came into force on 31 March 2020. As a result, pillar 2 requirement for the Savings Bank Amalgamation increased from 0.5% to 1.25% of total risk amount. The requirement percent-age is based on the methodology of SREP (Supervisory Review and Evaluation Process) for LSI banks from ECB, where the percentage of additional capital requirement is determined from the overall rating of FSA's assessment. The requirement shall be met at the amalgamation level with CET1 capital. The requirement is valid maximum 3 years until 31 March 2023.

The Finnish Financial Supervisory Authority is responsible for domestic macro prudential decision making after hearing the Bank of Finland, Ministry of Finance and Ministry of Social Affairs and Health. Decisions on the activation of macro prudential instruments are taken on a quarterly basis expect for decisions on O-SII buffers, risk weights for loans secured by mortgages on immovable property (CRR Article 124 and 164) and systematic risk buffer. Decisions on the activation of these instruments have taken at least once a year.

At its meeting on 6 April 2020, the Board of the Financial Supervisory Authority decided to remove the sys-temic risk buffer, which lowered the Saving Bank Amalgamation's capital requirement by one percentage point. The aim of the decision is to mitigate the negative effects of the coronavirus pandemic on the stability of financial markets and on credit institutions' ability to finance the economy.

At its meeting on 29 June 2020, the Board of the Financial Supervision Authority decided that the maximum LTC ratio for residential mortgage loans will be adjusted and brought back to the statutory standard level of 90%. The Board of the Financial Supervision Authority also decided that countercyclical capital buffer (CCyB) requirement will remain at 0%. Countercyclical buffer requirement can vary from 0-2.5% of risk weighted assets. FIN-FSA has not imposed additional O-SII capital requirement for Savings Banks Amalgamation.

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% 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).

The Financial Supervisory Authority has granted permission to the Central Institution of the Amalgamation to waive fully the application of the requirements regarding liquidity set out in part six of Regulation (EU) No 575/2013 and its amending and supplementing acts to the Amalgamation's member credit institutions.

Sp Mortgage 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 Half-year Report.

The most significant regulatory changes influencing capital requirements in 2021 will be the implementation of the new definition of default and the amendments to the EU Capital Requirements Regulation (CRR2). The implementation of the new definition of default, which is broader than the previous definition, will increase the total amount of risk-weighted receivables effective from 1 January 2021. A binding 3% minimum leverage ratio and a 100% minimum requirement for the net stable funding ratio (NSFR) will enter into effect on 28 June 2021 as part of the amendments to the Capital Requirements Regulation. CRR2 also includes amendments related to the capital requirements concerning investments in investment funds, derivatives and lending to SMEs.

Sp Mortgage Bank's capital adequacy information is included in the consolidated financial statements and the half-year report of the Savings Banks Amalgamation. The Savings Banks Group publishes the so-called Pillar III capital adequacy information separately at the same time with its financial statements. The Savings Banks Group's financial statements and the Pillar III information are available online at *www.saastopankki.fi*.

Sp Mortgage Bank's capital adequacy's main items

Own funds (EUR 1,000)	31.12.2020	31.12.2019
Common Equity Tier 1 (CET1) capital before regulatory adjustments	111,646	98,397
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-16	-39
Common Equity Tier 1 (CET1) capital	111,630	98,358
Additional Tier 1 (AT1) capital before regulatory adjustments	0	0
Total regulatory adjustments to Additional Tier 1 (AT1) capital	0	0
Additional Tier 1 (AT1) capital	0	0
Tier 1 capital (T1 = CET1 + AT1)	111,630	98,358
Tier 2 (T2) capital before regulatory adjustments	0	0
Total regulatory adjustments to Tier 2 (T2) capital	0	0
Tier 2 (T2) capital	0	0
Total capital (TC = T1 + T2)	111,630	98,358
Risk weighted assets	784,525	715,469
of which: credit and counterparty risk	746,409	683,047
of which: credit valuation adjustment (CVA)	26,849	22,022
of which: market risk		
of which: operational risk	11,268	10,400
Common Equity Tier 1 (as a percentage of total risk exposure amount)	14.2 %	13.7 %
Tier 1 (as a percentage of total risk exposure amount)	14.2 %	13.7 %
Total capital (as a percentage of total risk exposure)	14.2 %	13.7 %
Capital requirement		
Total capital requirement	111,630	98,358
Capital requirement total*	82,375	75,130
Capital buffer	29,255	23,228

* The capital requirement of 10.5% is formed by the statutory minimum capital adequacy requirement of 8%, the capital conservation buffer of 2.5% according to the Act on Credit Institutions, and the country-specific countercyclical capital requirements of foreign exposures.

Leverage ratio

The leverage ratio of Sp Mortgage Bank was 4.9 % (4.7 %). 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.

Leverage ratio

(EUR 1,000)	31.12.2020	31.12.2019
Tier 1 capital	111,630	98,358
Leverage ratio exposure	2,266,774	2,081,645
Levarage ratio	4.9 %	4.7 %

Resolution plan

The Directive of the European Parliament and of the Union 2014/59/EU on the recovery and resolution framework of credit institutions and investment service firms was brought nationally into force as of 1 January 2015 (the Act on the crisis solution of credit institutions and investment service firms). To implement the resolution act, the Financial Stability Authority was established (the Act on the Financial Stability Authority, 1995/2014). In September 2019, the Financial Stability Authority set a minimum requirement of own funds and eligible liabilities (MREL) at the amalgamation level and the requirement entered into effect immediately. The requirement does not apply to the member credit institutions, the Central Bank of Savings Banks and Sp Mortgage Bank. The MREL requirement is by nature a Pillar 2 type continuously required minimum requirement. The Financial Stability Authority decided that the MREL requirement applied to the Savings Banks Amalgamation is 10.3 per cent of own funds and eligible liabilities.

PROFIT FOR THE FINANCIAL YEAR

NOTE 6. NET INTEREST INCOME

(EUR 1,000)	1-12/2020	1-12/2019
Interest income		
Loans and advances to customers	20,688	20,234
Derivative contracts		
Hedging derivatives	6,097	4,410
Other	58	67
Total	**26,843**	**24,710**
Interest expense		
Liabilities to credit institutions	-1,937	-2,696
Derivative contracts		
Hedging derivatives		
Debt securities issued	-2,464	-2,149
Limits	-510	-546
Other	-78	-103
Total	**-4,989**	**-5,495**
Net interest income	**21,854**	**19,216**

NOTE 7. NET FEE AND COMMISSION INCOME

(EUR 1,000)	1-12/2020	1-12/2019
Fee and commission income		
Lending	752	679
Total	**752**	**679**
Fee and commission expense		
Loans*	-16,976	-14,651
Other	-18	-2
Total	**-16,994**	**-14,653**
Net fee and commission income	**-16,242**	**-13,974**

* Consists mainly of fees paid to the intermediating banks.

NOTE 8. NET TRADING INCOME

(EUR 1,000)	1-12/2020	1-12/2019
Net income from hedge accounting		
Change in hedging instruments' fair value	8,300	6,636
Change in hedged items' fair value	-5,620	-6,865
Net trading income	**2,680**	**-228**

NOTE 9. INCOME AND EXPENSES FROM FINANCIAL INSTRUMENTS

(EUR 1,000)	1-12/2020	1-12/2019
Interest income on		
Unimpaired amortized cost investments	20,746	20,301
Total interest income arising from financial assets not measured at fair value through profit or loss	**20,746**	**20,301**
Finance income	**20,746**	**20,301**
Financial liabilities measured at amortized cost - interest expense	-4,989	-5,495
Loan receivables - impairment loss	-42	-24
Finance expenses	**-5,031**	**-5,519**
Net income and expenses from financial instruments	**15,715**	**14,782**

NOTE 10. PERSONNEL EXPENSES

(EUR 1,000)	1-12/2020	1-12/2019
Wages and salaries	-26	-21
Personnel expenses	**-26**	**-21**

NOTE 11. OTHER OPERATING EXPENSES

(EUR 1,000)	1-12/2020	1-12/2019
Other administrative expenses		
Other personnel expenses		-1
Office expenses	-888	-908
ICT expenses	-466	-529
Telecommunications	-8	-7
Marketing	-7	-7
Total	**-1,369**	**-1,452**
Other operating expenses		
Other operating expenses*	-266	-390
Total	**-266**	**-390**
Other operating expenses total	**-1,635**	**-1,842**

***Audit fees**		
Statutory audit	-15	-18
Other services		-27
Total	**-15**	**-45**

NOTE 12. DEPRECIATION OF INTANGIBLE ASSETS

(EUR 1,000)	1-12/2020	1-12/2019
Depreciation of intangible assets	-29	-361
Total depreciation	**-29**	**-361**
Depreciation of intangible assets	**-29**	**-361**

NOTE 13. IMPAIRMENT LOSS ON FINANCIAL ASSETS

Financial asset within the scope of accounting for expected credit losses by impairment stage (EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Financial asset 31 December 2020				
Loans and advances	2,056,022	89,590	694	2,146,305
Off-balance sheet items	6,025			6,025
Total	**2,062,046**	**89,590**	**694**	**2,152,330**
Financial asset 31 December 2019				
Loans and advances	1,821,437	134,881	815	1,957,133
Off-balance sheet items	15,533	381		15,915
Total	**1,836,971**	**135,262**	**815**	**1,973,048**

Expected Credit Losses (ECL), Loans and advances and off-balance sheet	Stage 1	Stage 2	Stage 3	Total
(EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected Credit Losses 1 January 2020	**502**	**320**	**6**	**827**
Transfers to stage 1	23	-160		-138
Transfers to stage 2	-12	77	-2	62
Transfers to stage 3				
New assets originated or purchased	164	43	3	210
Assets derecognised or repaid	-72	-59		-131
Amounts written off				
Change in credit risk without stage change	-65	-15		-81
Manual repair, individual level	130	-17	6	119
Net change in ECL				42
Expected Credit Losses 31 December 2020	**664**	**219**	**10**	**893**

Expected Credit Losses (ECL), Loans and advances and off-balance sheet	Stage 1	Stage 2	Stage 3	Total
(EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected Credit Losses 1 January 2019	**664**	**174**	**9**	**847**
Transfers to stage 1	6	-23		-18
Transfers to stage 2	-48	132	-2	81
Transfers to stage 3		-1	3	1
New assets originated or purchased	217	84	3	304
Assets derecognised or repaid	-158	-158	-5	-321
Change in credit risk without stage change	-21	-3		-24
Net change in ECL				24
Expected Credit Losses 31 December 2019	**497**	**350**	**4**	**851**

NOTE 14. INCOME TAXES

(EUR 1,000)	1-12/2019	1-12/2018
Current tax	-1,312	-553
Tax for prior years		
Change in deferred tax assets		
Change in deferred tax liabilities		
Income taxes	**-1,312**	**-553**
Total income taxes	**-1,312**	**-553**

Reconciliation between tax expense in the income statement and tax expense calculated by the applicable tax rate

Reconciliation of effective tax rate		
Accounting profit before tax	6,561	2,766
Differences between accounting and taxable profit		
Taxable profit	**6,561**	**2,766**
Tax using the domestic corporation tax rate	-1,312	-553
Tax for prior years		
Tax expense as specified above	**-1,312**	**-553**
Corporate income tax rate	**20 %**	**20 %**

ASSETS

NOTE 15. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

31.12.2020 (EUR 1,000)	Amortized costs	Financial assets at fair value through profit or loss	Total
Loans and advances to credit institutions	85,309		85,309
Loans and advances to customers	2,145,433		2,145,433
Derivatives		20,712	20,712
hedging derivatives		20,712	
of which fair value hedging		20,712	
Total assets	**2,230,742**	**20,712**	**2,251,454**
Liabilities to credit institutions	627,830		627,830
Debt securities issued	1,511,782		1,511,782
Total liabilities	**2,139,612**		**2,139,612**

31.12.2019 (EUR 1,000)	Amortized costs	Financial assets at fair value through profit or loss	Total
Loans and advances to credit institutions	94,318		94,318
Loans and advances to customers	1,956,315		1,956,315
Derivatives		12,412	
hedging derivatives		12,412	
fair value		12,412	12,412
Total assets	**2,050,634**	**12,412**	**2,063,046**
Liabilities to credit institutions	460,300		460,300
Debt securities issued	1,505,074		1,505,074
Total liabilities	**1,965,374**		**1,965,374**

NOTE 16. LOANS AND ADVANCES

2020 (EUR 1,000)	Not impaired (gross)	Expected credit losses (ECL)	Balance sheet value
Loans and advances to credit institutions			
Deposits*	85,309		85,309
Total	**85,309**		**85,309**

*of which Deposits to Credit Institutions belonging to the Savings Banks Amalgamation EUR 85,309 thousand.

Loans and advances to customers			
Loans	2,146,305	-872	2,145,433
Total	**2,146,305**	**-872**	**2,145,433**
Loans and advances total	**2,231,614**	**-872**	**2,230,742**

2019 (EUR 1,000)	Not impaired (gross)	Expected credit losses (ECL)	Balance sheet value
Loans and advances to credit institutions			
Deposits*	94,318		94,318
Total	**94,318**		**94,318**

*of which Deposits to Credit Institutions belonging to the Savings Banks Amalgamation EUR 94,318 thousand.

Loans and advances to customers			
Loans	1,957,133	-817	1,956,315
Total	**1,957,133**	**-817**	**1,956,315**
Loans and advances total	**2,051,451**	**-817**	**2,050,634**

NOTE 17. DERIVATIVES AND HEDGE ACCOUNTING

The Sp Mortgage Bank hedges its interest rate risk against changes in fair value and applies hedge accounting on hedging relationships. Fair value hedging is applied when fixed interest rate issued covered bonds are hedged.

Changes in the fair value of derivatives in fair value hedging are recognised in the income statement under "Net trading income". In 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 on hedging derivatives are presented as interest income and expense depending on their nature.

(EUR 1,000)	Nominal value / remaining maturity				Fair value	
31.12.2019	Less than 1 year	1 - 5 years	Over 5 years	Total	Assets	Liabilities
Hedging derivative contracts						
Fair value hedging	500,000	500,000	500,000	1,500,000	20,712	
Interest rate derivatives	500,000	500,000	500,000	1,500,000	20,712	
Total	**500,000**	**500,000**	**500,000**	**1,500,000**	20,712	
Derivatives total					**20,712**	

(EUR 1,000)	Nominal value / remaining maturity				Fair value	
31.12.2019	Less than 1 year	1 - 5 years	Over 5 years	Total	Assets	Liabilities
Hedging derivative contracts						
Fair value hedging		1,500,000		1,500,000	12,412	
Interest rate derivatives		1,500,000		1,500,000	12,412	
Total		**1,500,000**		**1,500,000**	12,412	
Derivatives total					**12,412**	

NOTE 18. INTANGIBLE ASSETS

(EUR 1,000)	31.12.2020	31.12.2019
Intangible assets		29
Intangible assets under development		
Total		**29**

Intagible assets formed a significant part of information systems acquired from external operators.

2020 (EUR 1,000) Changes in intangible assets	Intangible assets	Intangible assets under development	Total
Acquisition cost 1 January	752		752
Transfers between items			
Acquisition cost 31 December	752		752
Accumulated depreciation and impairments 1 January	-723		-723
Depreciation for the financial year	-29		-29
Accumulated depreciation and impairments 31 December	-752		-752
Carrying amount 31 December			

2019 (EUR 1,000) Changes in intangible assets	Intangible assets	Intangible assets under development	Total
Acquisition cost 1 January	752		752
Transfers between items			
Acquisition cost 31 December	752		752
Accumulated depreciation and impairments 1 January	-361		-361
Depreciation for the financial year	-361		-361
Accumulated depreciation and impairments 31 December	-723		-723
Carrying amount 31 December	**29**		**29**

NOTE 19. OTHER ASSETS

(EUR 1,000)	31.12.2020	31.12.2019
Accrued income and prepaid expenses		
Interest	3,367	2,855
Other accrued income and prepaid expenses	673	859
Other assets total	**4,040**	**3,714**

LIABILITIES AND EQUITY

NOTE 20. LIABILITIES TO CREDIT INSTITUTIONS

(EUR 1,000)	31.12.2020	31.12.2019
Other than those repayable on demand*	627,830	460,300
Total liabilities to credit institutions	**627,830**	**460,300**

*of which Liabilities to Credit Institutions belonging to the Savings Banks Amalgamation EUR 608,500 (451,500) thousand.

NOTE 21. DEBT SECURITIES ISSUED

	31.12.2020		31.12.2019	
(EUR 1,000)	Nominal value	Carrying amount	Nominal value	Carrying amount
Measured at amortised cost				
Covered bonds	1,500,000	1,496,153	1,500,000	1,495,065
Fair value hedging on covered bonds		15,629		10,009
Total debt securities issued	**1,500,000**	**1,511,782**	**1,500,000**	**1,505,074**

Sp Mortgage Bank Plc's Covered bonds issued

(EUR 1,000)	Nominal value	Carrying amount	Maturity	Interest base	Coupon	Maturity date
Sp Mortgage Bank 2016	500,000	499,713	5 v	Fixed	0.10 %	29.11.21
Sp Mortgage Bank 2017	500,000	498,726	5 v	Fixed	0.125 %	24.10.22
Sp Mortgage Bank 2019	500,000	497,714	7 v	Fixed	0.050 %	19.6.26
Total	1,500,000	1,496,153				

Sp Mortgage Bank has not had any delays or defaults in respect of its issued debt securities.

NOTE 22. PROVISIONS AND OTHER LIABILITIES

(EUR 1,000)	31.12.2020	31.12.2019
Other liabilities		
Payment transfer liabilities	179	108
Expected credit losses (ECL), off-balance sheet items	21	33
Total other liabilities	**200**	**141**
Accrued expenses		
Interest payable	1,366	1,111
Interest advances received	4	4
Other accrued expenses	2,667	1,761
Total accured expenses	**4,036**	**2,876**
Total provisions and other liabilities	**4,236**	**3,018**

NOTE 23. CAPITAL AND RESERVES

(EUR 1,000)	31.12.2020	31.12.2019
Share capital	67,273	61,937
Reserves		
Reserve for invested non-restricted equity	33,586	30,922
Retained earnings		
Profit (loss) for previous financial years	5,538	3,325
Profit (loss) for the period	5,249	2,213
Total capital and reserves	**111,646**	**98,397**

Share capital

This item includes the paid share 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.

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.

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

OTHER NOTES

NOTE 24. COLLATERALS

(EUR 1,000)	31.12.2020	31.12.2019
Collateral given		
Given on behalf of Group's own liabilities and commitments		
Loans	2,059,487	1,881,238
Total colateral given	**2,059,487**	**1,881,238**
Collateral received		
Real estate collateral	2,146,126	1,957,039
Other	19,509	8,894
Total collateral received	**2,165,635**	**1,965,933**

NOTE 25. OFF BALANCE-SHEET COMMITMENTS

(EUR 1,000)	31.12.2020	31.12.2019
Loan commitments	7,668	10,818
Money Market Deposits*	20,000	40,000
Total off balance-sheet commitments	**27,668**	**50,818**

* Consists of loan agreements with Central Bank of Savings Banks Finland Plc, where the trade date is after the end of the reporting period.

NOTE 26. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The derivative contracts of the Sp Mortgage Bank are subject to either ISDA Master Agreement or the Master Agreement of the Finance Finland. 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.

(EUR 1,000) 31.12.2020				Amounts which are not offset but are subject to enforceable master netting arrangements or similar agreements			
	Recognised financial assets, gross	Recognised financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Carrying amount of Financial instruments in balance sheet, net	Carrying amount in balance sheet of financial instruments recieved as collateral	Cash held as collateral	Net amount
Assets							
Derivative contracts				20,712			20,712
Total				**20,712**			**20,712**
Liabilities							
Derivative contracts						19,330	19,330
Total						**19,330**	**19,330**

(EUR 1,000) 31.12.2019				Amounts which are not offset but are subject to enforceable master netting arrangements or similar agreements			
	Recognised financial assets, gross	Recognised financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Carrying amount of Financial instruments in balance sheet, net	Carrying amount in balance sheet of financial instruments recieved as collateral	Cash held as collateral	Net amount
Assets							
Derivative contracts				12,412			12,412
Total				**12,412**			**12,412**
Liabilities							
Derivative contracts						8,800	8,800
Total						**8,800**	**8,800**

NOTE 27. FAIR VALUES BY VALUATION TECHNIQUE

Fair value measurement

Financial instruments are presented in the Sp Mortgage Bank's balance sheet at amortised cost and at fair value in derivatives. The classification of financial assets and liabilities by valuation technique as well as the criteria for measurement methods and for determining fair value are described in the accounting policies of the financial statement (Note 2).

The fair values of financial instruments are primarily determined using quotations on a publicly traded market or market prices received from third parties. If quoted market prices are not available, balance sheet items are mainly measured by discounting future cash flows using market interest rates at the reporting date. In respect of cash and deposits payable on demand, the nominal value is considered equivalent to the fair value.

Sp Mortgage Bank does not have assets measured at fair value on a non-recurring basis.

Fair value hierarchy

Level 1 consists of financial assets, for which the value is determined based on quotes on a liquid market. Market is considered liquid if the prices are available easily and regularly enough. Level 1 includes securities which are quoted on public.

Level 2 includes financial assets for which there is no quotation directly available on an active market and whose fair value is estimated using valuation techniques or models. These are based on assumptions which are supported by verifiable market information such as the listed interest rates or prices of similar instruments. This group includes e.g. loans to customers as well as commercial papers and certificates of deposit.

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. Sp Mortgage Bank does not have financial assets for which the fair value has been determined according to level 3.

Transfers between levels

Transfers between the levels of the fair value hierarchy are considered to take place on the date when an event causes such a transfer or when circumstances change.

In the financial reporting period January to December 2020, there were no transfers between levels 1, 2 and 3.

Financial assets 31.12.2020 (EUR 1,000)	Carrying amount	Fair value by hierarchy level			Fair value
		Level 1	Level 2	Level 3	total
Measured at fair value					
Derivatives	20,712		20,712		**20,712**
Measured at amortised cost					
Loans and advances	2,230,742		2,486,172		**2,486,172**
Total financial assets	**2,251,454**		**2,506,884**	**0**	**2,506,884**

Financial liabilities 31.12.2020 (EUR 1,000)	Carrying amount	Fair value by hierarchy level			Fair value
		Level 1	Level 2	Level 3	total
Measured at amortised cost					
Liabilities to credit institutions	627,830		641,301		**641,301**
Debt securities issued*	1,511,782	1,518,100			1,518,100
Total financial liabilities	**2,139,612**	**1,518,100**	**641,301**		**2,159,401**

* Carrying amount includes the adjustment from the hedging EUR 15.6 million.

Financial assets 31.12.2019 (EUR 1,000)	Carrying amount	Fair value by hierarchy level			Fair value
		Level 1	Level 2	Level 3	total
Measured at fair value					
Derivatives	12,412		12,412		**12,412**
Measured at amortised cost					
Loans and advances	2,050,634		2,275,344		**2,275,344**
Total financial assets	**2,063,046**		**2,287,756**	**0**	**2,287,756**

Financial liabilities 31.12.2019 (EUR 1,000)	Carrying amount	Fair value by hierarchy level			Fair value
		Level 1	Level 2	Level 3	total
Measured at amortised cost					
Liabilities to credit institutions	460,300		465,697		**465,697**
Debt securities issued*	1,505,074	1,505,074			1,505,074
Total financial liabilities	**1,965,374**	**1,505,074**	**465,697**		**1,970,771**

* Carrying amount includes the adjustment from the hedging EUR 10.0 million.

NOTE 28. RELATED PARTIES

The Board of Directors of Sp Mortgage Bank has defined the related parties of the Sp Mortgage Bank. The related parties of the Sp Mortgage Bank's comprise key management personnel as well as their close family members. In addition, related parties comprise entities which the key management personnel and/or their close family members control. The key management personnel of the Sp Mortgage Bank comprise the members of the Board of Directors, the Managing Director as well as the Executive Board of Sp Mortgage Bank.

Sp Mortgage Bank does not have own personnel, all the necessary functions and support services are bought from the companies in the Savings Banks Amalgamation or from companies offering services to the Savings Banks Amalgamation.

Key management personnel compensation * (EUR 1,000)	2020	2019
Short-term employee benefits	26	21
Total	**26**	**21**

Key personnel compensation*

2020	Salary and remuneration
Ahonen Pirkko	1
Hakala Jussi	5
Syvänen Hannu	8
Siviranta Petri	1
Mangs Monika	6
Toivonen Anne	6
Total	**26**

Key personnel compensation*

2019	Salary and remuneration
Ahonen Pirkko	5
Hakala Jussi	1
Syvänen Hannu	8
Siviranta Petri	5
Huupponen Juhani	2
Total	**21**

NOTE 29. SUBSEQUENT EVENTS

The Board of Directors of Sp Mortgage Bank is not aware of any other factors, which would materially influence the financial position of Sp Mortgage Bank after the completion of the financial statements.

CAPITAL ADEQUACY INFORMATION

NOTE 30. PILLAR III DISCLOSURES

Sp Mortgage Bank is part of the Savings Banks Amalgamation and the Savings Banks Group. Sp Mortgage 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 Savings Banks Group publishes the so-called Pillar III capital adequacy information separately at the same time with its financial statements. 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 at the Savings Banks Union Coop offices at Teollisuuskatu 33, 00510 Helsinki, Finland.

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This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

Auditor's Report

To the Annual General Meeting of Sp Mortgage Bank Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sp Mortgage Bank Plc (business identity code 2685273-8) for the year ended 31 December, 2020. The financial statements comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies.

In our opinion the financial statements give a true and fair view of the bank's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Our opinion is consistent with the additional report submitted to the Board of Directors.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the company in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the company in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 11 to the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT

Valuation of receivables (loans and receivables from customers); Notes to financial statements 2, 3, 4 and 13

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
— Sp Mortgage Bank adopted the IFRS 9 *Financial instruments* –standard on 1 January 2018. — The Calculation of expected credit losses is based on the valuation models used by the bank. The calculation of expected credit losses involves assumptions, estimates and management judgements for example in respect to the probability and amount of the expected credit losses, the realizable value of the collateral as well as determining significant increases in credit risk. — In the financial year the coronavirus pandemic (COVID-19) has impacted the Banks operating environment, credit risk level and components of accounting for expected credit losses. — Due to the significance of the carrying amount involved, complexity of the accounting methods and management judgement involved, receivables from customers are addressed as a key audit matter.	— We assessed principles and controls over recognition and monitoring of loan receivables. Our audit procedures included testing of controls regarding determination and recording of expected credit losses on loans. — We considered the impacts of the COVID-19 pandemic on the bank's credit risk position and the accounting for expected credit losses. The key areas have been changes in macroeconomic factors, collateral valuations and changes in the amount of instalment-free periods for loans. — Furthermore, we assessed the appropriateness of the note disclosures made in relation to receivables and impairment losses.

Valuation of derivative instruments; Notes to financial statements 2, 8 and 17

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
— Sp Mortgage Bank hedges its interest rate risk from changes in fair value and applies	— We assessed the appropriateness of the measurement principles applied and the

hedge accounting to hedging relationships.

- At year-end the nominal value of derivatives is significant, amounting to € 1,5 billion. As derivatives are measured at fair value in preparing financial statements, this may result in significant volatility in the income statement.
- Fair values for the derivatives used by the company are not directly observable in an active market, instead the company determines fair values using applicable fair value models.

compliance with the applicable financial reporting standards.

- We also considered the accuracy of the fair values determined.
- Furthermore, we assessed the appropriateness of the note disclosures made in relation to derivatives.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and that financial statements comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the bank's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the company or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on 16 of April 2015, and our appointment represents a total period of uninterrupted engagement of 6 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. Our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the report of the Board of Directors, we are required to report that fact. We have nothing to report in this regard.

Helsinki, 5 February 2021

KPMG OY AB

PETRI KETTUNEN
Authorised Public Accountant, KHT

Sp Mortgage Bank Plc