Central Bank of Savings Banks Finlands Plc's

BOARD OF DIRECTORS' REPORT AND IFRS FINANCIAL STATEMENTS

31 DECEMBER 2022

Central Bank of Savings Banks

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BOARD OF DIRECTORS' REPORT

1 JANUARY–31 DECEMBER 2022

BOARD OF DIRECTORS' REPORT FOR 1 JANUARY TO 31 DECEMBER 2022

Central Bank of Savings Banks Finland Plc (hereinafter "SB Central Bank") is a bank owned by Finnish savings banks. Its main purpose is to provide savings banks and the Savings Banks Group with various central credit institution services. The central credit institution services include payment services and account operator services, payment card issuing for the customers of the member Savings Banks (hereinafter also "Savings Banks") of the Amalgamation, and services related to liquidity management, funding and asset and liability management. SB Central Bank is part of the Savings Banks Amalgamation.

In 2022, the focus of SB Central Bank business was offering high quality services and continuous service development.

SB Central Bank's profit for the financial year was EUR 7.1 million, and the balance sheet total amounted to EUR 3.4 billion.

THE SAVINGS BANKS GROUP AND THE SAVINGS BANKS AMALGAMATION

SB Central 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 (hereinafter also "the Group") is the oldest banking group in Finland. It comprises 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 member organisations of the Savings Banks Amalgamation (hereinafter also "the Amalgamation") form a financial entity as defined in the Act on the Amalgamation of Deposit Banks, in which the Savings Banks' Union Coop and its member credit institutions ultimately are jointly liable for each other's liabilities and commitments. The Amalgamation comprises the Savings Banks' Union Coop which acts as the Central Institution of the Amalgamation, 15 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 structure of the Group differs from that of the Amalgamation so that the Group also includes organisations other than credit and financial institutions or service companies. The most significant of these are Sb Life Insurance Ltd and Sp-Koti Oy Ltd.

Ylihärmän Säästöpankki merged with Aito Savings Bank Ltd and Mietoisten Säästöpankki with Liedon Säästöpankki during the financial year. As a result of the merger, the number of savings banks in the Savings Banks Amalgamation and the Savings Banks Group decreased from 17 to 15.

The Trustees of Lieto Savings Bank approved the corporate restructuring arrangements related to the merger of Lieto Savings Bank and Oma Savings Bank at a meeting of the Trustees on 22 September 2022. Lieto Savings Bank's exit from the Savings Banks Group and the Savings Banks Amalgamation is expected to be completed approximately on 28 February 2023.

The Savings Bank Centre initiated change negotiations in May 2022 concerning approximately 470 employees in the Savings Banks' Union Coop, Savings Bank Services, Central Bank of Savings Banks Finland Plc, Sp-Fund Management Company Ltd and Sb Life Insurance. The aim of the change negotiations was to improve operational efficiency, simplify the organisational structure and clarify the division of labour and responsibilities. It was estimated that, if implemented, the planned measures would lead to the termination of a maximum of 45 positions. The change negotiations were concluded on 21 June 2022. As a result of the negotiations, the employment relationships of 21 employees were terminated. In addition, there were material changes to the duties of some personnel. The personnel changes were minor at SB Central Bank.

Tomi Närhinen, who had served as the CEO of the Savings Banks' Union Coop since 2017, left his position in June 2022. The Board of the Savings Banks' Union Coop appointed acting CEO Karri Alameri as the CEO of the Savings Banks' Union Coop on 15 August 2022.

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

DESCRIPTION OF THE OPERATIONAL ENVIRONMENT

THE GLOBAL ECONOMY

The year 2022 began with a positive outlook and it was expected that the global economy would continue to recover from the COVID-19 crisis. The global economy was expected to grow faster than the long-term average. However, the outlook changed radically in February 2022 due to Russia's attack on Ukraine. In addition to human suffering, this resulted in a wide range of economic impacts.

Sanctions against Russia and Russia's own actions have caused the prices of raw materials and energy to rise and especially the availability of gas and electricity has weakened. Energy challenges have hit Europe particularly hard as it has been dependent on Russian energy.

Inflation started to accelerate already in 2021, but the consequences of the war have further contributed to this development. In 2022, inflation reached levels that have not been seen in Western countries for decades. In both the United States and Europe, consumer price inflation rose to over 10 per cent. In the United States, inflation started to show signs of abating in late 2022 but the European inflation outlook is more uncertain and highly dependent on the development of energy prices. However, supply chain challenges started to ease up towards the end of the year.

Due to rising prices and other economic uncertainty, both business and consumer confidence took a downward turn. In many countries, especially consumers have been more pessimistic about the economic outlook than for a long time. The rise in prices has weakened the purchasing power of households around the world. On the other hand, savings accumulated during the COVID-19 pandemic have brought relief and actual consumption did not suffer much despite the weakening purchasing power.

As a result of rising inflation, central banks around the world began to tighten their monetary policy. For instance, the US and European central banks raised their key interest rates several times, with larger increments than normal. The aim is to bring inflation back to the target level, even if it means a decline in economic activity.

In China, the strict COVID-19 strategy continued to cause disruptions in the economy when stringent restrictions were introduced as infections increased. In late 2022, China changed its COVID-19 strategy, making it clearly more lenient, and this was quickly reflected in an explosion in the number of infections. The success of the strategy will largely guide economic development in the coming year.

Although economic news and especially forward-looking indicators were quite negative in 2022, the global economy is expected to have grown at a rate of approximately 3 per cent (the OECD's forecast). This is certainly a more moderate figure than what long-term growth has been; however, in the current economic environment, it can be seen as a kind of defensive victory. Actual economic activity has been better than what was predicted by confidence indicators.

INTEREST RATE ENVIRONMENT

Having remained practically unchanged and negative in 2021, short-term interest rates in the eurozone increased significantly during the financial year 2022. The 12-month Euribor, which is the dominant reference rate for mortgages, has risen by nearly 3.5 percentage points since the turn of the year. The rise in short-term interest rates and the steepening of the curve have eliminated some of the burden that the flat yield curve in recent years has placed on net interest income in the banking sector. However, at the same time, volatility in the wholesale funding markets has contributed to wider margins in the debt capital markets, thereby increasing the costs of refinancing.

The European Central Bank has sent a clear signal that key interest rates will keep on rising further. Nevertheless, simultaneous market expectations of weakening economic development have held back the rise in long-term interest rates. The five-year swap rate has increased by approximately three percentage points since the turn of the year but uncertainty regarding economic development has resulted in a downward long-term yield curve.

INVESTMENT MARKETS

The first quarter of 2022 saw a significant change take place in the investment markets as a result of Russia's war of aggression. Risk appetite reduced and the long-term rise in the stock markets took a downwards turn. At the same time, rising inflation and subsequent monetary policy measures interrupted a long period of low interest rates. This had significant impacts on the investment markets. Return on fixed income investments declined sharply in the third quarter and the weaker financial outlooks of companies, together with rising interest rates, led to a decline in share prices. The slowdown in global economic growth and the strengthening of the US dollar undermined return on investment in emerging markets. In the last quarter of the year, the investment markets recovered somewhat, but the year 2023 will begin with significant uncertainties. Increasing geopolitical tensions, declining economic growth and tightening monetary policy combine to create a challenging investment environment.

THE FINNISH ECONOMY

At the beginning of 2022, there were still expectations of it being a year of brisk economic growth, both in Finland and in the rest of the world. However, the war in Ukraine weakened the outlook of the Finnish economy in many ways. Finland's foreign trade with Russia has plummeted, consumer and business confidence has declined and energy prices are high.

Considering the above, the Finnish economy performed reasonably well in 2022. Thanks to a good start to the year, economic growth is expected to settle at approximately 2 per cent. However, economic growth stalled towards the end of the year. At the time of writing, the statistics show a slight contraction in GDP already in the third quarter of the year and economists expect this to continue also in the fourth quarter.

During the year, consumer confidence decreased to a record-low level. The underlying reasons include at least the rapid rise in prices and interest rates and the risk of electricity shortage. The decline in consumer confidence has been strongly reflected in the housing market. The transaction volume and new mortgage drawdowns have clearly decreased from the previous year.

At the same time, private consumption has held up fairly well. Especially services have been consumed actively, driven by the pent-up demand caused by the COVID-19 crisis. However, the consumption of goods has decreased. Households have used savings accumulated during the COVID-19 pandemic to finance consumption.

Now households are facing the challenges posed by rising prices and interest rates. Nevertheless, the labour market situation is still good. The employment rate is at a record high and there are still plenty of vacancies in the job market.

The production of companies still grew briskly in 2022. However, the future outlook deteriorated and business confidence has also declined, even if not as dramatically as household confidence. Confidence is weakest in trade and construction while business confidence in industry and the service sector is slightly higher. The number of bankruptcies has remained at a normal level.

SB CENTRAL BANK'S BUSINESS ACTIVITIES

SB Central Bank is responsible for providing the Savings Banks with various centralised services. Its most significant operations include the funding and liquidity management of the Amalgamation, asset and liability management, payment card issuing, and payment services and account operator services for the Savings Banks. In addition, the granting of unsecured consumer credit to the private customers of Savings Banks was started during the financial year.

TREASURY

In 2022, the Treasury operations focused on optimising the Savings Banks Group's liquidity position and expanding the Group's debt investor relations.

ASSET AND LIABILITY MANAGEMENT

Several system and data management related projects were both continued and started including the development required by the new Mortgage Bank regulation changes. Savings Banks were supported in interest rate risk management in the rapidly changing interest environment.

PAYMENT CARDS AND UNSECURED CONSUMER CREDIT

During 2022, the Savings Banks' service offering expanded in financial products when active marketing of the Savings Bank's unsecured consumer was started. The demand for a sustainably granted and marketed financial product has been good, and customers have applied for the product especially through the Savings Bank's mobile and online banking. In the case of payment cards, business volumes developed favourably and several small-scale development projects were carried out during the year. Sustainability was promoted in the card area by, among other things, introducing payment cards made from marine waste plastic and moving from a three-year validity period to four years in card manufacturing.

PAYMENTS

During the year 2022, development of processes and functionalities was continued. Several functionalities and changes required by regulation were implemented.

SECURITIES SERVICES / ACCOUNT MANAGEMENT OPERATIONS

During the year, projects related to regulation, market changes and reporting to the authorities were carried out and the opportunities for the fast and cost-efficient continued development of the business area were promoted.

SB CENTRAL BANK'S PROFIT AND BALANCE SHEET

FINANCIAL HIGHLIGHTS

(EUR 1,000)	12/2022	12/2021	12/2020
Revenue	59,845	44,142	43,904
Net interest income	17,990	9,147	6,487
% of revenue	30.1%	20.7%	14.8%
Operating profit	7 106	-582	-1 452
% of revenue	11.9%	-1.3%	-3.3%
Total operating revenue	28,585	20,583	21,332
Total operating expenses	-20,633	-20,628	-21,678
Cost to income ratio	0.7	1.0	1.0
Total assets	3,421,948	2,679,569	2,817,010
Total equity	116,024	83,952	83,620
Return on equity %	5.7%	-0.8%	-1.7%
Return on assets %	0.2%	0.0%	-0.1%
Equity/assets ratio %	3.4%	3.1%	3.0%
Solvency ratio %	41.4%	39.1%	32.2%
Impairment losses on loans and other receivables	-846	-537	-1,107
Number of employees converted to FTEs	39	48	44
Average number of FTEs during the financial year	46	49	47

PROFIT TRENDS (COMPARISON FIGURES 1—12/2021)

SB Central Bank's operating profit was EUR 7.1 (-0.6) million and net profit for the year was 5.7 (-0.7) million.

PROFITS

Our total operating revenue was EUR 28.6 (20.6) million.

Net interest income amounted to EUR 18 (9.1) million. Interest income increased to 33.4 (18.0) million while interest expenses decreased to EUR -15.4 (-8.9) million. Positive NII development in comparison with the previous year was due to higher profits from credit cards and decreased cost of wholesale funding. Hedging through interest rate derivatives reduced net interest income by EUR -0,3 (0.6) million.

Net fee and commission income increased EUR 1.1 million to EUR 9.8 (8.7) million. The level of fee and commission income 25.7 (23.4) remained close to the comparison figure whereas fee and commission expenses increased to EUR 15.8 (14.7) million.

Net trading income was EUR -2.8 (-0.8) million unrealized fair value changes from hedge accounting.

Other operating revenue was EUR 3.6 (3.5) million and consisted mainly of service fees from the Central Institution of the Amalgamation and contractual revenues from credit card association.

COSTS

Our total operating expenses before impairment losses amounted to EUR -20.6 (-20.6) million.

Personnel expenses decreased by EUR 0.4 million amounting to EUR -4.5 (-4.9) million.

Other operating expenses increased by 0.3 million and amounted to EUR -14.4 (-14.1) million.

The level of depreciations remained the same as in the previous year. Depreciations from tangible and intangible assets were EUR -1.7 (-1.6) million.

Net impairment loss on financial assets was EUR -0.8 (-0.5) million.

BALANCE SHEET AND FINANCING (COMPARISON FIGURES 31 DECEMBER 2021)

The balance sheet of SB Central Bank totalled EUR 3,422 (2,680) million.

WHOLESALE FUNDING AND OTHER FINANCING

The total value of issued bonds was EUR 880 (1,006) million. During the year. SB Central Bank issued new senior unsecured bonds under the EMTN programme with total value of EUR 70 million based on the refinancing needs of the Savings Banks Group.

Liabilities to credit institutions totalled EUR 1,754 (1,244) million and consisted mainly of short-term deposits to LCR and current accounts from the other amalgamation banks and their minimum reserve deposits. SB Central Bank has also participated in ECB's targeted longer-term refinancing operation under TLTRO III programme and has raised secured funding with total value of EUR 68 million. Term deposits from other than Savings Banks Group entities totalled EUR 250 (185) million.

Liabilities to customers totalled EUR 574 (326) million and consisted mainly of term deposits from public entities.

LENDING

Loans and advances to credit institutions totalled EUR 1,931 (1,393) million. The line item consists mainly of unsecured loans (EUR 1,748 million) and repurchase agreements (EUR 40 million) to group internal Savings Banks. Also. the line item contains the minimum reserve deposit of the Savings Banks group and cash given as a collateral to derivative counterparty banks.

Loans and advances to customers totalled EUR 141 (97) million and consisted mainly of credit card balances. During the year, the new product generated credit balance of EUR 27 million. Non-performing credit card receivables represented 1.41% (1.35%) of all credit card receivables.

INVESTMENT ASSETS

Investment assets totalled EUR 108 (167) million and consisted mainly of ECB eligible debt instruments (EUR 50 million) while other debt instruments totalled EUR 3.2 million. SB Central Bank had also invested to non-listed funds with total value of EUR 3.2 million and non-listed equity with total value of EUR 2.1 million.

SHAREHOLDINGS AND EQUITY

SB Central bank is fully owned by the other amalgamation Savings Banks. SB Central Bank executed a share issue to the owner banks during the review period. Share issue amounted to EUR 26,468 thousand. SB Central Banks share capital after the share issue is EUR 94,812 thousand. The bank does not hold its own shares.

Equity capital on 31 December 2022 was EUR 116 (84) million consisting wholly of CET1 capital. Change in equity capital is due to share issue mentioned above. Return on equity was 5.7% (-0.8%). Return on assets was 0.2% (0.0%).

CAPITAL ADEQUACY AND RISK POSITION

CAPITAL ADEQUACY (COMPARATIVE INFORMATION 31 DECEMBER 2021)

SB Central Bank has adopted an internal capital adequacy assessment 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. SB Central 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, SB Central Bank estimates the amount of capital that will also be sufficient to cover unexpected losses arising from risks outside Pillar I.

In line with its strategy, SB Central Bank provides Savings Banks with various central credit institution services, such as payment transaction and account operator services for all Savings Banks and payment card and consumer credit loan issuing for customers of Savings Banks' clients, as well as services related to liquidity management, funding and asset and liability management. SB Central Bank focuses to operate only these business areas to keep its risks manageable.

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, SB Central Bank uses stress tests to assess its own risk position and capital adequacy. 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 SB Central 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 SB Central 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 SB Central Bank are comprised of card credit receivables and unsecured consumer credit 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. The capital requirement relating to market risk is calculated by the basic method for the foreign exchange exposure if the total net foreign exchange position is over two per cent of the aggregate amount of the own funds. SB Central Bank doesn't have the exchange position.

OWN FUNDS AND CAPITAL ADEQUACY

The capital requirement of SB Central Bank 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.

The Pillar II capital requirement imposed by the Financial Supervisory Authority on the Savings Banks Amalgamation is currently 1.25 (1.25)%. Based on the Financial Supervisory Authority's decision in November 2021, the Pillar II capital requirement will rise to 1.5% effective from 30 June 2022. At least three quarters of the Pillar

II capital requirement must be Tier 1 capital, of which at least three quarters must be CET1 capital.

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 percent-age 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. According to its macroprudential decision of 16 December 2022, the Board of the Financial Supervisory Authority has assessed the need and possibilities to strengthen the risk-bearing capacity of the national financial system with a systemic risk buffer requirement of no more than one per cent. According to the decision, the Board of the Financial Supervisory Authority will prepare to make a decision on setting a systemic risk buffer requirement in the first quarter of 2023 and the systemic risk buffer requirement would enter into force after the transitional period defined by law. The decision on setting a systemic risk buffer may be postponed if the requirement is expected to have a very negative impact on the functioning of credit markets in the short term.

In addition, the Financial Supervisory Authority has not set in 2022 the countercyclical capital buffer requirement, which may range from 0 to 2.5% of the risk-weighted exposure amounts. The Financial Supervisory Authority has not set additional capital requirements, so called O-SII buffers, for the 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.

On 27 October 2021, the European Commission published a proposal for a new banking package to implement the final Basel III regulation in the EU. The proposed amendments to the EU's Capital Requirements Regulation (CRR3), which are intended to enter into force from the beginning of 2025, are not expected to have a material impact on the capital adequacy of SB Central Bank.

SB Central Bank has published the relevant information about 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 Savings Banks Group's financial statements and capital adequacy information according to Pillar III are available online at www.saastopankki.fi.

SB Central Bank's own funds totaled EUR 106.5 (75.2) million, while the minimum requirement for own funds was EUR 27.0 (20.2) million. The Tier 1 capital consisted fully of Common Equity Tier 1 (CET1) capital, amounting to EUR 106.5 million. The capital reserves consist mostly of common equity tier 1 capital.

SB Central Bank's capital adequacy ratio was high at 41.4% (39.1%) per cent at year-end. The high capital adequacy ratio is due to the exemption granted to the Amalgamation by the Financial Supervisory Authority, according to which the risk weight applied to the Amalgamation's internal financing items in capital adequacy calculation is 0%.

CAPITAL ADEQUACY

Own Funds (EUR 1,000)	2022	2021
Common Equity Tier 1 (CET1) capital before regulatory adjustments	116,024	83,952
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-9,536	-8,745
Common Equity Tier 1 (CET1) capital	106,488	75,206
Tier 1 capital (T1 = CET1 + AT1)	106,488	75,206
Total capital (TC = T1 + T2)	106,488	75,206
Risk weighted assets	257,036	192,333
of which: credit and counterparty risk	212,713	151,362
of which: credit valuation adjustment (CVA)	824	856
of which: market risk	-	-
of which: operational risk	44,323	40,115
Minimum total capital requirement	20,563	15,387
Excess total capital	84,637	59,820
Common Equity Tier 1 (as a percentage of total risk exposure amount)	41.4	39.1
Tier 1 (as a percentage of total risk exposure amount)	41.4	39.1
Total capital (as a percentage of total risk exposure amount)	41.4	39.1
Capital requirement		
Total capital	106,488	75,206
Capital requirement total*	26,992	20,195
Capital buffer	79,496	55,011

*The capital requirement consists of 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 SB Central Bank was 6,1% (5.3%) clearly exceeding the 3% minimum requirement. The most significant part of SB Central Bank's assets consist of group internal loans with 0% risk weight that are not included to the total leverage exposure amount when calculating the leverage ratio. SB Central Bank monitors excessive indebtedness as part of the ICAAP process.

LEVERAGE RATIO

(EUR 1,000)	2022	2021
Tier 1 capital	106,488	75,206
Leverage ratio exposure	1,755,379	1,407,959
Leverage ratio	6.1	5.3

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 April 2022, the Financial Stability Authority set a minimum requirement for own funds and eligible liabilities (MREL requirement) for the Savings Banks Amalgamation Sp Mortgage Bank Plc. The requirement pursuant to the previous decision is valid until 31 December 2023. The requirement does not apply to the member credit institutions or the Central Bank of Savings Banks.

The MREL requirement is by nature a Pillar II type minimum requirement that must be met continuously.

According to the decision of the Financial Stability Authority, the MREL requirement applied to the Savings Banks Amalgamation is 19.49% of the total risk exposure amount or 5.91% of the total exposures, whichever is higher, until 31 December 2023, and as of 1 January 2024, the MREL requirement is 19.77% of the total risk exposure amount or 7.85% of the total exposures, whichever is higher.

The MREL requirement applied to Sp Mortgage Bank Plc is 14.4% of the total risk exposure amount or 5.1% of the total exposures, whichever is higher, until 31 December 2023, and as of 1 January 2024 it is 15.71% of the total risk exposure amount or 5.91% of the total exposures, whichever is higher.

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. SB Central Bank has a risk control function that is independent of business operations.

In accordance with its strategy, SB Central Bank provides savings banks with various central credit institution services: payment services and account operator services, payment card issuing for the customers of the member Savings Banks of the Amalgamation, and services related to liquidity management, funding and asset and liability management. SB Central Bank's customer and investment portfolio exposures are in relation to its financial capacity and are in accordance with its strategy. SB Central Bank maintains its capital adequacy at an adequate level.

In its operations, SB Central Bank is exposing 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 investment portfolio and derivative contracts, as well as off balance-sheet liabilities, such as undrawn credit facilities and limits as well as granted guarantees.

Concentration risk means that SB Central Banks's total amount of loans granted to one customer and/or a group of customers shall not exceed the maximum amounts defined in the Act on Credit Institutions, in other legislations or regulations issued by the Financial Supervisory Authority or in regulations and guidelines issued by any other authorities. The concentration risks caused by an individual counterparty are restricted with limits and guidelines related to the maximum customer exposure both on the Amalgamation and member credit institution level.

The business and risk management strategies approved by the Board of Directors set the maximum exposures for concentration risks and control to the investment and lending activities.

LIQUIDITY RISK

Liquidity risk refers to a bank's capability to meet its commitments. Liquidity risk may arise from the uncontrollability and/or foreseeability of incoming and outgoing cash flows. Liquidity risk also comprises an uncontrollable rise in funding costs. Liquidity risk may be further divided into short-term liquidity risk and long-term funding risk.

Liquidity risk is managed e.g. by maintaining sufficient liquid assets to ensure sufficient liquidity. SB Central Bank's liquidity remained good throughout the financial year.

MARKET RISK

Market risk refers to the impact of changes in interest rates and market prices on the bank's income statement and own funds. SB Central Bank was exposed to interest rate and currency risk in the reporting period 2022, as described below.

INTEREST RATE RISK

Interest rate risk is the effect of interest rate changes on the market value of the bank's balance sheet and off balance-sheet items and on the net interest income. Interest rate risk arises from the differences in the interest rate basis of assets and liabilities and the differences in interest rate reset or maturity dates. SB Central Bank applies fair value hedging and uses interest rate swaps to manage its interest rate risk position. SB Central Bank monitors interest rate risk both with net present value method and income risk method.

CURRENCY RISK

Currency risk refers to the effect of changes in foreign exchange rates on income statement or equity. The Central Bank of Savings Banks is exposed to currency risk to a minor extent due to Visa Inc shares in the investment portfolio. Open foreign exchange exposure is not allowed in the lending or liquidity portfolios of the member credit institutions of the Savings Banks Amalgamation. Foreign exchange exposure is monitored in accordance with the method used in capital adequacy calculation (the capital requirement is calculated if the total net foreign exchange exposure is over 2% of the total amount of own funds).

OPERATIONAL RISK

Operational risk refers to the risk of loss arising from inadequate or failed internal processes, personnel, systems, or external factors. Legal risks are also included in the operational risks.

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

BUSINESS RISK

Business risk describes the impact of uncertainties caused by the operating environment on Bank's business. Business risks arise from competition, changes in markets and customer behaviour, and unexpected fluctuations in income. Business risks may also be caused by choosing a wrong strategy, ineffective management, or slow response to changes in the operating environment. Business risk is managed and minimized through strategic and business planning set by the SB Central Bank Board of Directors. An assessment of business risks is included in the capital adequacy management process approved by the Board.

CREDIT RATING

S&P Global Ratings confirmed long-term counterparty credit rating 'A-' and short-term rating 'A-2' to SB Central Bank on 4 February 2022. The outlook continued as negative.

CORPORATE GOVERNANCE

The Annual General Meeting of SB Central Bank considers the previous year's financial statement, distribution of the profits, discharges, and selection of Board members. The decisions on SB Central Bank's business operations and strategic matters are made by the Bank's Board of Directors. Further tasks of the Board include making decisions concerning the main issues related to SB Central Bank's business operations and selecting its Managing Director. In addition, the Board ensures SB Central Bank's accounting, financial statements practices and financial reporting cover all of its operations and are organised appropriately. The Board of Directors is also responsible for SB Central Bank having adequate and appropriately organised internal control, internal audit and auditor. The work of the Board of Directors follows approved guidelines and the charter for Board of Directors. The Managing Director of SB Central Bank is responsible for Bank's operational management according to the guidelines set by the Board of Directors.

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

SB CENTRAL BANK'S MANAGEMENT AND PERSONNEL

The Annual General Meeting of SB Central Bank was held on 10 March 2022. The Board's proposal on the distribution of profits was approved. The Meeting also granted a discharge to the Board members and Managing Director and selected the new Board of Directors. SB Central Bank held extraordinary General Meeting on 6 October 2022 where was decided the number of members in the Board of Directors and selected new members to substitute the ones who had resigned.

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

Name	**Position**
Närhinen Tomi	member, Chairman, until 10 March 2022, resigned from Board of Directors 3 August 2022
Mangs Monika	member, Deputy Chairman to 10 March 2022 and Chairman from 10 March 2022
Alameri Karri	member as from 6 October 2022
Koivunen Maija	member as from 10 March 2022, resigned from Board of Directors 19 May 2022
Niuro Jouni	member as to 10 March 2022
Rouhe Samu	member as from 10 March 2022
Siviranta Petri	member
Toivonen Anne	member as to 10 March 2022
Öhman Ossi	member as to 10 March 2022, Vice-Chairman as from 10 March 2022

The Board members hold management positions in the financial sector. During the financial year, the Board convened sixteen (16) times. Managing Director of the Savings Banks` Union Coop Tomi Närhinen chaired the Board of Directors as to 10 March 2022. As from 10 March 2022 Närpiö Savings Banks CEO Monika Mangs chaired the Board of Directors.

SB Central Bank's CEO during the financial year has been Kai Brander and Mervi Luurila has been the Debuty of CEO. The Annual General Meeting elected an audit firm KPMG Oy Ab as the auditor of SB Central Bank, with Authorised Public Accountant Mikko Kylliäinen as principal auditor.

The number of personnel at SB Central Bank decreased in accordance with the services and development projects. Converted into total resources, the number of personnel at the end of the review period on 31 December 2022 was 39.

REMUNERATION SYSTEM

SB Central Bank's remuneration system for personnel and management is based on current legislation, the regulations and recommendations governing the financial sector and, where applicable, the Finnish Corporate Governance Code.

SB Central Bank's decisions on the remuneration systems for executive management and personnel are compliant with Chapter 8 of the Act on Credit Institutions. However, SB Central Bank does not apply the provisions of Sections 9, 11 and 12 in Chapter 8 of the Act on Credit Institutions to those employees whose variable remuneration for a one-year earning period does not exceed EUR 50,000 and whose variable remuneration for a one-year period does not exceed 100% of the employee's total fixed remuneration.

By remuneration systems' it is meant the decisions, contracts, policies and procedures that are followed in rewarding the management and personnel. The remuneration system includes both the rewarding method and the processes related to its development and implementation. The remuneration system is developed actively and taking a long-term view in order to secure SB Central Bank's competitiveness, good economic growth, inventiveness, commitment and availability of new competent persons. SB Central Bank sees the remuneration system as a comprehensive package that supports the motivation and job satisfaction of the personnel. It is used to guide the operations towards the common goals. The remuneration system includes financial remuneration components as well as other components, such as the maintenance and development of professional competence.

The remuneration system is consistent with the good and efficient risk management and is always implemented within the framework of SB Central Bank's current risk-management principles. Remuneration does not encourage risk-taking that would exceed the sustainable risk level defined on the basis of the risk-bearing capacity.

The General Meeting held on 10 March 2022 decided on the remuneration of the Board of Directors as follows:

annual remuneration, Chairman, EUR 7,000*
annual remuneration, Deputy Chairman, EUR 3,000
annual remuneration, member, EUR 1,500
attendance allowance, EUR 500**

*No annual remuneration will be paid for The Savings Bank Centre personnel.

**Attendance allowance is paid for each actual meeting of the Board (excluding decisions that do not involve a meeting).

The conditions and benefits of the Managing Director's position are approved by the SB Central Bank Board of Directors. SB Central Bank uses a remuneration system under which the personnel, including the Managing Director, may be paid a sum equivalent to a maximum of 4 months' salary for reaching set targets. The Bank has no pension schemes or any other similar arrangements.

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

At least once a year, internal audit verifies SB Central Bank's compliance with the remuneration framework decided on by the Board of Directors of Savings Banks' Union Coop.

The remuneration details in accordance with Pillar III are published in the Savings Banks Group financial statement. The financial statement is available online on the Savings Banks Group website at www.saastopankki.fi.

MAIN OUTSOURCED FUNCTIONS

The banking system of the Central Bank of Savings Banks has been outsourced to Samlink Ltd. The Central Bank of Savings Banks purchases support services related to issuing cards and granting card credit and unsecured consumer credit mainly from Nets Denmark A/S, Filial i Finland and services related to the manufacture and delivery of cards from EVRY Card Services Oy. The Central Bank of Savings Banks purchases accounting services from Figure Taloushallinto Oy, whose shares are owned by the Savings Banks' Union Coop and three other banking groups in equal proportions. The Central Bank of Savings Banks purchases its internal audit, risk control and compliance services from the corresponding functions of the Savings Banks' Union Coop.

SOCIAL RESPONSIBILITY

Information on the social responsibility of the Central Bank of Savings Banks is included in the consolidated financial statements of the Savings Banks Amalgamation and the responsibility report published annually by the Savings Banks Group. The Savings Banks Group observes the principles of good corporate governance, openness and the Savings Banks Group's Code of Conduct. The key management practices are defined in the Governance principles of the Savings Banks Group. The activities of the Savings Banks Group comply with the provisions of current legislation, orders issued by the authorities, good banking practice regulations and trading instructions approved by Finance Finland, as well as the governance principles of the Savings Banks Amalgamation along with the Amalgamation's other internal guidelines. Savings Banks Group's social responsibility is also defined in the governance policies.

The social responsibility determined in the governance policies includes financial responsibility, social responsibility, promoting communal wellbeing and environmental responsibility. More information on the Savings Banks Group's responsibility and the Savings Banks Group's annual responsibility report can be found at www.saastopankki.fi.

MATERIAL EVENTS AFTER THE CLOSING DATE

The Board of Directors of SB Central Bank is not aware of any other factors that would materially influence the financial position of the Savings Banks Group after the completion of the financial statements.

OUTLOOK FOR THE YEAR 2023

OUTLOOK FOR THE OPERATIONAL ENVIRONMENT

In early 2023, many countries are expected to drift into an economic recession, that is, their GDP will contract for at least two quarters in a row. In both the United States and Europe, rapid interest rate increases by central banks will start to hamper economic activity. For Europe, energy prices and availability will also be major sources of uncertainty, especially during the winter months. In China, the abandonment of the strict COVID-19 suppression strategy and how this succeeds will also be reflected in economic development. Non-financial factors, such as winter weather and the COVID-19 situation in China, will thus have an exceptional impact on economic development.

Inflation is expected to become gradually more moderate during 2023. Even if inflation falls, it will still remain above the level targeted by central banks. Interest rate increases by central banks will continue at least during the first months of the year.

After the winter and its impacts recede, economic development is also expected to pick up during the second half of the year. Consumers and companies are gradually adjusting to higher interest rates and the expected fall in energy prices will again make the financial situation of households easier. However, the first months of the year will be challenging in many ways: increasing prices mean that consumers are losing their purchasing power and companies' financial performance is deteriorating. Even the threat of blackouts is real and surveys show that especially SMEs are not very well prepared for them.

The Savings Bank expects the Finnish economy to drift into a recession and the economy will decline in late 2022 and early 2023. During the calendar year 2023, GDP growth is likely to be slightly negative. Private consumption and investments will decrease. However, the recession is expected to remain fairly mild and short-lived. Unemployment will rise slightly, but it is unlikely that there will be a major decline in the labour market.

BUSINESS OUTLOOK

The basic outlook for business operations is stable despite uncertainties in the economy. The rise in interest rates has eliminated the burden caused to net interest income by negative interest rates. However, if volatility in the wholesale funding markets continues at the same time, it may hold back positive development.

The main focus of the operations of the Central Bank of Savings Banks is to support the implementation of the Savings Banks Group's strategy as part of the Savings Banks Centre.

SB Central Bank's result for 2023 is expected to show a profit.

THE BOARD OF DIRECTORS' PROPOSAL ON THE DISPOSAL OF DISTRIBUTABLE FUNDS

SB Central Bank's distributable funds amount to EUR 20,778,715.60.

The SB Central Bank Board of Directors proposes to the Annual General Meeting that the loss for the financial year of EUR 5,662,775.46 is entered as accumulated retained earnings with no dividend paid.

INFORMATION

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

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

FORMULAS USED IN CALCULATING THE FINANCIAL HIGHLIGHTS:

Revenues:	Interest income, fee income, net trading income, other operating revenue
Total operating revenue:	Net interest income, net fee and commission income, net trading income, other operating revenue
Total operating expenses:	Personnel expenses, other operating expenses, depreciations of property, plant and equipment and intangible assets
Cost to income ratio:	$\frac{\text{Total operating expenses}}{\text{Total operating revenue}}$
Return on equity %:	$\frac{\text{Profit}}{\text{Equity, incl. non-controlling interests (average)}} * 100$
Return on assets %:	$\frac{\text{Profit}}{\text{Total assets (average)}} * 100$
Equity/assets ratio %:	$\frac{\text{Equity (incl. non-controlling interests)}}{\text{Total assets}} * 100$
Solvency ratio, %:	$\frac{\text{Own funds total}}{\text{Risk-weighted assets total}} * 100$

ALTERNATIVE PERFORMANCE MEASURES

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.

SB Central Bank is not using any alternative performance measures that are not directly calculated using the information presented in the IFRS financial statements. nor have any changes occurred in the financial highlights.

CENTRAL BANK OF SAVINGS BANKS FINLAND PLC: IFRS FINANCIAL STATEMENT 2022

CENTRAL BANK OF SAVINGS BANKS FINLAND PLC

(EUR 1,000)	Note	1–12/2022	1–12/2021
Interest income		33,409	18,037
Interest expense		-15,420	-8,890
Net interest income	6	17,990	9,147
Net fee and commission income	7	9,835	8,734
Net trading income	8	-2,820	-831
Other operating revenue	10	3,581	3,534
Total operating revenue		28,585	20,583
Personnel expenses	11	-4,522	-4,893
Other operating expenses	12	-14,373	-14,086
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	13	-1,738	-1,650
Total operating expenses		-20,633	-20,628
Net impairment loss on financial assets	14	-846	-537
Operating profit		7,106	-582
Income tax expense	15	-1,443	-92
Profit		5,663	-674

CENTRAL BANK OF SAVINGS BANKS FINLAND PLC'S STATEMENT OF COMPREHENSIVE INCOME

(EUR 1,000)	1–12/2022	1–12/2021
Profit	5,663	-674
Other comprehensive income		
Items that will never be reclassified to profit or loss		
Capital gains from items booked to fair value and classified in other comprehensive income	51	2,486
Total	51	2,486
Items that are or may be reclassified to profit or loss		
Changes in fair value reserve		
Fair value measurements	-135	-1,849
Deferred tax from fair value measurements	27	370
Total	-108	-1,479
Total comprehensive income	5,605	332

CENTRAL BANK OF SAVINGS BANKS FINLAND PLC'S STATEMENT OF FINANCIAL POSITION

(EUR 1,000)	Note	31.12.2022	31.12.2021
Assets			
Cash and cash equivalents	17	1,200,500	1,006,639
Loans and advances to credit institutions	18	1,930,649	1,393,431
Loans and advances to customers	18	140,616	96,774
Derivatives	19	12	0
Investment assets	20	107,950	167,084
Property, plant and equipment	21	21	62
Intangible assets	22	8,479	7,515
Tax assets	23	830	1,163
Other assets	24	32,890	6,902
Total assets		3,421,948	2,679,569
Liabilities and equity			
Liabilities			
Liabilities to credit institutions	25	1,753,917	1,244,000
Liabilities to customers	25	574,032	325,575
Derivatives	19	54,120	10,150
Debt securities issued	26	880,335	1,005,628
Tax liabilities	23	1,356	273
Other liabilities	27	42,163	9,992
Total liabilities		3,305,923	2,595,618
Equity			
Share capital		94,812	68,344
Reserves		19,434	19,542
Retained earnings		1,779	-3,935
Total equity	28	116,024	83,952
Total liabilities and equity		3,421,948	2,679,569

CENTRAL BANK OF SAVINGS BANKS FINLAND PLC'S STATEMENT OF CASH FLOWS

(EUR 1,000)	1–12/2022	1–12/2021
Cash flows from operating activities		
Profit	5,663	-674
Adjustments for items without cash flow effect	6,318	3,548
Change in deferred tax	420	92
Cash flows from operating activities before changes in assets and liabilities	12,402	2,966
Increase (-) or decrease (+) in operating assets	-548,946	-25,555
Loans and advances to credit institutions	-537,448	-57,852
Loans and advances to customers	-44,535	-5,168
Investment assets, at fair value through other comprehensive income	11	4,364
Investment assets, at amortized cost	60,216	-110,069
Investment assets, fair value through profit or loss	-1,200	42,900
Other assets	-25,989	100,270
Increase (-) or decrease (+) in operating liabilities	706,517	-137,307
Liabilities to credit institutions	509,917	144,355
Liabilities to customers	248,457	-185,528
Debt securities issued	-84,028	-95,670
Other liabilities	32,171	-464
Total cash flows from operating activities	169,973	-159,896
Cash flows from investing activities		
Decrease in investments in equity and shares	51	
Investments in property, plant and equipment and intangible assets	-2,660	-1,853
Total cash flows from investing activities	-2,610	-1,853
Cash flows from financing activities		
Increase in share capital	26,468	
Total cash flows from financing activities	26,468	
Change in cash and cash equivalents	193,831	-161,750
Cash and cash equivalents at the beginning of the period	1,019,455	1,181,204
Cash and cash equivalents at the end of the period	1,213,286	1,019,455
Cash and cash equivalents comprise the following items:		
Cash	1,200,500	1,006,639
Receivables from central banks repayable on demand	12,786	12,816
Total cash and cash equivalents	1,213,286	1,019,455
Adjustments for items without cash flow effect		
Impairment losses on financial assets	1,012	753
Changes in fair value	2,820	831
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	1,738	1,650
Income taxes	-275	315
Total Adjustments for items without cash flow effect	5,296	3,548
Interest received	25,453	18,278
Interest paid	11,672	9,337

CENTRAL BANK OF SAVINGS BANKS FINLAND PLC'S STATEMENT OF CHANGES IN EQUITY

(EUR 1,000)	Share capital	Share premium	Fair value reserve	Total reserves	Retained earnings	Total equity
Equity 1 January 2021	68,344	19,000	2,022	21,022	-5,746	83,620
Comprehensive income						
Profit					-674	-674
Other comprehensive income			-1,479	-1,479	2,486	1,006
Total comprehensive income			-1,479	-1,479	1,811	332
Total equity 31 December 2021	68,344	19,000	542	19,542	-3,935	83,952
Equity 1 January 2022	68,344	19,000	542	19,542	-3,935	83,952
Comprehensive income						
Profit					5,663	5,663
Other comprehensive income			-108	-108	51	-58
Total comprehensive income			-108	-108	5,713	5,605
Transactions with owners						
Subscription issue	26,468					
Equity 1 January 2022	94,812	19,000	434	19,434	1,779	116,024

BASIS OF PREPARATION

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

Central Bank of Savings Banks Finland Plc (hereinafter "SB Central Bank", "company", "entity") is a depository bank owned by Finnish Savings Banks. SB Central Bank's primary function is to provide the Savings Banks with various central credit institution services. The central credit institution services focus on payment services and account operator services, payment card issuing, and services related to liquidity management, funding and asset and liability management. SB Central Bank belongs to the Savings Banks Group and its owners are the 15 Savings Banks of the Amalgamation.

The Savings Banks Group (hereafter Group) is the oldest banking group in Finland. It comprises of Savings Banks that formed the Savings Banks Amalgamation, the Savings Banks' Union Coop, which acts as the Central Institution and the subsidiaries and associated companies owned by Savings Banks. 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 well-being of their customers and to operate near their customers.

The Savings Banks operate in the retail banking business, especially in daily banking, saving and investment products and lending. 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 Group. The service and product companies within the Group support and promote the operations of the Group via producing centralised services or having responsibility for certain products. The most significant service and product companies of the Group are Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc, Sb Life Insurance Ltd, Sp-Fund Management Company Ltd, Savings Bank Services Ltd and Sp-Koti Ltd.

The member organizations of the Savings Banks Amalgamation (hereafter Amalgamation) form a financial entity as defined in the Act on Amalgamations, in which the Savings Banks' Union Coop and its member credit institutions are jointly liable for each other's liabilities and commitments. The Amalgamation comprises the Savings Banks' Union Coop, which acts as the Central Institution of the Amalgamation, 15 Savings Banks, the Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc, Sp-Fund Management Company Ltd, Savings Bank Services Ltd, as well as the companies within the consolidation groups of the above-mentioned entities.

The structure of the Group differs from that of the Amalgamation so that the Group also includes organizations other than credit and financial institutions or service companies. The most significant of these are Sb Life Insurance Ltd and Sp-Koti Ltd. 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 Group.

During the financial year, Ylihärmä Savings Bank merged with Aito Savings Bank and Mietoinen Savings Bank merged with Lieto Savings Bank. As a result of the mergers, the number of savings banks in the Savings Banks Amalgamation and the Savings Banks Group decreased from 17 to 15. The Trustees of Lieto Savings Bank approved the corporate restructuring arrangements related to the merger of Lieto Savings Bank and Oma Savings Bank at a meeting of the Trustees on 22 September 2022. Lieto Savings Bank's exit from the Savings Banks Group and the Savings Banks Amalgamation is expected to be completed approximately on 28 February 2023.

Savings Banks' Union Coop steers the operations of the Group and is responsible for the internal control framework. According to the Amalgamation Act, Savings Banks' Union Coop acting as the Central Institution of the Amalgamation is obligated to prepare consolidated financial statements for the Group. SB Central Bank is also included in proportion to the Amalgamation banks' shareholdings. The Board of Directors of Savings Banks' Union Coop is responsible for preparing the financial statements. The financial statements are prepared for the financial group formed by the Group, in which SB Central Bank is also included.

The head office of Central Bank of Savings Banks Finland Plc is in Helsinki, and its registered address is Teollisuuskatu 33, 00510 Helsinki, Finland. A copy of SB Central Bank's financial statement is available online from www.spkeskuspankki.fi or from the Bank's offices at Teollisuuskatu 33, 00510 Helsinki, Finland.

Similarly, a copy of the Group's financial statement is available at the website www.saastopankki.fi/saastopankkiryhma or at the premises of Savings Banks' Union Coop, address Teollisuuskatu 33, 00510 Helsinki.

SB Central Bank's Board of Directors has approved the Bank's financial statement 2022 on 3 February 2023, and the financial statement will be presented to the Annual General Meeting of 2023 for approval. The Annual General Meeting has the choice of approving or not approving the financial statement.

NOTE 2. ACCOUNTING POLICIES

1. OVERVIEW

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

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 Association Cooperative confirms any accounting policy for which no guidance is available in the IFRSs.

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

Assets denominated in a foreign currency outside the eurozone are converted into euros at the European Central Bank's average rate on the balance sheet date. Exchange rate differences arising from valuation are recognized as net income from foreign exchange operations under net trading income in the income statement.

SB Central Bank's financial statement is prepared under the historical cost convention, except for financial assets measured at fair value through other comprehensive income, financial assets measured at fair value through profit or loss, and the hedged items of fair value hedges (hedged risk), which are measured at fair value.

Assets and liabilities are offset only in the event that SB Central Bank and the counterparty have a legally enforceable right to offset amounts and SB Central Bank intends either to settle the balance on a net basis or realize the asset and settle the liability simultaneously.

2. FINANCIAL INSTRUMENTS

2.1 Financial assets and liabilities

SB Central Bank applies IFRS 9 Financial Instruments standard on recognition and measurement of financial instruments. Classification in the SB Central Bank's balance sheet is independent of the IFRS 9 categories. Different valuation bases can therefore be applied to assets and liabilities recognized on the same line in the balance sheet. The classification of financial assets and liabilities recognized in the balance sheet into valuation categories is set out in Note 16.

2.1.1 Initial recognition

A financial asset or liability is recognized on the balance sheet when SB Central Bank becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of a financial asset is recognized and derecognized using trade date accounting.

Financial assets and 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 recognized 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, SB Central Bank classifies financial assets into following measurement categories:

- Amortized cost
- Fair value through other comprehensive income (fair value 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 are 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 SB Central 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 the entity's expectations on the date that the entity assessed the business model, that does not give rise to a prior period error in the entity's financial statement, 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.

Amortized cost

A financial asset is measured at amortized 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 recognized 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 recognized through profit or loss.

On initial recognition SB Central 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 recognized, less deferred taxes, in the statement of other comprehensive income. Dividends from equity instruments are recognized in profit or loss when the right to receive payment is established.

Capital repayments from the share are recognized in the statement of other comprehensive income. For equity instruments, unrealized gains or losses accrued in the fair value reserve are not transferred to be recognized 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 amortized cost or recognized at fair value through other comprehensive income are recognized 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 recognizing 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. Sb Central 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 SB Central Bank changes the business models applied in the management of financial assets. SB Central Bank expects such changes to be highly infrequent and has not done any changes during the reporting period.

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, SB Central Bank recalculates the gross carrying amount of the financial asset and recognizes a modification gain or loss in profit or loss.

2.1.3 Derecognition of financial assets and liabilities

A financial asset is derecognized 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, and only if, Sb Central 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 derecognized 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 recognized 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 considered active if price quotations are readily and regularly available 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 market, the fair value is determined based on a specific valuation model created for the product in question. The valuation models are based on widely used measuring techniques, incorporating 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 losses

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

Further details on parameters and methods used in expected credit loss model are presented in Note 14 “Impairment loss 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 derecognized as a counterpart to the income statement item Impairment losses on financial assets. Any payments received after derecognition are recognized as adjustments to the income statement item Impairment losses on financial assets.

2.4 Hedging and derivatives

SB Central Bank hedges its interest rate risk from changes in fair value and applies hedge accounting to hedging relationships The hedged items in the fair value hedge are fixed rate lending to Savings Banks and the issued fixed rate bonds.

For hedging relationships under general hedge accounting (fair value hedging), SB Central Bank has adopted IFRS 9 standard.

Derivative contracts are measured at fair value. The fair value of derivatives that hedge fair value is recognized in the balance sheet as a derivative receivable or liability and the change in fair value is recognized 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 amortized cost. A change in the hedged item’s fair value is recognized 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

SB Central Bank as the lessee

At the inception of a contract and when the terms and conditions of a contract are changed, SB central Bank assesses whether the contract contains a lease. This assessment is carried out for each lease component within the contract. 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. A contract conveys the right to control if:

- The contract pertains to an identified and separate asset.

- The contract conveys the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use.

- The contract conveys the right to direct the use and purpose of the identified asset.

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 amortized 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 discount rate used is the interest rate at which the Central Bank of Savings Banks provides financing to Savings Banks Group banks.

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 amortized according to the lease term. SB Savings Bank recognizes 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. SB Central 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 recognized as right-of-use assets and no lease liabilities are recognized for them. SB Central Bank expenses such short-term leases and assets of low value during the lease term.

SB Central Bank as the lessor.

SB Central Bank does not act as a lessor.

4. EMPLOYEE BENEFITS

Employee benefits include short-term employee benefits, termination of employment-related benefits, post-employment benefits and other long-term employee benefits. The IAS 19 Employment Benefits standard determines the accounting treatment of employee benefits.

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

Termination benefits are based on the termination of employment, not on the work performed. These benefits consist of redundancy benefits.

Post-employment benefits are paid after the termination of employment. They consist of pensions or other benefits payable after the termination of employment, such as life insurance or health care. Pension plans relating to post-employment benefits are classified as defined benefit plans or defined contribution plans.

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

Other long-term employee benefits are based on a long-lasting employment relationship. They include benefits such as paid leave, a bonus or a gift given on the basis of years of service.

5. INTANGIBLE ASSETS

An intangible asset is an identifiable asset that has no physical substance. In SB Central Bank, intangible assets include information systems purchased from external companies and software licences.

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

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

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

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

5.1 Software as a Service (SaaS) projects

Cloud-based SaaS arrangements are arrangements in which SB Central Bank does not own the software it uses, and the software is not installed in the SB Central Bank's system environment or on its servers. Instead, its use is based on need, and it is accessed via the Internet or other specified data connection.

Direct costs of deployment, such as the configuration and customisation of the software or system that is the subject of the SaaS arrangement, are recognised on the balance sheet only when the SaaS arrangement generates an intangible asset that is recognised on the balance sheet. Typically, a SaaS arrangement does not meet the criteria for intangible assets because the contract does not constitute control for the buyer, as required by IAS 38.13–16.

The accounting treatment of deployment costs arising from SaaS arrangements is determined by the conclusion as to whether the services are separable from access to the software that is the subject of the arrangement and whether the direct deployment costs create an intangible asset.

The deployment costs are recorded as an expense for the period during which SB Central Bank has access to the software that is the subject of the arrangement, if the services are separable from access to the software that is the subject of the arrangement and the recognition criteria for intangible assets are not met.

The services are considered to be separable from access to the software if SB Central Bank produces the services with its internal resources or if SB Central Bank purchases the services from a third party that is independent of the SaaS provider. When the service is provided by the SaaS provider or when the SaaS provider subcontracts the services to a third party, the service is considered to be separable if it could be provided by another service provider without at the same time giving access to the software that is the subject of the arrangement.

If the service can only be provided by the SaaS provider, the service is not separable from access to the system. In this case, the deployment costs paid for the service are recorded as an expense for the period during which SB Central Bank has access to the software that is the subject of the arrangement.

Expenses arising from the construction of interfaces between software that is recorded as intangible assets on the balance sheet and used through a cloud-based service that is controlled by SB Central Bank may meet the criteria of an intangible asset when a third party that is independent of the SaaS provider writes a new software code that gives control to SB Central Bank.

6. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

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

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

The estimated useful lives are mainly as follows:

Machinery and equipment .... 3–5 years

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

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

7. INCOME TAXES

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

Deferred income tax is recognized on temporary differences between the carrying amount of an asset or liability and its tax base. 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 are expected to apply when the related deferred income tax is realised. A change in deferred tax resulting from changing tax rates is recognized in the income statement or other comprehensive income if the tax was recorded there during earlier financial periods.

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

8. OPERATING REVENUE

Interest income and expenses

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

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

Fees and commissions

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

Net trading income

Net income and expenses from fair value hedging and capital gains from securities are recognized in net trading income.

9. SEGMENT INFORMATION

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

10. NEW IFRS STANDARDS AND INTERPRETATIONS

New and amended standards applied in financial year ended

SB Central Bank has applied, as from 1 January 2022, the following new and amended standards that have come into effect.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (effective for financial years beginning on or after 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 did not have an impact on SB Central Bank's financial statements.

Annual Improvements to IFRS Standards 2018–2020 (effective for financial years beginning on or after 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 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 did not have an impact on SB Central Bank's financial statements.

Property, Plant and Equipment — Proceeds before Intended Use – Amendments to IAS 16 *Property, Plant and Equipment* (effective for financial years beginning on or after 1 January 2022)

Under the amendments, proceeds from selling items before the related item of PPE is available for use should be recognised in profit or loss, together with the costs of producing those items. The change in the standard did not have an impact on SB Central Bank's financial statements.

Reference to the Conceptual Framework — Amendments to IFRS 3 *Business Combinations* (effective for financial years beginning on or after 1 January 2022)

The amendments update a reference in IFRS 3 and makes further reference related amendments. The change in the standard did not have an impact on SB Central Bank's financial statements.

Adoption of new and amended standards in future financial years

SB Central Bank has not yet adopted the following new and amended standards and interpretations already issued by the IASB. SB Central 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 2022.

Disclosure of Accounting Policies – Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements* (effective for financial years beginning on or after 1 January 2023, early application is permitted)

The amendments clarify the application of materiality to disclosure of accounting policies. The change in the standard will have no significant impact on SB Central Bank's financial statement.

Definition of Accounting Estimates – Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* * (effective for financial years beginning on or after 1 January 2023, early application is permitted)

The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates, with a primary focus on the definition of and clarifications on accounting estimates. The change in the standard will have no significant impact on SB Central Bank's financial statement.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 *Income Taxes* (effective for financial years beginning on or after 1 January 2023, early application is permitted)

The amendments narrow the initial recognition exemption (IRE) and clarify that the exemption does not apply to transactions such as leases and decommissioning obligations which give rise to equal and offsetting temporary differences. The change in the standard will have no significant impact on SB Central Bank's financial statement.

Lease Liability in a Sale and Leaseback – Amendments to IFRS 16 *Leases** (effective for financial years beginning on or after 1 January 2024, early application is permitted)

The amendments introduce a new accounting model for variable payments and will require seller-lessees to reassess and potentially restate sale-and-leaseback transactions entered into since 2019. The change in the standard will have no significant impact on SB Central Bank's financial statements.

Classification of Liabilities as Current or Non-current – Amendments to IAS 1 *Presentation of Financial Statements* ((effective for financial years beginning on or after 1 January 2024, early application is permitted)

The amendments are to promote consistency in application and clarify the requirements on determining if a liability is current or non-current. The amendments specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. The amendments require to disclose information about these covenants in the notes to the financial statements. The change in the standard will have no significant impact on SB Central Bank's financial statement.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (available for optional adoption, effective date deferred indefinitely)

The amendments address the conflict between the existing guidance on consolidation and equity accounting and require the full gain to be recognised when the assets transferred meet the definition of a 'business' under IFRS 3 Business Combinations.

The change in the standard will have no significant impact on SB Central Bank's consolidated financial statement.

NOTE 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

In the financial statements dated 31 December 2022, the most significant uncertainties influencing the management's estimates have been Russia's war of aggression in Ukraine, the resulting energy crisis in Europe, accelerating inflation and rising market interest rates. There is considerable uncertainty associated with estimating the economic impacts of the above-mentioned factors, which particularly influences the assessment of the expected credit losses on financial assets.

DETERMINATION OF EXPECTED CREDIT LOSSES

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.

SB Central 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. Recognizing 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, the Central Bank of Savings Banks 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 October 2022, the Central Bank of Savings Banks updated the economic forecasts used in the expected credit loss calculation model and the weights set for the scenarios. Further details on the key macroeconomic variables and the weights assigned to the scenarios in the economic forecasts were presented above under "Expected credit losses".

FAIR VALUE MEASUREMENT

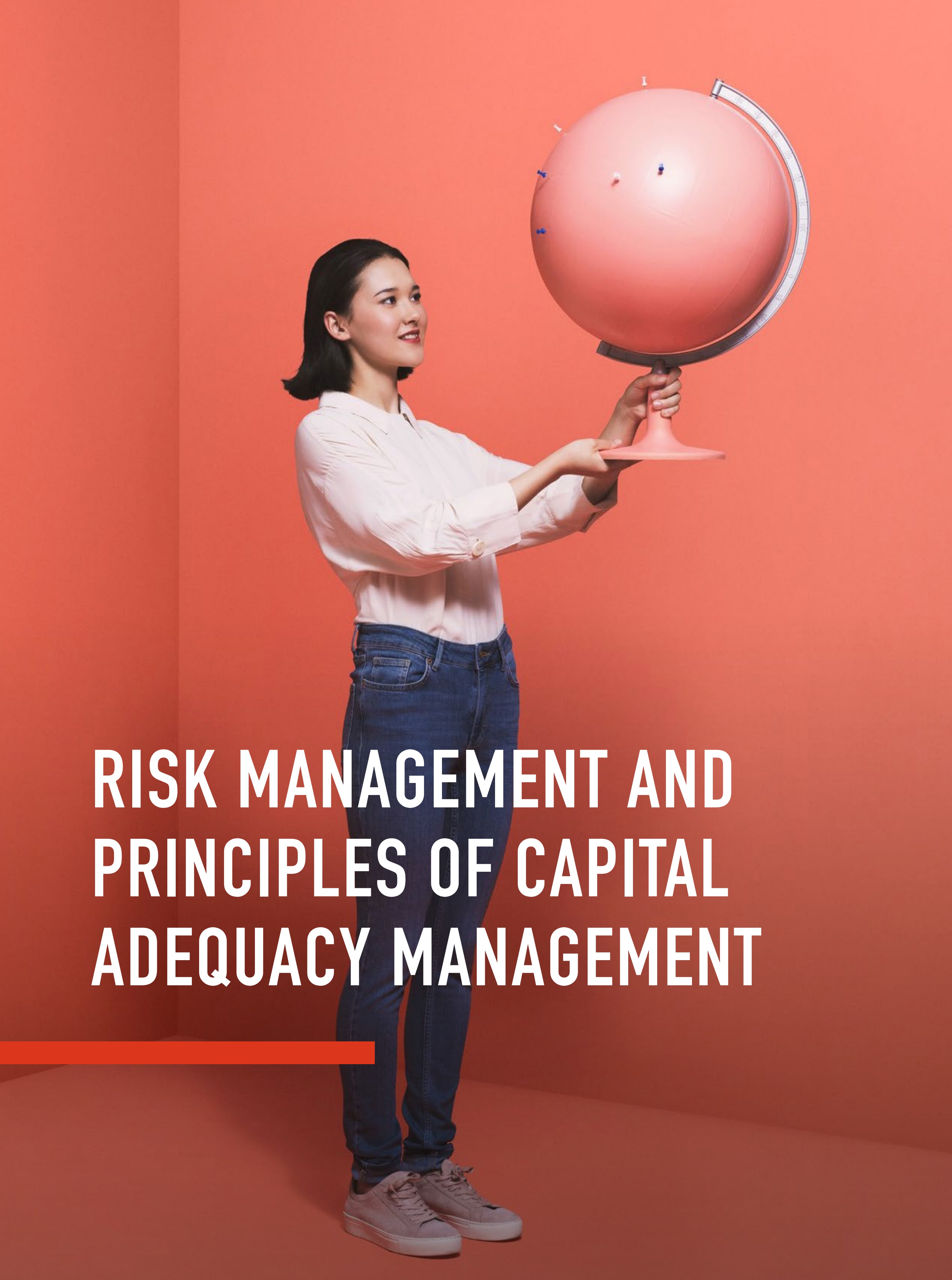
The management should consider whether an individual financial instrument is actively traded and whether the market price obtained is a reliable indication of the financial instrument's fair value. In addition, the management must determine when the financial instruments market is not active.

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 considered active if price quotations are readily and regularly available 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.

The management's judgment is required in cases where the financial instrument's fair value is determined using valuation techniques. If observable inputs are not available in the market for the valuation, the management must assess what other inputs should be used in measuring the fair value.

IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, SB Central Bank assesses whether there is evidence of impairment of incomplete assets. Impairment testing is also carried out whenever there is any indication of impairment. Assessment of impairment of incomplete intangible assets requires the management's judgment.



RISK MANAGEMENT AND PRINCIPLES OF CAPITAL ADEQUACY MANAGEMENT

NOTE 4: RISK MANAGEMENT AND GOVERNANCE

OBJECTIVE OF RISK MANAGEMENT

The objective of risk management is to secure the bank's risk-bearing capacity and ensure the continuity of its business operations. The risk-bearing capacity comprises adequate and effective risk management based on the nature, scale, and complexity of SB Central Bank's business operations, as well as sufficient amount of liquidity and capitalization needed for 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 to ensure the implementation of the Group's strategy.

Risk and capital adequacy management enables the identification, assessment, and measurement of risks, limiting them to a level of SB Central 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 considering the requirements of appropriate liquidity management.

Risk management is part of SB Central Bank's internal control and an integral part of its operational activities. SB Central Bank has a risk control function that is independent of business operations.

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 organized manual and IT systems for the support of operations.

The purpose of internal control at the Central Bank of Savings Banks 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 by the organization 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 other employees. Employees are required to report deviations and misconduct if that occurs.

The risk management of the Central Bank of Savings Banks is based on the business strategy, risk management guidelines, authorization system as well as the risk and deviation reports produced in terms of key business areas, confirmed by the Board of Directors.

SB Central Bank does not have excessively large customer or investment portfolio risk concentrations in relation to its financial capacity, and in accordance with its strategy, SB Central Bank will take no such risks.

SB Central Bank maintains its capital adequacy at adequate level. SB Central Bank takes the risk of losses relating to credit and other risks in its financial statements into account with adequate impairment entries and other loss entries.

The Board of Directors is regularly informed on the risk positions and their changes affecting SB Central 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, considering the nature, scale and complexity of SB Central Bank's business operations.

SB Central 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 SB Central Bank is adequate in relation to the nature, scale, complexity, and risk level of the SB Central Bank's business operations. The Risk Control unit assists the Board of Directors and senior management of the SB Central 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 SB Central Bank complies with the legislation and authorities' regulation and guidelines. The Compliance unit is responsible for monitoring that SB Central 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 the Central Bank of Savings Banks 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 organization 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 SB Central 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 SB Central 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 Savings Banks Amalgamation's risk control function maintains and develops methods for managing risks within the Central Institution. This ensures that all, even new, fundamental but previously unidentified risks are covered by the risk management of business lines.

All significant loans or commitments including significant risk are made in accordance with collegial decision-making processes, and there is a lending authority limit structure in place. 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. All decisions and significant business operations are documented and archived. An essential part of risk management is executed in daily supervision. The execution of decisions made is monitored through an approval and verification process, controls and reconciliations together with adequate follow-up reporting.

In its operations SB Central 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 objective of credit risk management is to limit the impacts on profit and loss or capital adequacy of risks arising from customer liabilities at an acceptable level. The business and risk management strategies approved by the Board of Directors set the maximum exposures for concentration risks and control investment and lending activities.

During the review period, SB Central Bank granted loans to Amalgamation banks. The decisions on loans granted to Savings Banks are made at SB Central Bank in accordance with the policies approved by Savings Banks Union Coop and the Board of SB Central Bank. Due to the joint liability, no specific plan on impairments has been prepared for these loans.

The credit decisions regarding unsecured lending to Savings Banks Group's strategic partners are made by the Board of SB Central Bank. Related credit risk monitoring is based partly on the daily monitoring and reconciliation process of the credit accounts.

SB Central Bank serves as the issuer of payment and credit cards and consumer credit loans in the Savings Bank Group. The latter is based on credit guidelines that determine the principles of granting loans, as well as credit authority levels and responsibilities, among other aspects. The credit risk associated with the credit card portfolio is managed through credit management guidelines on matters such as the principles and responsibilities for the credit granting process. The credit risk strategy determines specific measures in the event of exceeded credit limits.

During the year, SB Central Bank made investments in debt instruments, both those acceptable as collateral for central bank funding and others, in accordance with the counterparty risk strategy approved by the Board of SB Central Bank.

SB Central Bank has no non-credit institution client entities with liabilities exceeding the limit set by the Act on Credit Institutions of 10 per cent of the banks' equity (so-called large exposures). The credit risks in the SB Central Bank's loan portfolio are at a low level in relation to the Bank's annual profit levels and risk-bearing capacity.

Doubtful exposures

Doubtful exposures, delayed payments, forborne exposures and non-performing receivables are monitored regularly. 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 30–89 days and the customer being a potential problem customer. 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.

In certain circumstances if the customer would otherwise face financial difficulties in the future the customer may be granted a change in the terms and conditions of the loan, for example interest-only period or restructuring the loan. The reason for these arrangements is to ensure the customers' ability to pay and avoid possible credit losses. The prerequisite for granting any forbearance measures to the loans is that the customers' financial difficulties are estimated to be short-termed and temporary.

Credit card and consumer credit exposures by risk-rating class:

SB CENTRAL BANKS' CREDIT CARD AND CONSUMER CREDIT EXPOSURES BY RISK-RATING CLASS

(EUR 1,000)	31.12.2022			
Description	**Phase 1**	**Phase 2**	**Phase 3**	**Total**
1 Excellent	105 564	1 967		107 531
2 Good	3 993	101		4 094
3 Good	10 407	382		10 788
4 Average	7 105	566		7 671
5 Average	1 830	243		2 073
6 Weak	2 049	255		2 304
7 Overdues, non-impaired	842	521		1 363
8 Overdues, non-impaired	394	1 806		2 200
9 Overdues, non-impaired	119	215		334
D Impaired			1 996	1 996
Total	132 302	6 056	1 996	140 353

The most significant part of other exposures than credit card exposures are loans granted to Savings Banks in the Amalgamation, which are in risk-rating class and stage 1.

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

LIQUIDITY RISK

Liquidity risk refers to a bank's ability to fulfil its commitments. Liquidity risk may arise from the uncontrollability and/or foreseeability of incoming and outgoing cash flows. Liquidity risk also comprises an uncontrollable rise in funding costs. Liquidity risk may be further divided into short-term liquidity risk and long-term funding risk.

Liquidity risk is managed e.g. by maintaining sufficient liquid assets to ensure sufficient liquidity. SB Central Daily liquidity is monitored at SB Central Bank and a daily liquidity position report of Amalgamation member banks is also provided to the Savings Banks Union Coop risk control unit. Funding risk is managed by ensuring adequate long-term financing in relation to long-term receivables.

Maturity distribution of financial assets and liabilities:

Financial assets

(EUR 1,000)	2022				
	under 3 months	3–12 months	1–5 years	over 5 years	Total
Cash and cash equivalents	1,200,500				1,200,500
Loans and advances to credit institutions	298,632	381,000	180,500	82,500	942,632
Loans and advances to customers	69,641	758	6,250	3,082	123,572
Investment assets	3,872	49,622	3,248		7,120
Total	1,572,645	381,758	189,998	85,582	2,229,983

Financial liabilities

(EUR 1,000)	2022				
	under 3 months	3–12 months	1–5 years	over 5 years	Total
Liabilities to credit institutions	1,038,919	509,497	205,500	0	1,753,916
Liabilities to customers	192,010	449,913	75,000	0	716,923
Debt securities issued	102,520	233,640	372,522	157,335	866,017
Off balance-sheet commitments	289,792	5,000	136,000	289,792	430,792
Total	1,623,241	1,198,050	789,022	157,335	4,057,440

Financial assets

(EUR 1,000)	2021				
	under 3 months	3–12 months	1–5 years	over 5 years	Total
Cash and cash equivalents	1,006,639				1,006,639
Loans and advances to credit institutions	182,500	218,200	773,701	120,500	1,294,901
Loans and advances to customers	95,731	48	564	524	97,000
Investment assets	63,318		53,827	50,000	167,145
Total	1,348,188	218,248	828,092	171,024	2,565,685

Financial liabilities

(EUR 1,000)	2021				
	under 3 months	3–12 months	1–5 years	over 5 years	Total
Liabilities to credit institutions	971,000	130,000	143,000		1,244,000
Liabilities to customers	10,075	240,500	75,000		325,575
Debt securities issued	117,025	189,855	518,712	193,050	1,018,642
Off balance-sheet commitments	276,730		131,500		408,230
Total	1,375,829	560,355	868,212	193,050	2,996,447

Market risk

Market risk refers to the impact of interest rates and market prices on the bank's income statement and own funds. Market risks arise from the banking book, comprised of lending, wholesale funding and the investment portfolio. Of the market risks, SB Central Bank was exposed to interest rate and currency risk in the reporting period 2022, as described below.

Interest rate risk

Interest rate risk is the effect of interest rate changes on the market value of the bank's balance sheet and off balance-sheet items and on the net interest income. SB Central Bank monitors interest rate risk both with present value and income risk method. Furthermore, interest rate risk can divide into the following risk types:

- gap risk refers to the risk posed by the term structure of instruments with a high interest rate sensitivity. The risk arises from a fluctuation of interest rates over time, and it includes changes to the term structure of interest rates. These changes are caused by changes to either the yield curve's level (parallel risk) or the yield curve's shape (non-parallel risk);

- an interest-based risk is a result of the effects that changes in the relationships between interest rates have on instruments that have a high interest rate sensitivity and similar interest periods but are priced using different interest rate indexes. An interest-based risk is caused by an imperfect correlation of the adjustment of accumulated and paid interest of different instruments with a high interest rate sensitivity, when the instruments otherwise share similar rate adjustment characteristics;

- an option risk is a risk generated by (embedded and non-embedded) options in situations where a bank or its customer can adjust the level and averaging of their cash flow – in other words , it is a risk caused by instruments with a high interest rate sensitivity in situations where the holder will almost certainly use their option if doing so provides a financial benefit, and a risk resulting from flexibility embedded indirectly or to the time frames of instruments in such a way that interest rate fluctuations could affect customer behaviour (risk related to an embedded, behaviour-based option).

The purpose of the management of interest rate risks is to stabilize the net interest income and present value at a level where bank's business is profitable and to limit their fluctuations without threatening the capital adequacy even by severe changes in the interest rate environment. The Bank's appetite for interest rate risk has described by the interest rate limits set by the Board of Directors. Interest rate risk is possible to manage by modifying the product and balance sheet structure, by planning the interest rate structure and maturities for investments and issued funding and by hedging interest rate derivatives. SB Central Bank hedges its interest rate risk from changes in fair value and applies hedge accounting for the hedge relationships. The hedged items in the fair value hedge are fixed rate lending to Savings Banks and the issued fixed rate bond.

The interest rate risks of SB Central bank are measured on a monthly basis through the change in net interest income and in the present value of the balance sheet. Present value method measures the change of the present value of assets and liabilities when the market interest rates change. In the income risk model, the future net interest income is forecast with a horizon of one year when the market interest rates change.

The table below shows the next 12 month's net interest income's sensitivity to a 1-percentage point's parallel shift in the interest rate curve. A 0% floor is applied to loan reference interest rates based on loan contract provisions. Balance sheet structure is kept static by rolling over maturing items with corresponding interest rates or corresponding maturities for fixed rate items.

CHANGE IN NET INTEREST INCOME

(EUR 1,000)	31.12.2022	
Period	Down	Up
Change, next 12 months	-2,210	2,195
Change, 12–24 months	-3,192	3,156

Bank's interest rate risk is reported regularly to the Board of Directors, which has given the maximum amount to SB Central Bank's interest rate risk in its guidelines.

CURRENCY RISK

Currency risk refers to the effect of changes in foreign exchange rates on income statement or equity. SB Central Bank is exposed to currency risk to a minor extent due to shares in the investment portfolio, which are essential to the payment card issuance business. Open foreign exchange exposure is not allowed in the lending or liquidity portfolios of the member credit institutions of the Savings Banks Amalgamation. Foreign exchange exposure is monitored in accordance with the method used in capital adequacy calculation (the capital requirement is calculated if the total net foreign exchange exposure is over 2% of the total amount of own funds).

OPERATIONAL RISK

Operational risks refer to the risk of loss arising from inadequate or failed internal processes, personnel, systems, or external factors. Legal risks are also included in operational risks. The various stages of lending and trading processes also involve operational risks as well credit, liquidity and market risks, which have assessed in the evaluation of operational risks. Strategic risks have here excluded from operational risks.

Sb Central 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 the Amalgamation.

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

During the financial year 2022, no such operational risks materialised that would cause financial loss. Disruption reports were prepared for the operational risks that realised during the year. The disruptions resulted mainly from malfunctions in information systems and process errors and typically required manual investigations at SB Central Bank.

LEGAL RISKS

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

Compliance function has been established to ensure that SB Central Bank comply with regulations and internal guidelines. Compliance function's responsibility is to ensure that SB Central Bank comply with laws, regulations and guidelines. Compliance function also ensures that the SB Central Bank comply with its own internal guidelines, ethical principles for personnel and other instructions.

BUSINESS RISK

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

The strategic and business planning are the tools to manage and minimize the business risks.

NOTE 5. CAPITAL ADEQUACY MANAGEMENT

SB Central 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. SB Central 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, SB Central Bank estimates the amount of capital that will also be sufficient to cover unexpected losses arising from risks outside Pillar I.

In line with its strategy, SB Central Bank provides Savings Banks with various central credit institution services, such as payment transaction and account operator services for all Savings Banks and payment card and consumer credit loan issuing for customers of Savings Banks' clients, as well as services related to liquidity management, funding and asset and liability management. SB Central Bank focuses to operate only these business areas to keep its risks manageable.

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 environmentThe 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, SB Central 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 SB Central 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 SB Central 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 SB Central Bank are comprised of card credit receivables and unsecured consumer credit 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. The capital requirement relating to market risk is calculated by the basic method for the foreign exchange exposure if the total net foreign exchange position is over two per cent of the aggregate amount of the own funds. SB Central Bank doesn't have the exchange position.

OWN FUNDS AND CAPITAL ADEQUACY

The capital requirement of SB Central Bank 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.

The Pillar II capital requirement imposed by the Financial Supervisory Authority on the Savings Banks Amalgamation is currently 1.25 (1.25) %. Based on the Financial Supervisory Authority's decision in November 2021, the Pillar II capital requirement will rise to 1.5% effective from 30 June 2022. At least three quarters of the Pillar II capital requirement must be Tier 1 capital, of which at least three quarters must be CET1 capital.

On 6 April 2020, in order to mitigate the effects of the COVID-19 pandemic, the Financial Supervisory Authority removed the systemic risk buffer, which was 1 per cent for the Savings Banks Amalgamation. Thus far, the Financial Supervisory Authority has not set the systemic risk buffer above zero due to the impacts of Russia's war of aggression. According to its macroprudential decision of 16 December 2022, the Board of the Financial Supervisory Authority has assessed the need and possibilities to strengthen the risk-bearing capacity of the national financial system with a systemic risk buffer requirement of no more than one per cent. According to the decision, the Board of the Financial Supervisory Authority will prepare to make a decision on setting a systemic risk buffer requirement in the first quarter of 2023 and the systemic risk buffer requirement would enter into force after the transitional period defined by law. The decision on setting a systemic risk buffer may be postponed if the requirement is expected to have a very negative impact on the functioning of credit markets in the short term.

In addition, the Financial Supervisory Authority has not set in 2022 the countercyclical capital buffer requirement, which may range from 0 to 2.5% of the risk-weighted exposure amounts. The Financial Supervisory Authority has not set additional capital requirements, so called O-SII buffers, for the 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. The authorisation granted to the Central Institution also covers the NSFR claim that entered into force on 28 June 2021.

On 27 October 2021, the European Commission published a proposal for a new banking package to implement the final Basel III regulation in the EU. The proposed amendments to the EU's Capital Requirements Regulation (CRR3), which are intended to enter into force from the beginning of 2025, are not expected to have a material impact on the capital adequacy of the SB Central Bank.

SB Central Bank has published the relevant information about 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 Savings Banks Group's financial statements and capital adequacy information according to Pillar III are available online at www.saastopankki.fi.

SB Central Bank's own funds totalled EUR 106.5 (75.2) million, while the minimum requirement for own funds was EUR 27.0 (20.2) million. The Tier 1 capital consisted fully of Common Equity Tier 1 (CET1) capital, amounting to EUR 106.5 million. The capital reserves consist mostly of common equity tier 1 capital.

SB Central Bank's capital adequacy ratio was high at 41.4 (39.1) per cent at year-end. The high capital adequacy ratio is due to the exemption granted to the Amalgamation by the Financial Supervisory Authority, according to which the risk weight applied to the Amalgamation's internal financing items in capital adequacy calculation is 0%.

CAPITAL ADEQUACY

Own Funds(EUR 1,000)	2022	2021
Common Equity Tier 1 (CET1) capital before regulatory adjustments	116,024	83,952
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-9,536	-8,745
Common Equity Tier 1 (CET1) capital	106,488	75,206
Tier 1 capital (T1 = CET1 + AT1)	106,488	75,206
Total capital (TC = T1 + T2)	106,488	75,206
Risk weighted assets	257,036	192,333
of which: credit and counterparty risk	212,713	151,362
of which: credit valuation adjustment (CVA)	824	856
of which: market risk	-	-
of which: operational risk	44,323	40,115
Minimum total capital requirement	20,563	15,387
Excess total capital	84,637	59,820
Common Equity Tier 1 (as a percentage of total risk exposure amount)	41.4%	39.1%
Tier 1 (as a percentage of total risk exposure amount)	41.4%	39.1%
Total capital (as a percentage of total risk exposure amount)	41.4%	39.1%
Capital requirement		
Total capital	106,488	75,206
Capital requirement total*	26,992	20,195
Capital buffer	79,496	55,011

*The capital requirement consists of 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 SB Central Bank was 6.1% (5.3%). 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 exposures. The most significant part of SB Central Bank's assets consist of group internal loans with 0% risk weight that are not included to the total leverage exposure amount when calculating the leverage ratio.

LEVERAGE RATIO

(EUR 1,000)	2022	2021
Tier 1 capital	106,488	75,206
Leverage ratio exposure	1,755,379	1,407,959
Leverage ratio	6.1	5.3

RESOLUTION PLAN

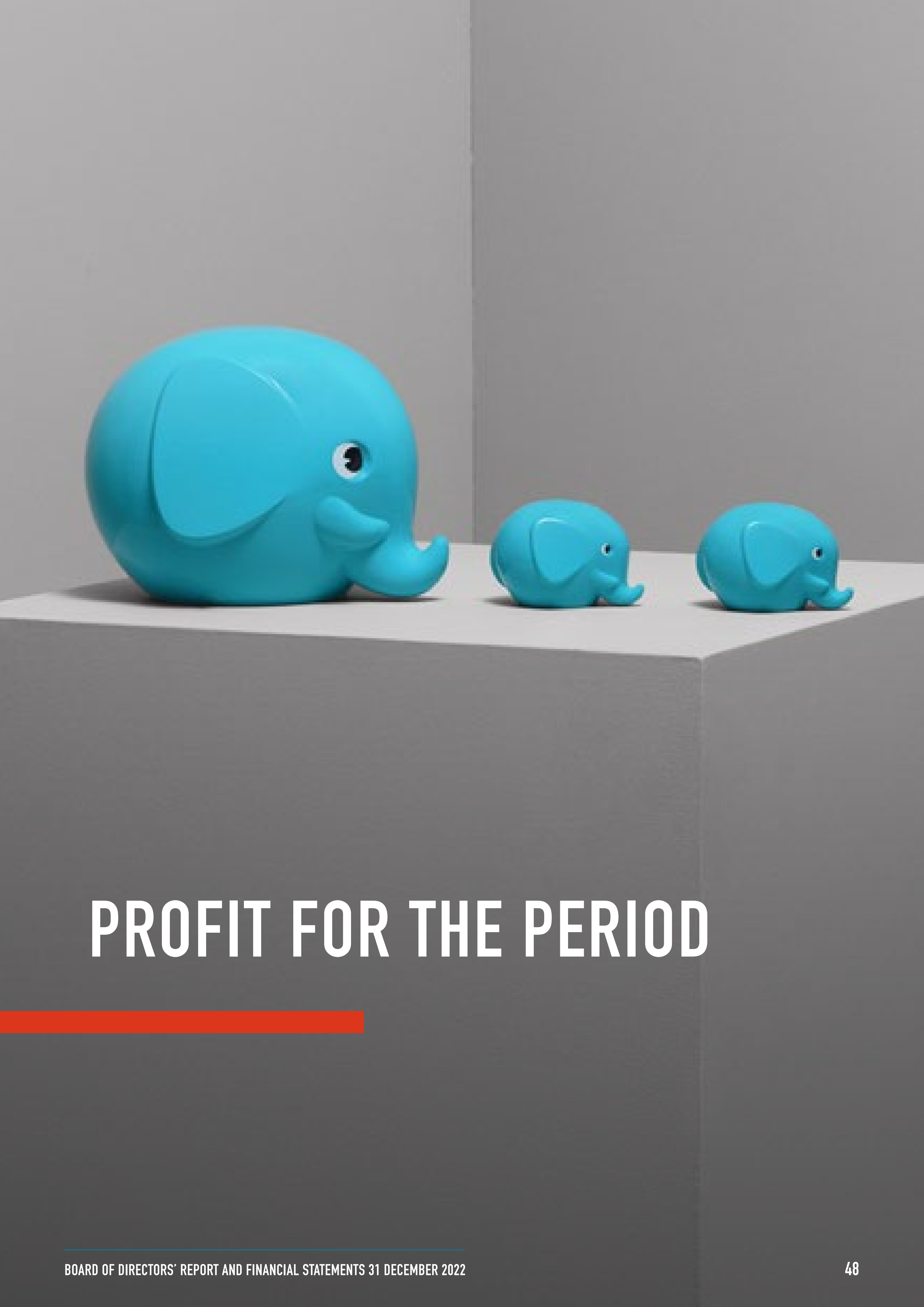
The Directive of the European Parliament and of the Union 2014/59/EU on the recovery and resolution framework of credit institutions and investment service firms was brought nationally into force as of 1 January 2015 (the Act on the crisis solution of credit institutions and investment service firms). To implement the resolution act, the Financial Stability Authority was established (the Act on the Financial Stability Authority, 1995/2014).

In April 2021, the Financial Stability Authority set a minimum requirement for own funds and eligible liabilities (MREL requirement) for the Savings Banks Amalgamation and Sp Mortgage Bank Plc. The requirement will enter into force in full as of 1 January 2022 for the Savings Banks Amalgamation and with transitional provisions as of 1 January 2022 for Sp Mortgage Bank Plc.

The MREL requirement is by nature a Pillar II type minimum requirement that must be met continuously. The Financial Stability Authority decided that the MREL requirement applied to the Savings Banks Amalgamation is 19.49% of the total risk exposure amount or 5.91% of the total exposures, whichever is higher.

As of 1 January 2024, the MREL requirement in full for Sp Mortgage Bank Plc is 15.71% of the total risk amount or 5.91% of the total exposures, whichever is higher.

In addition to the requirement calculated based on overall risk, the institution specific capital buffer requirement shall be met on an ongoing basis.



PROFIT FOR THE PERIOD

NOTE 6. NET INTEREST INCOME

(EUR 1,000)	1–12/2022	1–12/2021
Interest income		
Debts eligible for refinancing with Central Bank	734	331
Loans and advances to credit institutions	19,273	6,761
Loans and advances to customers*	9,759	7,880
Debt securities	4	18
Derivative contracts		
Hedging derivatives	698	1,074
Other**	2,941	1,973
Total	33,409	18,037
Interest expense		
Liabilities to credit institutions***	-5,740	-4,072
Liabilities to customers	-1,850	-246
Derivative contracts		
Hedging derivatives	-959	-486
Debt securities issued	-6,868	-4,085
Other	-3	-1
Total	-15,420	-8,890
Net interest income	17,990	9,147
* of which interest income from loans in stage 3	63	99

** is made up of interest charges and limit commission based on account agreements.

*** of which negative interest on central bank deposits was 2.084 thousand (3.616 thousand).

NOTE 7. NET FEE AND COMMISSION INCOME

(EUR 1,000)	1–12/2022	1–12/2021
Fee and commission income		
Lending*	17,407	15,279
Payment transfers	6,391	5,885
Securities	1,557	1,859
Other	319	379
Total	25,675	23,402
Fee and commission expense		
Payment transfers	-3,638	-3,508
Securities	-655	-656
Other**	-11,547	-10,504
Total	-15,840	-14,668
Net fee and commission income	9,835	8,734

*of which the most significant incomes are incomes related to granting loans.

**of which the most significant expenses are expenses related to granting loans.

NOTE 8. NET TRADING INCOME

(EUR 1,000)	1–12/2022	1–12/2021
Change in hedging instruments' fair value	-43,958	-11,285
Change in hedged items' fair value	41,138	9,847
Capital gains, securities		607
Total	-2,820	-831

NOTE 9. INCOME AND EXPENSES FROM FINANCIAL INSTRUMENTS

(EUR 1,000)	1–12/2022	1–12/2021
Amortized cost investments – interest income	32,712	16,962
Fair value through other comprehensive income – interest income	633	343
Financial incomes	33,345	17,305
Financial liabilities measured at amortized cost – interest expense	-12,376	-4,788
Financial assets at fair value through profit or loss – interest expense	-2,084	-3,616
Amortized costs investments – impairment loss	-853	-585
Fair value through other comprehensive financial assets – impairment loss	7	47
Finance expenses	-15,307	-8,942
Net income and expenses from financial instruments	18,038	8,364

NOTE 10. OTHER OPERATING REVENUE

(EUR 1,000)	1–12/2022	1–12/2021
Other income from Banking*	3,581	3,534
Other operating revenue	3,581	3,534

* Other operating income consisted during the reporting period, as during the comparison period, of income from exchange of credit card receivables and commission related to payment card issuing and service fees based on service agreements produced for the Savings Banks Group.

NOTE 11. PERSONNEL EXPENSES

(EUR 1,000)	1–12/2022	1–12/2021
Wages and salaries	-3,725	-4,028
Pension expenses		
Defined contribution plans	-649	-695
Other personnel related costs	-148	-170
Personnel expenses	-4,522	-4,893
Full-time	40	46
Part-time	1	1
Temporary	1	1
Total	42	48
Number of employees converted to FTEs	39	48
Average number of FTEs during the financial year	46	49

NOTE 12. OTHER OPERATING EXPENSES

(EUR 1,000)	1–12/2022	1–12/2021
Other administrative expenses		
Other personnel expenses	-160	-115
Office expenses	-8,114	-6,546
ICT expenses	-3,744	-5,104
Telecommunications	-519	-467
Representation expenses	-1	
Marketing	-13	-13
Total	-12,551	-12,246
Other operating expenses		
Rental expenses	-324	-353
Expenses arising from owner-occupied property	-45	-24
Other operating expenses*	-1,454	-1,463
Total	-1,822	-1,840
Other operating expenses	-14,373	-14,086
***Audit fees**		
Statutory audit	-36	-34
Audit related services	-7	-11
Other services	-28	-27
Total	-71	-72

NOTE 13. DEPRECIATION, AMORTISATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

(EUR 1,000)	1–12/2022	1–12/2021
Depreciation and amortisation of property, plant and equipment	-41	-55
Depreciation and amortisation of intangible assets	-1,695	-1,595
Impairment intangible assets	-2	
Total depreciation and amortisation	-1,738	-1,650

NOTE 14. IMPAIRMENT LOSS ON FINANCIAL ASSETS

For the purpose of measuring expected credit losses, SB Central Bank 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.

In assessing the significance of change in credit risk, SB Central Bank 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.

- Weakening of credit rating: the credit risk of a financial asset is considered to have increased significantly and the agreement transitions from stage 1 to stage 2, if the credit rating of the agreement decreased by a minimum of four credit ratings.

- 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.

- PD% increase (investment assets): credit risk is assessed to have grown significantly when its PD increases either by 10 basis points or 2.5 times its original value.

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 SB Central Bank taking action, such as realising the collateral or, at the latest, when payments are more than 90 days past due. In ECL calculation, SB Central Bank 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 also three months.

The Savings Banks Group assesses expected credit losses of debt securities belonging to investment assets by purchasing lot by using the PD*LGD*EAD model. The probability of default (PD) is based on credit ratings provided by Bloomberg and, if they are not available, external credit rating information, which is converted into PD values. The LGD values used in the calculation correspond to analysed historical actuals by investment type and are not assessed separately by issuer or investment.

SB Central Bank calculates expected credit loss (ECL) for low-risk credit using the Loss Rate model (ECL = Loss Rate * EAD). Low-risk counterparties include the public sector, financial institutions and state-guaranteed student loans. For other credit and securities, the calculation is based on the PD/LGD model (ECL = PD * LGD * EAD).

- PD% (Probability of Default) is based on external and internal credit ratings.

- Loss rate %, i.e. the calculation is based on percentage figures established for each counterparty. Determined by the counterparty's sector code.

- LGD% (Loss Given Default) takes into consideration the contract's available collateral at the time of default.

- EAD (Exposure at Default). The amount takes into consideration instalments and advance repayments, calculated for the term of the contract and for the year, for products for which early repayment 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.

The calculation of expected credit loss for the credit portfolio includes forward-looking information by incorporating three different economic scenarios based on macroeconomic forecasts prepared by the Savings Banks Groups' Chief Economist. The scenarios used in the calculation and their weights are the following: optimistic 20%, base 60% and pessimistic 20%. The forecast horizon of the economic scenarios used in ECL calculation is three years and in the years after that, the values of the macroeconomic factors are assumed to remain stable and be equivalent to the third-year values of the forecast period. The scenarios have been updated in late 2022. The key macroeconomic factors are e.g., Change in EuropeStoxx, change in GDP and investments.

The key macroeconomic factors and their forecasted values for the next three years are presented below (the value variation range between different scenarios).

	2022	2023	2024
Change in EuropeStoxx%	4% / 10%	6%	6%
Change in GDP	1% / 4%	1.2% / 1.6%	1.20%
Investments	1% / 4.0%	2.5% / 2.5%	1.5% / 1.5%

EFFECT OF CHANGES IN THE ECL MODEL

Change in the criteria of impairment stage 2

The stage 2 criteria for calculation of expected credit losses for loans and advances have been changed by replacing the previously applied criteria of credit rating deterioration by four credit grades with increase in PD%. Following the amendment the contract will migrate to stage 2, if any of the following criteria is met:

- payment delay of more than 30 days,
- PD% increase that exceeds the defined absolute or relative thresholds; or
- performing contract is marked as forborne.

Following the amendment there were contracts that migrated to stage 2. The effect of the amendment is presented in the line change in mode for calculation of ECL.

War in Ukraine and impacts of the economic sanctions against Russia

SB Central Bank has assessed the financial impacts of the war in Ukraine and the economic sanctions against Russia on their customers' credit risk. SB Central Bank does not have significant direct liabilities to Russia, Ukraine or Belarus in sectors such as agriculture, logistics, construction or industries dependent on energy commodities. If the exceptional situation continues, SB Central Bank will monitor and report the development of their customers' credit risk and, if necessary, make an adjustment, based on the management's assessment, to the amount of expected credit losses.

The macroeconomic forecasts used in calculation of expected credit losses were updated in late 2022.

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

The following tables present the development of expected credit losses as of the beginning of the review period.

IMPAIRMENT LOSS ON FINANCIAL ASSETS

EXPECTED CREDIT LOSSES (ECL), LOANS AND ADVANCES TO CUSTOMERS 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 2022	183	214	1,407	1,804
Transfers to Stage 1	20	-70		-49
Transfers to Stage 2	-86	440	-11	343
Transfers to Stage 3		-229	1,383	1,154
New assets originated or purchased	109		5	114
Assets derecognised or repaid	-13	-16	-697	-727
Amounts written off			166	166
Amounts recovered			-275	-275
Change in credit risk without change in Stage	51	-42	-44	-34
Net change in ECL	82	83	527	692
Expected Credit Losses 31 December 2022	265	297	1,934	2,496

EXPECTED CREDIT LOSSES (ECL), LOANS AND ADVANCES TO CREDIT INSTITUTIONS 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 2022	206			206
New assets originated or purchased	132			132
Assets derecognised or repaid (excluding write offs)	-58			-58
Net change in ECL	73			73
Expected Credit Losses 31 December 2022	279			279

EXPECTED CREDIT LOSSES (ECL), INVESTMENT ASSET

	Stage 1	Stage 2	Stage 3	Total
(EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected Credit Losses 1 January 2022	188			188
New assets originated or purchased	29			29
Assets derecognised or repaid (excluding write offs)	-57			-57
Net change in ECL	-29			-29
Expected Credit Losses 31 December 2022	160			160
Expected Credit Losses 31 December 2022 total	704	297	1,934	2,935
Net change in ECL 1.1.–31.12.2022: loans and advances, off-balanse sheet and investment assets	127	83	527	737

EXPECTED CREDIT LOSSES (ECL), LOANS AND ADVANCES TO CUSTOMERS 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 2021	260	192	1,133	1,585
Transfers to Stage 1	11	-57	-44	-90
Transfers to Stage 2	-27	296	-26	243
Transfers to Stage 3	-1	-140	1,221	1,081
New assets originated or purchased	56	2		58
Assets derecognised or repaid (excluding write offs)	-9	-20	-635	-664
Amounts written off			-537	-537
Amounts recovered			215	215
Change in credit risk without change in Stage	-118	-69	81	-106
Changes in ECL model	11	9		19
Net change in ECL	-78	21	275	219
Expected Credit Losses 31 December 2021	182	214	1,407	1,804

EXPECTED CREDIT LOSSES (ECL), LOANS AND ADVANCES TO CREDIT INSTITUTIONS 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 2021	212			212
New assets originated or purchased	162			162
Assets derecognised or repaid (excluding write offs)	-168			-168
Net change in ECL	-6			-6
Expected Credit Losses 31 December 2021	206			206

EXPECTED CREDIT LOSSES (ECL), INVESTMENT ASSET

	Stage 1	Stage 2	Stage 3	Total
(EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected Credit Losses 1 January 2021	186			186
New assets originated or purchased	50			50
Assets derecognised or repaid (excluding write offs)	-47			-47
Net change in ECL	3			3
Expected Credit Losses 31 December 2021	188			188
Expected Credit Losses 31 December 2021 total	577	214	1,407	2,198
Net change in ECL 1.1.–31.12.2021: loans and advances, off-balanse sheet and investment assets	-81	21	275	215

NOTE 15. INCOME TAXES

(EUR 1,000)	1–12/2022	1–12/2021
Current tax	-1,022	
Change in deferred tax assets	-420	-92
Income taxes	-1,443	-92
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 taxes	7,106	-582
Differences between accounting and taxable profit	-1,994	2,721
Taxable profit	5,112	2,139
Tax using the domestic corporation tax rate	-1,421	-116
Tax-exempt income		
Non-deductible expenses	-152	43
Unrecognised deductible expenses	152	
Unrecognised taxable income	-10	501
Use of approved tax losses for prior years	-11	-520
Tax expense	-1,443	-92
Corporate income tax rate	20%	20%

ASSETS

NOTE 16. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(EUR 1,000)	Amortized costs	Fair value through other comprehensive income	Fair value through profit or loss	Total
31.12.2022				
Cash and cash equivalents			1,200,500	1,200,500
Loans and advances to credit institutions	1,930,649			1,930,649
Loans and advances to customers	140,616			140,616
Derivatives				
fair value			12	12
Investment assets	49,825	54,926	3,200	107,950
Total assets	2,121,089	54,926	1,203,713	3,379,728
Liabilities to credit institutions	1,753,917			1,753,917
Liabilities to customers	574,032			574,032
Derivatives				
fair value			54,120	54,120
Debt securities issued	880,335			880,335
Total liabilities	3,208,284		54,120	3,262,404

(EUR 1,000)	Amortized costs	Fair value through other comprehensive income	Fair value through profit or loss	Total
31.12.2021				
Cash and cash equivalents			1,006,639	1,006,639
Loans and advances to credit institutions	1,393,431			1,393,431
Loans and advances to customers	96,774			96,774
Investment assets	110,019	55,064	2,000	167,084
Total assets	1,600,225	55,064	1,008,639	2,663,928
Liabilities to credit institutions	1,244,000			1,244,000
Liabilities to customers	325,575			325,575
Derivatives				
fair value			10,150	10,150
Debt securities issued	1,005,628			1,005,628
Total liabilities	2,575,203		10,150	2,585,353

NOTE 17. CASH AND CASH EQUIVALENTS

(EUR 1,000)	31.12.2022	31.12.2021
Receivables from central banks repayable on demand	1,200,500	1,006,639
Cash and cash equivalents	1,200,500	1,006,639

NOTE 18. LOANS AND ADVANCES

31.12.2022 (EUR 1,000)	Not impaired (gross)	Expected credit losses (ECL)	Balance sheet value
Loans and advances to credit institutions			
Deposits	143,776	-1	143,775
Loans and other receivables	1,786,873	-258	1,786,615
Total	1,930,649	-259	1,930,390
Loans and advances to customers			
Used overdrafts	29,194	-136	29,058
Credit cards	111,422	-2,300	109,122
Total	140,616	-2,436	138,179
Loans and advances total	2,071,265	-2,696	2,068,569

31.12.2021 (EUR 1,000)	Not impaired (gross)	Expected credit losses (ECL)	Balance sheet value
Loans and advances to credit institutions			
Deposits	98,604		98,604
Loans and other receivables	1,295,015	-187	1,294,828
Total	1,393,619	-187	1,393,431
Loans and advances to customers			
Used overdrafts	1,082	-2	1,081
Credit cards	97,434	-1,741	95,693
Total	98,517	-1,743	96,774
Loans and advances total	1,492,135	-1,930	1,490,206

NOTE 19. DERIVATIVES AND HEDGE ACCOUNTING

SB Central Bank hedges its interest rate risk against exposure to changes in fair value and applies hedge accounting on hedging relationships. Fair value hedging is applied at fixed interest rate lend-ing and fixed rate debt issuance.

Changes in the fair value of derivatives hedging fair value are recognised in the income statement under Net trading income. When hedging fair value, 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 corre-sponding balance sheet item and in the income statement under Net trading income. Interest arising from hedging derivatives are presented as an adjustment to interest expense.

31.12.2022	Nominal value / remaining maturity				Fair value	
(EUR 1,000)	less than 1 year	1–5 years	over 5 years	Total	Assets	Liabilities
Fair value hedging*						
Interest rate derivatives	10,000	30,000	168,000	208,000	12	54,120
Total	10,000	30,000	168,000	208,000	12	54,120

31.12.2021	Nominal value / remaining maturity				Fair value	
(EUR 1,000)	less than 1 year	1–5 years	over 5 years	Total	Assets	Liabilities
Fair value hedging						
Interest rate derivatives	10,000	40,000	168,000	218,000		10,150
Total	10,000	40,000	168,000	218,000	0	10,150

* Fixed rate loans to amalgamation banks (Savings banks) designated as exposures in fair value hedging groups have total nominal value of EUR 10,000,000 and total fair value of EUR 9,986,543. Nominal values of hedges equal to the nominal values of exposures.

Fixed rate issued bonds designated as exposures in fair value hedging groups have total nominal value of EUR 198,000,000 and total fair value of EUR 196,698,809. Nominal values of hedges equal to the nominal values of exposures.

NOTE 20. INVESTMENT ASSETS

(EUR 1,000)	31.12.2022	31.12.2021
At fair value through other comprehensive income		
Debt securities	52,870	53,827
Shares and participations	2,055	1,237
Total	54,926	55,064
Fair value through profit or loss		
Shares and participations	3,200	2,000
Total	3,200	2,000
Amortized cost investments		
Debt securities	49,853	110,069
Expected Credit Losses	-29	-50
Total	49,825	110,019
Investment assets	107,950	167,084

BREAKDOWN BY ISSUER OF QUOTATION

2022 (EUR 1,000)	Measured at fair value through other comprehensive income	Fair value through profit or loss	Measured at amortized cost	Total
Quoted				
Other	54,926	3,200	49,825	107,950
Total	54,926	3,200	49,825	107,950

2021 (EUR 1,000)	Measured at fair value through other comprehensive income	Fair value through profit or loss	Measured at amortized cost	Total
Quoted				
Other	55,064	2,000	110,019	167,084
Total	55,064	2,000	110,019	167,084

NOTE 21. PROPERTY, PLANT AND EQUIPMENT

(EUR 1,000)	31.12.2022	31.12.2021
Machinery and equipment	21	49
Other tangible assets		13
Property, plant and equipment	21	62

31.12.2022
(EUR 1,000)

Changes in property, plant and equipment	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost 1 January	268	72		340
Decreases				
Acquisition cost 31 December	268	72		340
Accumulated depreciation and impairments 1 January	-219	-59		-278
Depreciation for the financial year	-28	-13		-41
Accumulated depreciation and impairments 31 December	-247	-72		-319
Carrying amount 31 December	21	0		21

31.12.2021
(EUR 1,000)

Changes in property, plant and equipment	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost 1 January	327	72		399
Decreases	-59			-59
Acquisition cost 31 December	268	72		340
Accumulated depreciation and impairments 1 January	-218	-44		-262
Depreciation for the financial year	-41	-14		-55
Decreases	40			40
Accumulated depreciation and impairments 31 December	-219	-59		-278
Carrying amount 31 December	49	13		62

NOTE 22. INTANGIBLE ASSETS

(EUR 1,000)	31.12.2022	31.12.2021
Intangible rights	5,942	5,203
Intangible assets under development	2,537	2,312
Intangible assets	8,479	7,515

Intagible rights and intangible assets under development formed a significant part of information systems acquired from external operators.

31.12.2022
(EUR 1,000)

Changes in intangible assets	Intangible rights	Intangible assets under development	Total
Acquisition cost 1 January	10,313	2,312	12,625
Increases	2,434	224	2,658
Acquisition cost 31 December	12,747	2,537	15,283
Accumulated depreciation and impairments 1 January	-5,109		-5,109
Depreciation for the financial year	-1,695		-1,695
Accumulated depreciation and impairments 31 December	-6,805		-6,805
Carrying amount 31 December	5,942	2,537	8,479

31.12.2021
(EUR 1,000)

Changes in intangible assets	Intangible rights	Intangible assets under development	Total
Acquisition cost 1 January	10,183	569	10,752
Increases	129	1,743	1,873
Acquisition cost 31 December	10,313	2,312	12,625
Accumulated depreciation and impairments 1 January	-3,515		-3,515
Depreciation for the financial year	-1,595		-1,595
Accumulated depreciation and impairments 31 December	-5,109		-5,109
Carrying amount 31 December	5,203	2,312	7,515

NOTE 23. DEFERRED TAXES

(EUR 1,000)	31.12.2022	31.12.2021
Deferred tax assets	830	1,163
Tax assets	830	1,163
Deferred tax liabilities	334	273
Tax liability	334	273

(EUR 1,000)	31.12.2022	31.12.2021
Deferred tax assets		
Impairment	587	440
Financial assets	226	138
Intangible assets	18	13
Approved tax losses	-	572
Total	830	1,163

(EUR 1,000)	31.12.2022	31.12.2021
Deferred tax liabilities		
Financial assets	334	273
Total	334	273

(EUR 1,000)	1.1.2022	Change recognised in profit or loss	Financial assets	31.12.2022
Deferred tax assets				
Impairment	440	147		587
Financial assets	138		88	226
Intangible assets	13	4		18
Approved tax losses	572	-572		
Total	1,163	-420	88	830

(EUR 1,000)	1.1.2022	Change recognised in profit or loss	Financial assets	31.12.2022
Deferred tax liabilities				
Financial assets	273		61	334
Total	273		61	334

(EUR 1,000)	1.1.2021	Change recognised in profit or loss	Financial assets	31.12.2021
Deferred tax assets				
Impairment	397	43		440
Financial assets	200		-62	138
Intangible assets	9	4		13
Approved tax losses	711	-139		572
Total	1,317	-92	-62	1,163

(EUR 1,000)	1.1.2021	Change recognised in profit or loss	Financial assets	31.12.2021
Deferred tax liabilities				
Financial assets	705		-432	273
Total	705		-432	273

NOTE 24. OTHER ASSETS

(EUR 1,000)	31.12.2022	31.12.2021
Accrued income and prepaid expenses	14,827	5,623
Interest	10,733	3,056
Other accrued income and prepaid expenses	4,093	2,567
Other	18,063	1,279
Other assets	32,890	6,902

LIABILITIES AND EQUITY

NOTE 25. LIABILITIES TO CREDIT INSTITUTIONS AND CUSTOMERS

(EUR 1,000)	31.12.2022	31.12.2021
Liabilities to credit institutions		
Liabilities to central banks	68,000	68,000
Liabilities to credit institutions	1,685,917	1,176,000
Total	1,753,917	1,244,000
Liabilities to customers		
Deposits	44	75
Other financial liabilities*	573,988	325,500
Total	574,032	325,575
Liabilities to credit institutions and customers	2,327,948	1,569,575

* Other financial liabilities are deposits from governments, multinational organisations and foreign funds.

NOTE 26. DEBT SECURITIES ISSUED

(EUR 1,000)	31.12.2022	
Measured at amortized cost	**Nominal value**	**Book value**
Bonds	787,500	737,014
Other		
Certificates of deposit	144,000	143,321
Debt securities issued	931,500	880,335
Of which		
Variable interest rate	350,000	350,885
Fixed interest rate	581,500	529,450
Total	931,500	880,335

(EUR 1,000)	31.12.2021	
Measured at amortized cost	**Nominal value**	**Book value**
Bonds	860,500	851,491
Other		
Certificates of deposit	154,000	154,137
Debt securities issued	1,014,500	1,005,628
Of which		
Variable interest rate	571,500	569,421
Fixed interest rate	443,000	436,207
Total	1,014,500	1,005,628

NOTE 27. PROVISIONS AND OTHER LIABILITIES

(EUR 1,000)	31.12.2022	31.12.2021
Other liabilities	31,607	3,625
Accrued expenses	10,477	6,287
Interest payable	5,852	2,104
Interest advances received	657	463
Other accrued expenses	3,968	3,720
Provisions	79	80
Other provisions*	79	80
Other liabilities	42,163	9,992

* Other provisions are expected credit losses from off balance-sheet commitments.

NOTE 28. CAPITAL AND RESERVES

(EUR 1,000)	31.12.2022	31.12.2021
Share capital	94,812	68,344
Reserves		
Reserve for invested non-restricted equity	19,000	19,000
Fair value reserve	434	542
Retained earnings		
Profit (loss) for previous financial years	-3,884	-3,260
Profit (loss) for the financial year	5,663	-674
Total equity	116,024	83,952

Basic capital

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

SB Central Bank has in total 35,735 shares without nominal value.

Reserve for invested non-restricted equity

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

Fair value reserve

Fair value reserve includes items arising from fair value measurements.

Retained earnings

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

Specification of changes in fair value reserve	2022	2021
Fair value reserve 1 January	542	2,022
Profit/loss from fair value measurements, shares	829	-2,263
Profit/loss from fair value measurements, debt securities	-957	461
Deferred tax from fair value measurements	27	370
Expected credit losses from debt securities, fair value through other comprehensive income	-7	-47
Fair value reserve 31 December	434	542

OTHER NOTES

NOTE 29. COLLATERALS

(EUR 1,000)	31.12.2022	31.12.2021
Collateral given		
Given on behalf of Group's own liabilities and commitments		
Securities	90,055	97,610
Other	54,650	10,190
Collateral given	144,705	107,800
Collateral received		
Securities	40,413	47,049
Collateral received	40,413	47,049

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

NOTE 30. OFF BALANCE-SHEET COMMITMENTS

(EUR 1,000)	31.12.2022	31.12.2021
Guarantees	10,000	10,000
Loan commitments	280,592	266,730
Other*	141,000	131,500
Off balance-sheet commitments	431,592	408,230

* Other off balance-sheet commitments are agreements with member credit institutions of the Savings Banks Amalgamation in which the trade date will only take place after the end of the period under review.

NOTE 31. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

31.12.2022				Amounts which are not offset but are subject to enforceable master netting arrangements or similar agreements		
(EUR 1,000)	**Recognised financial assets, gross**	**Recognised financial liabilities offset in balance sheet, gross**	**Carrying amount in balance sheet, net**	**Financial instruments**	**Cash held/ received as collateral**	**Net amount**
Liabilities						
Derivative contracts				12		12
Total				12		12
Liabilities						
Derivative contracts				54 120	54 650	-530
Total				54 120	54 650	-530

31.12.2021				Amounts which are not offset but are subject to enforceable master netting arrangements or similar agreements		
(EUR 1,000)	**Recognised financial assets, gross**	**Recognised financial liabilities offset in balance sheet, gross**	**Carrying amount in balance sheet, net**	**Financial instruments**	**Cash held/ received as collateral**	**Net amount**
Assets						
Derivative contracts						0
Total						0
Liabilities						
Derivative contracts				10 150	10 190	-40
Total				10 150	10 190	-40

NOTE 32. FAIR VALUES BY VALUATION TECHNIQUE

Fair value measurement

Financial instruments are presented in SB Central Bank's balance sheet at fair value or at amortized cost. 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.

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 balance sheet date. In respect of cash and deposits payable on demand, the nominal value is considered equivalent to the fair value.

SB Central 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 quoted bonds as well as other 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. interest rate derivatives 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.

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 period 1–12/2022, there were no transfers between levels 1, 2 and 3.

Financial assets 31.12.2022	Carrying amount	Fair value by hierarchy level			
(EUR 1,000)		Level 1	Level 2	Level 3	Total
Measured at fair value					
At fair value through profit or loss	1,280,042	1,349,231		3,200	1,352,431
Derivative contracts	12		12		12
Fair value through other comprehensive income	54,926		53,436	2,055	55,491
Measured at amortized cost	2,044,748	2,060	1,805,296	139,760	1,947,116
Total financial assets	3,379,728	1,351,291	1,858,744	145,015	3,355,050

Financial liabilities 31.12.2022	Carrying amount	Fair value by hierarchy level			
(EUR 1,000)		Level 1	Level 2	Level 3	Total
Measured at fair value					
Derivative contracts	54,120		54,120		54,120
Measured at amortized cost	3,208,284	1,367,461	1,795,159		3,162,619
Total financial liabilities	3,262,404	1,367,461	1,849,279		3,216,739

Changes at level 3

Reconciliation of changes in financial instruments at level 3.

Financial assets at fair value through profit or loss	
Carrying amount 1 January 2022	2 000
Sales	1 200
Carrying amount 31 December 2022	3 200

Fair value through other comprehensive income	
Carrying amount 1 January 2022	1 237
Sales	1 383
Changes in value recognised in comprehensive	-565
Carrying amount 1 January 2022	2 055

SENSITIVITY ANALYSIS OF FINANCIAL INSTRUMENTS AT LEVEL 3

31.12.2022	Carrying amount	Effect of hypothetical changes	
(EUR 1,000)		Positive	Negative
At fair value through profit or loss	3,200	3,680	2,720
Fair value through other comprehensive income	2,055	2,363	1,747

The sensitivity of the fair value of instruments belonging to level 3 to assumed changes is presented in the table above. The fair value has been tested using a 15% change in value.

Financial assets 31.12.2021	Carrying amount	Fair value by hierarchy level			
(EUR 1,000)		**Level 1**	**Level 2**	**Level 3**	**Total**
Measured at fair value					
At fair value through profit or loss	1,084,236	1,082,236		2,000	1,084,236
Fair value through other comprehensive income	55,064		54,571	1,237	55,808
Measured at amortized cost	1,524,627	23,044	1,415,312	97,911	1,536,266
Total financial assets	2,663,928	1,105,280	1,469,883	101,148	2,676,311

Financial liabilities 31.12.2021	Carrying amount	Fair value by hierarchy level			
(EUR 1,000)		**Level 1**	**Level 2**	**Level 3**	**Total**
Measured at fair value					
At fair value through profit or loss					
Derivative contracts	10,150		10,150		10,150
Measured at amortized cost	2,575,203	848,375	1,738,951		2,587,326
Total financial liabilities	2,585,353	848,375	1,749,101		2,597,476

Changes at level 3

Reconciliation of changes in financial instruments at level 3.

Financial assets at fair value through profit or loss	
Carrying amount 1 January 2021	400
Sales	1,600
Carrying amount 31 December 2021	2,000

Fair value through other comprehensive income	
Carrying amount 1 January 2021	8,025
Sales	-2,870
Changes in value recognised in comprehensive	-3 918
Carrying amount 31 December 2021	1,237

NOTE 33. LEASES

SB Central Bank as lessee

SB Central Bank acts as a lessee of printers and laptop computers. SB Central Bank's contracts are classified as short term contracts and right-of-use asset or lease liability is not recognised for them.

Income statement items (EUR 1,000)	2022	2021
Expense relating to short-term leases	35	42
Total	35	42

SB Central Bank doesn't act as a lessor.

NOTE 34. RELATED PARTIES

The related parties of the Sb Central Bank's comprise the key management personnel as well as their close family members. The key management personnel of the Sb Central Bank comprise the members of the Board, Managing Director and her deputy.

With the exception of unsecured card credits and consumer credit loans, SB Central Bank has granted no related party loans or investments and has no related party business activities. Card credits to related parties are subject to the same general terms and conditions as corresponding customer credits.

Key management personnel compensation	**2022**	**2021**
(EUR 1,000)		
Short-term employee benefits	265	261
Total	265	261

Key personnel compensation*

2022	**Salary and remuneration**	**Statutory pension expenses**
Brander Kai, CEO	232	39
Mangs Monica, Chairman of the Board of Directors	13	
Koivunen Maija, member as from 10 March 2022, resigned from Board of Directors 19 May 2022	1	
Niuro Jouni, member of the Board of Directors until 10 March 2022	2	
Siviranta Petri, member of the Board of Directors	8	
Rouhe Samu, member as from 10 March 2022	5	
Toivonen Anne, member of the Board from 10 March 2022	2	
Öhman Ossi, Vice-Chairman of the Board of Directors	9	
Total	271	39

Key personnel compensation*

2021	**Salary and remuneration**	**Statutory pension expenses**
Brander Kai, CEO	229	39
Ahonen Pirkko, member of the Board, until 11 March	1	
Hakala Jussi, member of the Board, as from 11 March	8	
Mangs Monica, member of the Board	6	
Rinta Jarmo, Chairman of the Board of Directors until 11 March	6	
Siviranta Petri, member of the Board, until 11 March	1	
Syvänen Hannu, member of the Board, Vice-Chairman of the Board of Directors	6	
Toivonen Anne, member of the Board, as from 11 March	6	
Total	261	39

NOTE 35. MATERIAL EVENTS AFTER THE CLOSING DATE

The Board of Directors of SB Central Bank is not aware of any other factors that would materially influence the financial position of the Savings Banks Group after the completion of the financial statements.

PILLAR III DISCLOSURES

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

Financial statement of the Savings Banks Group and Pillar III capital adequacy information of the Savings Banks Amalgamation are available online at www.saastopankki.fi.

Central Bank
of Savings Banks

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