SP MORTGAGE BANK PLC'S

BOARD OF DIRECTORS' REPORT AND IFRS FINANCIAL STATEMENTS

31.12.2023

Sp Mortgage Bank Plc

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

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

During the financial year, Sp Mortgage Bank's operations proceeded as planned and the loan portfolio reached at the end of the year the amount of EUR 2,198 (2,240) million.

On 28 November 2022, Sp Mortgage Bank Plc and Oma Savings Bank Plc signed an agreement on selling the mortgages originated by Lieto Savings Bank and currently held by Sp Mortgage Bank to Oma Savings Bank. The signed agreement was part of a wider set of transactions whereby Lieto Savings Bank sold its entire banking business to Oma Savings Bank. The mortgages transferred to Oma Savings Bank on 5 March 2023 amounted to approximately EUR 233 million. After the sale, Oma Savings Bank carries all rights and responsibilities relating to the mortgages. The effect of the sale of mortgages on the result of the review period was minor.

Sp Mortgage Bank's operating loss during the financial year amounted to EUR -18.7 (-2.4) million, and the balance sheet total amounted to EUR 2,607 (2,699) million.

THE SAVINGS BANKS GROUP AND THE SAVINGS BANKS AMALGAMATION

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

The Savings Banks Group is the most long-standing banking group in Finland. It comprises the Savings Banks that form the Savings Banks Amalgamation, the Savings Banks' Union Coop that acts as the Central Institution, and the subsidiaries and associated companies owned jointly by the banks.

The member companies of the Savings Banks Amalgamation form a financial institution as defined in the Act on the Amalgamation of Deposit Banks, in which Savings Banks' Union coop and its member credit institutions are ultimately jointly and severally 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, 14 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. The structure of the Savings Banks Group differs from that of the Savings Banks Amalgamation in that the Savings Banks Group also includes institutions other than credit and financial institutions or service companies. The most significant of these are Sb Life Insurance Ltd and Sp-Koti Oy Ltd.

Lieto Savings Bank relinquished its membership of Savings Banks' Union Coop and the Savings Banks Amalgamation effective from 1 March 2023. In connection with this, Lieto Savings Bank transferred its entire business to Oma Savings Bank Plc. The business transfer took effect on 28 February 2023. According to the accounting principles confirmed by Savings Banks' Union Coop, Lieto Savings Bank's result for 2023 is included in the Savings Banks Group's result until the date of the demerger. As a result of the exit, the number of savings banks in the Savings Banks Amalgamation and the Savings Banks Group decreased from 15 to 14.

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 2023 began in a fairly bleak economic climate. There were fears that the energy crisis would lead to a recession, particularly in Europe. It was also expected that the sharply increased interest rates would substantially dampen economic growth.

As it turned out, economies were more resilient than expected in the face of these pressures, and global economic growth slowed less than anticipated. The overall growth of the global economy for the year is likely to be just over 3%, which is under the long-term average. While the energy crisis weakened economic growth in Europe in particular, businesses and households adapted to the circumstances surprisingly well. The rise in interest rates has dampened economic growth, but major problems have been avoided.

There were significant regional differences in economic growth in 2023. Europe was again the weak link. The German economy suffered from the energy crisis in particular. Economic growth in the eurozone as a whole is expected to have been only slightly above zero in 2023, and the eurozone economy likely entered into a recession in the latter part of the year.

The Chinese economy saw brisk growth in early 2023 when COVID-19 lockdowns were finally discontinued. However, the recovery was rather short-lived, and the Chinese central government introduced various stimulus measures late in the year to boost the economy. The growth target of 5% is likely to be achieved for 2023. The real estate sector continues to be a problem in the Chinese economy.

Economic growth in the United States remained surprisingly strong in spite of the higher interest rates. The US economy is expected to have grown by more than 2% in 2023. Household consumption, in particular, has held up in the United States.

Perhaps the most positive economic news in 2023 concerned inflation, which finally began to become more moderate as the year went on. In the eurozone, for example, inflation was above 8% at the start of the year. By November, it had fallen to 2.4%.

The slowing of inflation also enabled central banks to stop interest rate hikes towards the end of the year. In 2024, interest rates are expected to decrease both in the United States and Europe. This will bring relief especially to the Finnish economy, which is highly sensitive to interest rates.

There were negative surprises during the year in the economy as well as in geopolitics. In the spring, a small number of banks in the United States and Europe experienced difficulties. Fortunately, the situation did not escalate into a broader banking crisis. In the autumn, fighting broke out in the Middle East, but the impacts on oil prices, for example, were fairly minimal. While the war in Ukraine continues, its effects on the global economy are minor. However, an escalation of the situation is always possible, which means that political risks remain elevated.

Interest rate environment

In the first half of 2023, short-term interest rates in the eurozone continued to rise, driven by the European Central Bank strongly signalling future interest rate hikes to curb inflation. The 12-month Euribor, which is used as the general reference rate for mortgages, rose by almost one percentage point by mid-year compared to the start of the year. The situation has since stabilised and, from October onwards, short-term interest rates have been on a downward trend. Long-term interest rates also trended downward in the latter part of the year. The reasons include inflation levelling off, weakening economic growth in the eurozone and the likely end of the European Central Bank's interest hike cycle.

On the whole, the development of interest rates in 2023 was strongly supportive of the net interest income of banking operations. However, at the same time, the cost of wholesale funding has increased in both covered bonds and senior loans, which has contributed to hindering the positive development of net interest income.

The future development of interest rates will be largely determined by the timing of the European Central Bank's potential interest rate cuts and what the ECB will communicate to the market regarding its future interest rate policy. The relatively steep downward curve of long-term interest rates indicates a decrease of approximately 1.5 percentage points in 2024. If the markets have anticipated too rapid a change, there may be at least a temporary rise in the level of the interest rate curve in 2024.

Investment markets

In 2023, the attention of the investment markets was focused on the sharp rise in interest rates, which then levelled off in the fourth quarter. The uncertainty in the financial sector in spring 2023 and the challenges faced by the banking sector did not lead to a widespread crisis in the investment markets. Central banks reacted decisively to the situation and, as a result, investor confidence recovered very quickly. Inflation began to show signs of slowing towards the end of the year, which meant that the central banks' rate hike cycle reached a turning point. This was favourably received in the investments markets, with returns rising sharply for both fixed income investments and equities in the fourth quarter. On the whole, 2023 was a much better year for investments than what was anticipated in the early part of the year. As in the previous year, geopolitical risks continued to make headlines. It can be expected that politics and the US presidential election will again have a significant impact on the markets in 2024.

The Finnish economy

The Finnish economy outperformed expectations in early 2023, and the feared recession did not materialise. However, in the second half of the year, economic growth weakened substantially and, according to our assessment, the economy entered a recession.

The increased interest rates have had a particularly significant impact on the Finnish economy. Most loans in Finland are linked to variable interest rates, which means that higher interest rates are reflected in the Finnish economy faster than in many other countries. In particular, the increase in interest rates has led to weakness in private consumption and investment, particularly in terms of investments in construction.

For a long time now, households have suffered simultaneously from rising interest rates and high inflation. Household purchasing power declined by a record amount between 2022 and 2023. According to our Savings Barometer, financial distress experienced by households increased in 2023. Consumer confidence also remained well below the long-term average in 2023.

Towards the end of the year, however, the situation began to ease and consumer purchasing power started to rise again. This was due to both the slowing of inflation and the higher-than-usual increases in wages. The employment situation remained fairly good in spite of weakening slightly during the year.

For businesses, 2023 was more difficult than the previous year, and business confidence declined throughout the year. There were large differences between industries. The construction sector was particularly hard hit by the rising interest rates, and construction activity has declined to a significant degree. While industrial production held up, the future outlook deteriorated as the year went on. This was due to the global economic outlook in particular. The service sector still performed fairly well, but the future outlook took a negative turn in that sector as well. The number of bankruptcies rose above the long-term average.

The housing market in Finland

The housing market slump that began in October 2022 continued in 2023. The main reasons were the rise in interest rates and the low level of consumer confidence. The total housing transaction volume decreased by approximately 27%. The decrease was roughly 24% for old dwellings and approximately 65% for new dwellings. The transaction volumes declined the most in large cities, particularly in the Helsinki metropolitan area.

Transaction volumes increased in November–December, exceeding the figures seen in the corresponding months in 2022. The slight recovery in the housing transaction volume was attributable to the ECB's decision to not raise interest rates for the time being, as well as the transfer tax change that entered into force retroactively on 12 October. The decision scrapped the tax exemption for first-time home buyers effective from 1 January 2024. This led to a substantial increase in transactions by first-time home buyers in the latter part of the year.

The annual change in the prices of old apartments was approximately -4% in the Helsinki metropolitan area and approximately +0.2% in other major cities.

In 2024, we expect the transaction volume for old dwellings to rise by 15% and the prices of old dwellings to increase by 2% at the annual level.

SP MORTGAGE BANK PLC'S FINANCIAL POSITION

SP MORTGAGE BANK'S FINANCIAL HIGHLIGHTS

(EUR 1,000)	1.1.–31.12.2023	1.1.–31.12.2022	1.1.–31.12.2021
Revenue	73,910	42,112	30,364
Net interest income	13,495	18,950	24,981
% of revenue	18.3%	45.0%	82.3%
Operating profit or loss	-19,142	-2,351	1,968
% of revenue	-25.9%	-5.6%	6.5%
Total operating revenue	-15,810	523	3,636
Total operating expenses	-2,289	-2,272	-2,033
Cost to income ratio	-0.14	4.34	0.56
Total assets	2,606,508	2,699,233	2,375,143
Total equity	99,361	118,033	120,384
Return on equity %	-17.2%	-2.0%	1.4%
Return on assets %	-0.7%	-0.1%	0.0%
Equity/assets ratio %	3.8%	4.4%	5.1%
Solvency ratio %	12.5%	14.6%	15.2%
Impairment losses on loans and other receivables	-1,043	-602	404

PROFIT TRENDS (COMPARISON PERIOD 1–12/2022)

The Interest income increased to EUR 112.4 (41.0) million and consisted mostly of housing loan and hedging derivatives interest payments. The increase in interest income is explained by the rise in the market interest rate. Interest income from hedging derivatives increased to EUR 26.1 (11.8) million. The Interest expenses were EUR 98.9 (22.1) million consisted mostly of Interest expenses from liabilities to credit institutions, Interest expenses from covered bonds and hedging derivatives. The increase in interest expenses is mainly explained by the rise in the market interest rate. Interest expenses from hedging derivatives increased to EUR 61.8 (7.4) million. The net interest income amounted to EUR 13.5 (18.9) million.

The net fee and commission income mainly consisted of fees paid to the intermediating banks amounted to EUR -9.2 (-19.7) million.

Net profit from hedge accounting for the financial year was EUR -19.2 (-1.0) million and it is presented under Net trading income on the income statement.

Operating expenses were EUR 2.3 (2.3) million.

Operating result for the financial year was EUR -18.7 (-2.4) million.

BALANCE SHEET AND FUNDING (COMPARISON FIGURES 31 DECEMBER 2022)

Loans and advances to customers amounted to EUR 2,196 (1,993) million.

Sp Mortgage Bank funds its operations with covered bonds. Financial credit from Central Bank of Savings Banks Finland Plc is used as short-term bridge financing. The value of the covered bonds was EUR 1,972.9 (1,890.3) million at the end of the financial year. The amount of short-term funding drawn from Central Bank of the Savings Banks Finland Plc was EUR 380.0 (526.0) million.

At the end of the financial year equity amounted to EUR 99.4 (118.0) million.

CAPITAL ADEQUACY AND RISK POSITION

Capital adequacy (comparison figures 31 December 2022)

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

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

Stress tests

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

Capital contingency plan

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

Pillar I capital requirements

The biggest capital requirements of Sp Mortgage Bank are comprised of mortgage loan receivables. The standard method is applied to calculate the capital requirement for credit and counterparty risk of the Sp Mortgage 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 2% of the aggregate amount of own funds. Sp Mortgage Bank does not have a trading book and Sp Mortgage Bank's business does not involve taking commodity risk.

OWN FUNDS AND CAPITAL ADEQUACY

At the end of the financial year, the Sp Mortgage Bank own funds were EUR 96.8 (114.4) million, consisting of CET1 capital. Risk-weighted assets amounted to EUR 772.2 (783.1) million, i.e., they were 1.4% lower than at the end of the previous year. The decrease in risk-weighted exposure amounts was driven by the decrease in the credit portfolio, and the biggest decrease was seen in the exposure classes of receivables with real estate collateral and retail receivables. The capital ratio of Sp Mortgage Bank was 12.5 (14.6) % and the CET1 capital ratio was 12.5 (14.6) %.

The capital requirement of Sp Mortgage Bank was EUR 81.1 (82.2) million that equals to 10.5% of risk-weighted assets. The components of the capital requirement have remained unchanged compared to the previous year. The capital requirement is formed by:

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

The Pillar II capital requirement imposed by the Financial Supervisory Authority on the Savings Banks Amalgamation is 1.5 (1.25) %. 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.

In March 2023, the Financial Supervisory Authority decided to set a systemic risk buffer requirement of 1.0% for the Savings Banks Amalgamation. The decision will enter into effect on 1 April 2024.

In 2023, the Financial Supervisory Authority did not impose a 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 permission not to deduct internal holdings of credit institutions included in the Amalgamation from own funds instruments when calculating own funds at the individual bank 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 Finnish Financial Supervisory Authority has granted Savings Banks' Union Coop, which acts as the Central Institution of the Savings Banks Amalgamation, permission pursuant to the Act on the Amalgamation of Deposit Banks to decide that its member credit institutions will not be subject to the requirements stipulated by Section 6 of the EU Capital Requirements Regulation (EU 575/2013) and other EU statutes issued on the basis of the Regulation regarding the liquidity of credit institutions. The authorisation granted to the Central Institution also covers the NSFR claim.

The standard method is used to calculate the capital requirement to the credit risk of the Savings Banks Amalgamation. The capital requirement to the 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 2% of the aggregate amount of own funds. The Savings Banks Amalgamation does not have a trading book and the Amalgamation's business does not involve taking commodity risk.

The amendments to the EU's Capital Requirements Regulation (CRR3), which will implement the final Basel III regulation in the EU, are not expected to have a material impact on the capital adequacy of the Savings Banks Amalgamation. The amendments are scheduled to enter into force on 1 January 2025.

Sp Mortgage Bank publishes the relevant information with regard to capital adequacy calculation each year as part of its Annual Report and Notes to the Financial Statement. The main capital adequacy information has been published in the Half-year Report.

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

SP MORTGAGE BANK'S CAPITAL ADEQUACY'S MAIN ITEMS

Own Funds (EUR 1,000)	**31.12.2023**	**31.12.2022**
Common Equity Tier (CET1) capital before regulatory adjustments	99,361	118,033
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-2,607	-3,650
Common Equity Tier (CET1) capital	96,754	114,383
Additional tied 1 (AT1) capital	0	0
Tier 1 capital (T1 = CET1 + AT1) total	96,754	114,383
Tier 2 (T2) capital	0	0
Total Capital (TC = T1 + T2)	96,754	114,383
Risk weighted assets	772,204	783,052
of which: credit and counterparty risk	760,062	768,931
of which: credit valuation adjustments (CVA)	8,244	6,339
of which: market risk		
of which: operational risk	3,899	7,782
Common Equity Tier 1 (as percentage of total risk exposure amount)	12.5%	14.6%
Tier 1 (as a percentage of total risk exposure amount)	12.5%	14.6%
Total capital (as a percentage of total risk exposure amount)	12.5%	14.6%
Capital requirements		
Total capital	96,754	114,383
Capital requirement total*	81,123	82,242
Capital buffer	15,631	32,141

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

LEVERAGE RATIO

The leverage ratio of Sp Mortgage Bank's was 4.4% (5.0%) clearly exceeding the 3% minimum requirement. The leverage ratio describes the level of indebtedness of a credit institution and is calculated by dividing its Tier 1 capital by its total leverage ratio exposure measure. The Sp Mortgage Bank monitors excessive indebtedness as part of the ICAAP process.

LEVERAGE RATIO

(EUR 1,000)	31.12.2023	31.12.2022
Tier 1 capital	96,754	114,383
Leverage ratio exposure	2,217,976	2,269,552
Leverage ratio	4.4%	5.0%

RESOLUTION PLAN

Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms was implemented nationally effective from 1 January 2015 (Act on the Resolution of Credit Institutions and Investment Firms). To implement the Resolution Act, the Financial Stability Authority was established in Finland (Act on the Financial Stability Authority, 1995/2014). In May 2023, the Financial Stability Authority decided to set a minimum requirement for own funds and eligible liabilities (MREL requirement) for the Savings Banks Amalgamation and 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 Central Bank of Savings Banks Finland Plc.

The MREL requirement is by nature a Pillar 2 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 effective from 1 January 2024, the MREL requirement is 20.53% of the total risk exposure amount or 7.74% 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 effective from 1 January 2024, it is 15.72% of the total risk exposure amount or 5.91% of the total exposures, whichever is higher.

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

RISK POSITION

Objective of risk management

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

Principles and organisation of risk management

Risk management is defined as the identification, assessment, quantification, limitation and monitoring of risks caused by business operations and closely related risks. The purpose of risk management is to minimize the likelihood of unforeseeable losses or reputational risk in order to ensure the implementation of the Group's strategy. Risk and capital adequacy management are part of internal control. Sp Mortgage Bank has a risk control function that is independent of business operations.

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

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

Credit and counterparty risks

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

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

Liquidity risk

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

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

Market risk management

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

Operational risk

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

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

Business risk

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

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

Corporate governance

The Annual General Meeting of Sp Mortgage Bank considers the previous year's financial statement, distribution of the profits, discharges, and selection of Board members. The decisions on Sp Mortgage Bank's business operations and strategic matters are made by Sp Mortgage Bank's Board of Directors. Further tasks of the Board include making decisions concerning the main issues related to Sp Mortgage Bank's business operations and selecting its Managing Director. In addition, the Board ensures Sp Mortgage 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 Sp Mortgage 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 Sp Mortgage 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.

SP MORTGAGE BANK'S MANAGEMENT AND PERSONNEL

Sp Mortgage Bank's Board of Directors and Auditors

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

The Board of Directors in 2023 consists of the following:

Monika Mangs Chairman of the board
Karri Alameri
Samu Rouhe
Petri Siviranta
Ossi Öhman

Tero Kangas acts as Managing Director of Sp Mortgage Bank.

At the annual general meeting of the Sp Mortgage Bank Plc on 16th March 2023, KPMG Oy Ab, Authorised Public Accountants, was elected as the auditor of Sp Mortgage Bank, with Authorised Public Accountant Mikko Kylliäinen as principal auditor.

PERSONNEL

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

OWNERS

Sp Mortgage Bank is wholly owned by the 14 Savings Banks belonging to the Savings Banks Amalgamation.

MAIN OUTSOURCED FUNCTIONS

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

SOCIAL RESPONSIBILITY

Sp Mortgage Bank's social responsibility refers to its responsibility for the impacts of its business activities on surrounding society and the company's stakeholder groups. By acting as the Savings Banks' central credit institution, Sp Mortgage Bank in its part supports the social responsibility of the local Savings Banks. Information on the social responsibility of Sp Mortgage Bank is included in the consolidated financial statements of the Savings Banks Amalgamation and the responsibility report published annually by the Savings Banks Group.

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 REPORTING DATE

Sp Mortgage Bank's extraordinary general meeting was held on Friday, 2 February 2024. The extraordinary general meeting decided on the organization of a directed share issue to strenghten its CET1 -capital ratio.

OUTLOOK FOR THE YEAR 2024

Outlook for the operational environment

The growth outlook for 2024 is subdued. Europe is starting the new year in a recession and, in particular, the economic situation of Germany and Sweden, which are key trade partners for Finland, is weaker than usual. Economic growth in the United States is expected to slow down, but a soft landing is quite possible, which would avoid a more severe economic downturn despite rapid interest rate hikes. Growth in China is also slowing down.

The Finnish economy entered a recession in the second half of 2023, and continued subdued development is expected in 2024. Economic growth may pick up again towards the end of the year as interest rate cuts begin to have a stimulating effect on the economy. On the whole, we expect the Finnish economy to see approximately zero growth in 2024.

For households, the situation will begin to ease in 2024. Purchasing power will turn to an increase again and private consumption will gradually recover. In recent years, many households have had to use their savings to compensate for rising prices and interest rates. We expect that these savings will start to accumulate again and the household saving rate will increase slightly.

The housing market is expected to pick up slowly as the year goes on. Interest rate cuts and improving consumer purchasing power will boost confidence, prompting consumers to venture back into the housing market. While a major recovery is unlikely, a slight improvement from the previous year is expected.

Due to subdued economic growth, we expect unemployment to increase in 2024, albeit to a moderate degree. The average unemployment rate will still be under 8%. There has been a long-standing shortage of skilled workers, and companies want to retain their employees in spite of the economic slump.

The outlook for businesses remains weak at the start of the year. Especially in the construction industry, a more significant recovery is not yet likely, although the gradual decrease in interest rates will slowly improve the sector's outlook in the latter part of the year. The manufacturing industry suffers from the weak global economic cycle.

Inflation is expected to continue to slow down in 2024, although the fastest decline has already passed. This will enable central banks to reduce interest rates. Indeed, several interest rate cuts are likely during the year. This will bring relief to Finnish mortgage holders and gradually improve the outlook of the construction sector. However, there are still inflation-related risks associated with the potential escalation of the conflict in the Middle East and a substantial increase in oil prices.

Business outlook

Sp Mortgage Bank expects the loan portfolio to continue to grow through sales of new contracts and the quality of the loan portfolio to remain at a high level. The business outlook is stable. The covered bond programme established in 2016 allows for covered bond issuances 2024.

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

Sp Mortgage Bank's distributable funds amount to EUR 26,202,676.09.

The Board of Directors of Sp Mortgage Bank proposes to the Annual General Meeting that the profit for the financial year EUR -18,671,667.37 million is entered as accumulated retained earnings with no dividend paid.

INFORMATION

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

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

FORMULAS USED IN CALCULATING THE FINANCIAL HIGHLIGHTS

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

ALTERNATIVE PERFORMANCE MEASURES

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

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

SP MORTGAGE BANK PLC: IFRS FINANCIAL STATEMENTS

INCOME STATEMENT

(EUR 1,000)	Note	1–12/2023	1–12/2022
Interest income		112,409	41,000
Interest expense		-98,913	-22,050
Net interest income	6	13,495	18,950
Net fee and commission income	7	-9,229	-19,724
Net trading income	8	-20,226	1,297
Other operating revenue	9	150	
Total operating revenue		-15,810	523
Personnel expenses	14	-43	-42
Other operating expenses	9	-2,227	-2,230
Amortization and impairment of intanglible assets	16	-19	
Total operating expenses		-2,289	-2,272
Net impairment loss on financial assets	10	-1,043	-602
Profit before tax		-19,142	-2,351
Income tax expense	15	470	
Profit		-18,672	-2,351

STATEMENT OF COMPREHENSIVE INCOME

(EUR 1,000)	1–12/2023	1–12/2022
Profit	-18,672	-2,351
Total comprehensive income	-18,672	-2,351

STATEMENT OF FINANCIAL POSITION

(EUR 1,000)	Note	31.12.2023	31.12.2022
Assets			
Loans and advances to credit institutions	10	371,388	445,536
Loans and advances to customers	10	2,196,086	1,993,411
Derivatives	13	13,093	
Investment assets	10	4,993	
Intangible assets	16	1,108	1,033
Other assets	19	19,840	13,942
Assets held for sale			245,310
Total assets		2,606,508	2,699,233

(EUR 1,000)	Note	31.12.2023	31.12.2022
Liabilities and equity			
Liabilities			
Liabilities to credit institutions	11	389,350	525,500
Derivatives	13	101,201	149,131
Debt securities issued	11	1,972,873	1,890,278
Provisions and other liabilities	19	43,723	16,291
Total liabilities		2,507,147	2,581,200
Equity			
Share capital	17	72,051	72,051
Reserves	17	35,972	35,972
Retained earnings	17	-8,662	10,010
Total equity		99,361	118,033
Total liabilities and equity		2,606,508	2,699,233

STATEMENT OF CASH FLOWS

(EUR 1,000)	1–12/2023	1–12/2022
Cash flows from operating activities		
Profit	-18,672	-2,351
Adjustments for items without cash flow effect	22,634	449
Change in deferred taxes	-470	
Cash flows from operating activities before changes in assets and liabilities	3,492	-1,901
Increase (-) or decrease (+) in operating assets	-218,653	-60,110
Debt securities	-4,994	
Loans and advances to credit institutions	-250,000	-62,500
Loans and advances to customers	41,652	7,147
Other assets	-5,311	-4,757
Increase (-) or decrease (+) in operating liabilities	-108,730	330,656
Liabilities to credit institutions	-136,150	-175,900
Debt securities issued		493,729
Other liabilities	27,420	12,828
Paid income taxes	-117	126
Total cash flows from operating activities	-324,008	268,770

(EUR 1,000)	1–12/2023	1–12/2022
Cash flows from investing activities		
Investments in property, plant and equipment and intangible assets	-93	-773
Total cash flows from investing activities	-93	-773
Cash flows from financing activities		
Total cash flows from financing activities		
Change in cash and cash equivalents	-324,101	267,998
Cash and cash equivalents at the beginning of the period	383,045	115,048
Cash and cash equivalents at the end of the period	58,944	383,045
Cash and cash equivalents comprise the following items:		
Receivables from central banks repayable on demand	58,944	383,045
Total cash and cash equivalents	58,944	383,045
Adjustments for items without cash flow effect		
Impairment losses on financial assets	1,043	602
Changes in fair value	19,207	1,003
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	19	
Other adjustments	2,365	-1,156
Total	22,634	449
Interest received	106,415	36,100
Interest paid	72,110	8,410

STATEMENT OF CHANGES IN EQUITY

(EUR 1,000)	Share capital	Share premium	Retained earnings	Total equity
Equity 1 January 2022	72,051	35,972	12,361	120,384
Comprehensive income				
Profit			-2,351	
Total comprehensive income			-2,351	-2,351
Total equity 31 December 2022	72,051	35,972	10,010	118,033
Equity 1 January 2023	72,051	35,972	10,010	118,033
Comprehensive income				
Profit			-18,672	
Total comprehensive income			-18,672	-18,672
Total equity 31 December 2023	72,051	35,972	-8,662	99,361

BASIS OF PREPARATION

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

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

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

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

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

The member organisations of the Savings Banks Amalgamation form a financial entity as defined in the Act on the Amalgamation of Deposit Banks, in which the Savings Banks’ Union Coop and its member credit institutions are jointly liable for each other’s liabilities and commitments. The Savings Banks Amalgamation comprises the Savings Banks’ Union Coop, which acts as the Central Institution of the Amalgamation, 14 Savings Banks, the Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc, Savings Bank Services Ltd and Sp-Fund Management Company Ltd as well as the above-mentioned companies within the consolidation groups.

The coverage of the Savings Banks Group differs from that of the Savings Banks Amalgamation in that the Savings Banks Group also includes institutions other than credit and financial institutions or service companies. The most significant of these are Sb Life Insurance Ltd and Sp-Koti Oy. The Savings Banks Group does not form a consolidated corporation, or a consolidation group as defined in the Act on Credit Institutions because the Savings Banks’ Union Coop and its member Savings Banks do not have control over each other as referred to in the general consolidation accounting principles and therefore it is not possible to define a parent company for the Savings Banks Group.

During the review period, Lieto Savings Bank relinquished its membership of Savings Banks’ Union Coop and the Savings Banks Amalgamation effective from 1 March 2023. In connection with this, Lieto Savings Bank transferred its entire business to Oma Savings Bank Plc. The business transfer took effect on 28 February 2023. As a result of the exit, the number of savings banks in the Savings Banks Amalgamation and the Savings Banks Group decreased from 15 to 14.

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

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

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

Sp Mortgage Banks Board of Directors has approved the Bank's financial statement 2023 on 13 February 2024, and the financial statement will be presented to the Annual General Meeting of 2024 for approval. The Annual General Meeting has the choice of approving or not approving the financial statement.

NOTE 2. ACCOUNTING POLICIES

The “Accounting policies” note describes Sp Mortgage Bank’s general accounting policies and consolidation principles. The key principles concerning financial instruments, intangible assets, property, plant and equipment and operating revenue are presented in this note and more detailed information is provided in the notes focusing on each of these items. The accounting policies for other income and balance sheet items are presented in their respective notes (Notes 6–23).

At the end of the “Accounting policies” note, there is information about the new IFRS standards and interpretations that entered into force during the past financial year as well as the new standards and interpretations to be applied in future financial years.

1. GENERAL

Sp Mortgage 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’ Union Coop confirms any accounting policy for which no guidance is available in the IFRSs.

Sp Mortgage Bank’s financial statements are presented in euros, which is the Bank’s accounting and functional currency.

Transactions denominated in a foreign currency outside the eurozone are recognised at the exchange rate on the transaction date. Assets and liabilities 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 recognised as net income from foreign exchange operations under net trading income in the income statement.

Sp Mortgage Bank’ financial statements are prepared under the historical cost convention, except for financial assets and liabilities measured at fair value through other comprehensive income or 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 Sp Mortgage Bank and the counterparty both have a legally enforceable right to offset amounts and intend either to settle the balance on a net basis or realise the asset and settle the liability simultaneously.

2. FINANCIAL INSTRUMENTS

2.1 Financial assets and liabilities

Sp Mortgage Bank applies the IFRS 9 Financial Instruments standard on recognition and measurement of financial instruments. Classification in the balance sheet is independent of the IFRS 9 categories. Different valuation bases can therefore be applied to assets and liabilities recognised on the same line in the balance sheet. The classification of financial assets and liabilities recognised in the balance sheet into valuation categories is set out in Note 12.

2.1.1 Initial recognition

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

Financial assets 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 recognised through profit or loss as an interest income or expense as a part of the effective interest rate of the financial asset or liability.

2.1.2 Classification of financial assets and the determination of classification

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

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

Financial liabilities are, as a rule, measured at amortised cost. Derivative contracts and other investors' participations in consolidated funds are measured at fair value through profit or loss.

The classification principles and breakdown of financial assets and liabilities by measurement category are described in more detail in Note 12.

The change in the fair value of debt instruments measured at fair value through other comprehensive income is recognised adjusted for calculated tax in the fair value reserve included in other comprehensive income. The gain or loss on the transfer or sale of a financial asset is recognised through profit or loss.

Changes in the fair value of equity investments for which the Sp Mortgage Bank has irrevocably designated that subsequent changes in their fair value will be measured through other comprehensive income are also recognised in other comprehensive income. Such a decision has been made in significant investments in partners or companies with a business relationship, for example. Dividends from equity instruments are recognised in profit or loss when the right to receive payment is established. Capital repayments from the share are recognised in the statement of comprehensive income. For equity instruments, gains or losses accrued in the fair value reserve are not transferred to be recognised through profit or loss at any stage.

If 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, the gross carrying amount of the financial asset is recalculated and a modification gain or loss is recognised through profit or loss.

2.1.3 Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred and the transfer qualifies for derecognition. A financial asset is considered to be transferred if, and only if, the Sp Mortgage Bank either:

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

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

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

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

2.2 Impairment

2.2.1 Expected credit losses

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

Further details on parameters and methods used in expected credit loss model are presented in Note 10.

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

2.2.2 Incurred credit losses

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

2.3 Hedging and derivatives

Sp Mortgage Bank hedges its interest rate risk from changes in fair value and applies hedge accounting for the hedge relationships. Fair value hedging is applied to fixed interest rate lending to Savings Banks and issued fixed interest rate bonds.

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

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

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

3. INTANGIBLE ASSETS

An intangible asset is an identifiable asset that has no physical substance. Sp Mortgage Bank’s intangible assets include for example development expenditures. An intangible asset is recognised only when it is probable that economic benefits from the asset are likely to flow to the Sp Mortgage Bank and the acquisition cost of the asset can be reliably measured.

Property, plant and equipment and intangible assets are measured at acquisition cost less depreciation and impairment. The basis of preparation of property, plant and equipment and intangible assets are presented in its entirety in Note 16.

4. REVENUE RECOGNITION PRINCIPLES

The most significant income items of the Sp Mortgage Bank are net interest income and net fee and commission income and fee expenses. Interest on balance sheet items included in financial assets and liabilities is recognised in net interest income, regardless of the measurement category. Interest income and expenses are amortised using the effective interest method over the contractual period of the loan and receivable or the liability. The basis of preparation of net interest income is presented in more detail in Note 6.

Net fee and commission income consists of the income and expenses associated with services provided to customers, measured at the amount to which the Sp Mortgage Bank considers itself to be entitled against the services provided. Fees and commissions are, as a rule, recognised once the service has been provided and control has passed to the customer. The basis of preparation of the Net fee and commission income and fee expenses item is presented in its entirety in Note 7.

The basis of preparation of other operating income is presented in connection with the note for each item.

5. SEGMENT REPORTING

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

6. NEW AND AMENDED STANDARDS TO BE APPLIED IN FUTURE FINANCIAL YEARS

Sp Mortgage Bank has applied, as of 1 January 2023, the following new and amended standards that have entered into effect, but they are not considered to have had a material impact on the financial statements of Sp Mortgage Bank:

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)

The amendments clarify the application of the principle of materiality to information about the accounting policies.

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)

The amendments clarify how an entity should present and disclose different types of accounting changes in its financial statements, and they focus on the definition of accounting estimates and clarifications thereof.

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

The amendments narrow down the scope of application of the initial recognition exemption and clarify that the exemption is not applicable to transactions such as leases and decommissioning obligations in which equal and opposite temporary differences arise.

International Tax Reform – Pillar Two Model Rules* – Amendments to IAS 12 *Income taxes
(the temporary exception is effective immediately after its publication on 28 May 2023; the requirements concerning disclosures in financial statements are effective for financial years beginning on or after 1 January 2023)

The amendments provide a relief from deferred tax accounting due to the international tax reform of the OECD (Organization for Economic Cooperation and Development) and requires the disclosure of new notes aiming to compensate for any loss of information caused by the relief.

New and amended standards to be applied in future financial years

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

* This provision has not been approved for application in the EU as of 31 December 2023.

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

The amendments adds a new accounting model concerning variable payments and require a seller-lessee to reassess and possibly adjust sale and leaseback transactions carried out after the adoption of IFRS 16 in 2019. The amendments are not estimated to have a significant impact on the financial statements of Sp Mortgage Bank.

Amendments to IAS 1 Presentation of Financial Statements *: Classification of Liabilities as Current or Non-current Date; Classification of Liabilities as Current or Non-current – Deferral of Effective Date; Non-current Liabilities with Covenants (effective for financial years beginning on or after 1 January 2024, early adoption is permitted)

The purpose of the amendments is to simplify the application practice and clarify the classification of liabilities as current or non-current. The amendments clarify that covenants with which the company must comply after the reporting date do not affect a liability's classification as current or non-current at that date. Information about such covenants must be disclosed in the notes to the financial statements. The amendments also clarify that the transfer of the company's own equity instruments is considered to be the settlement of the liability. If the liability involves a conversion option, it may have an effect on its classification as current or non-current unless these conversion options have not been recognised in equity under IAS 32. The amendments are not estimated to have a significant impact on the financial statements of Sp Mortgage Bank.

Supplier Finance Arrangements – Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures * (effective for financial years beginning on or after 1 January 2024, early adoption is permitted)

The purpose of the amendments is to improve the transparency of supplier finance arrangements and clarify their effects on financial liabilities, cash flows and the total amount of liquidity risk. The amendments require the disclosure of qualitative and quantitative information about supplier finance arrangements. The amendments are not estimated to have a significant impact on the financial statements of Sp Mortgage Bank.

Lack of Exchangeability – Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates * (effective for financial years beginning on or after 1 January 2025, early adoption is permitted)

The amendments require the application of a consistent approach when assessing whether a currency is exchangeable and which exchange rate to use and which notes to disclose when it is not. The amendments are not estimated to have a significant impact on the financial statements of Sp Mortgage Bank.

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 * (voluntary adoption is permitted, entry into force postponed until further notice)

The amendments eliminate the conflict between the current guidelines concerning consolidation and equity method and require the recognition of profit in full when the transferred assets meet the definition of business under IFRS 3 Business Combinations. The amendments are not estimated to have a significant impact on the financial statements of Sp Mortgage Bank.

NOTE 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The critical estimates of Sp Mortgage Bank concern the future and key uncertainties related to estimates at the reporting date, and they relate in particular to determining fair value, impairment of financial assets and the calculation of expected credit losses.

In the financial statements dated 31 December 2023, 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

Sp Mortgage Bank's expected credit loss calculation models contain several factors that require the management's judgement and making estimates and assumptions. Selection of the models used in the calculations so that they illustrate the expected credit losses of the contract portfolio as accurately as possible.

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

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

Sp Mortgage Bank has assessed the financial impacts of the war in Ukraine and the economic sanctions against Russia on its customers' credit risk. Sp Mortgage Bank does not have significant direct liabilities to Russia, Ukraine or Belarus. Nevertheless, the changed market conditions have indirect impacts on certain industries or individual customer relationships. Sp Mortgage Bank has enhanced its monitoring of identified industries whose risks have potentially increased due to the crisis.

In late 2023, Sp Mortgage Bank updated the economic forecasts used in the expected credit loss calculation model. Further details on the key macroeconomic variables and the weights assigned to the scenarios in the economic forecasts were presented in Note 10 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. The assessments are based on a view of the functioning of the market and the trading activity for the financial instrument in question.

On the financial statements date, Sp Mortgage Bank's financial instruments measured at fair value consisted mainly of listed financial assets for which a public price quotation is available or financial assets for which fair value measurement is based on verifiable market information, such as interest rate data. In the view of the management of Sp Mortgage Bank, the conditions regarding the functioning of the market and the trading activity of the individual financial instruments are met and, consequently, the price information obtained from the market can be considered a reliable indication of the fair value of the instruments.

The management’s judgement is required in circumstances where fair value price information is not available in the market and the fair value of a financial instrument needs to be determined using a valuation technique. In such circumstances, the valuation techniques and inputs used to measure fair values are based on the management’s assessment of the market practices used to measure the value of the instruments in question.

IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, Sp Mortgage 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 judgement.

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 business operations, as well as a sufficient amount of liquidity and capitalization based on profitable business operations.

PRINCIPLES AND ORGANIZATION OF RISK MANAGEMENT

Risk management is defined as identification, assessment, quantification, limitation and monitoring of risks arising from business activities and closely related risks. The purpose of risk management is to minimize the likelihood of unforeseeable losses or reputational risk in order to ensure the implementation of the Group's strategy. Risk and capital adequacy management are part of internal control.

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

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

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

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

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

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

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

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

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

- independent risk control
- compliance
- internal audit

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

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

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

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

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

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

Savings Banks' Union Coop's functions independent of the business operations are responsible for Sp Mortgage Bank's independent functions.

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

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

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

Credit and counterparty risks

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

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

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

Management of credit risk

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

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

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

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

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

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

Residential mortgage loan pledged as collateral for a covered bond may not exceed the fair value of the shares or real estate used as collateral. Under the old law 70 per cent, and under the new law 80 per cent of the fair value of the shares or real estate used as collateral for each residential mortgage loan is counted in the total amount of collateral for covered bonds.

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

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

The loan portfolio of Sp Mortgage Bank was EUR 2,196 (2,240) million and it decreased EUR -43.7 million compared to the end of 2022. Loans on the balance sheet to private persons are 98% and loans to entrepreneurs 2%.

BREAKDOWN OF LOANS BY CUSTOMER GROUPS

(EUR 1,000) Customer group	31.12.2023	31.12.2022	Change %
Private persons	2,151,005	2,193,278	-2%
Entrepreneurs	42,341	41,884	-1%
Agriculture and others	4,797	4,633	4%
Total	2,198,143	2,239,795	-2%

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

	31.12.2023				Percentage of total	
Description	**Phase 1**	**Phase 2**	**Phase 3**	**Total**	**31.12.2023**	**31.12.2022**
1 – Excellent	199,145	152		199,297	9%	10%
2 – Good	635,078	2,130		637,208	29%	30%
3 – Good	737,102	10,306		747,407	34%	34%
4 – Average	249,618	13,974		263,592	12%	11%
5 – Average	89,070	14,969		104,039	5%	4%
6 – Weak	59,288	38,692		97,980	4%	5%
7 – Overdues, non-impaired	18,483	30,028		48,511	2%	2%
8 – Overdues, non-impaired	6,291	41,488		47,779	2%	2%
9 – Overdues, non-impaired	2,827	43,468		46,295	2%	3%
D – Impaired			6,035	6,035	0%	0%
Total	1,996,901	195,207	6,035	2,198,143	100%	100%

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

Doubtful exposures

Doubtful exposures, delayed payments, forborne exposures and non-performing receivables are monitored regularly. 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. Banks delayed receivables were approximately 0.05 per cent (0.12) of the credit portfolio.

A loan that meets at least one of the following criteria is classified as a non-performing receivable: the loan is classified as in default, the loan is in ECL stage 3, the loan has a non-performing forborne exposure or the lifecycle of the forborne exposure of the loan is one year.

In Sp Mortgage Credit Bank, the amount of non-performing receivables was 0.28% (0.25) of the credit portfolio at the end of 2023. The number of non-performing receivables remained at a reasonable level in 2023.

Receivables whose terms have been renegotiated due to the customer's deteriorated ability to pay are reported as forborne exposures. Concessions are granted on the loan terms of renegotiated receivables due to the customer's financial difficulties by, for example, granting an instalment-free period of 6-12 months. In certain circumstances, when a debtor experiences financial difficulty, the customer is granted a concession on the terms of the loan in the form of an instalment-free period or restructuring the liability. The aim is to ensure the customer's ability to pay and avoid potential credit losses. Granting forbearance is conditional on the customer's financial difficulties being short-term and temporary. The Bank's forborne exposures totalled EUR 9 million (10).

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

Concentration risks

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

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

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

Market risk

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

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

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

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

Market risk management

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

Interest rate risk in the banking book

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

Interest rate risk refers to the adverse effect of interest rate changes on the market value (present value risk) or on the net interest income (income risk) of the balance sheet and off-balance sheet items. At Sp Mortgage Bank, interest rate risk arises from the different interest rate bases of lending and funding.

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

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

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

CHANGE IN NET INTEREST INCOME

(EUR 1,000)	31.12.2023		31.12.2022	
Period	Down	Up	Down	Up
Change, next 12 months	-992	988	77	-76
Change, 12–24 months	-652	655	58	-32

LIQUIDITY RISK

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

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

The liquidity reserve and the liquidity requirement

Sp Mortgage Bank has been granted a waiver from the liquidity requirements set out in the CRR. Sp Mortgage Bank still has a reserve of free liquid assets in case of a rapid and unexpected weakening of the liquidity situation. The size of the liquidity reserve is determined on the basis of the liquidity coverage requirement. The liquidity reserve, i.e. the liquidity portfolio, consists of assets held in a payment transaction account and an LCR account.

Financial assets 31.12.2023 (EUR 1,000)	Total	under 3 months	3 – 12 months	1 – 5 years	over 5 years
Loans and advances to credit institutions	371,444	58,944		312,500	
Loans and advances to customers	2,198,143	22,259	73,483	459,238	1 643,164
Total	2,569,587	81,203	73,483	771,738	1 643,164

Financial liabilities 31.12.2023 (EUR 1,000)	Total	under 3 months	3 – 12 months	1 – 5 years	over 5 years
Liabilities to credit institutions	389,350	10,350	5,000	239,500	134,500
Debt securities issued	2,050,000			2,050,000	
Total	2,439,350	10,350	5,000	2,289,500	134,500

Financial assets 31.12.2022 (EUR 1,000)	Total	under 3 months	3 – 12 months	1 – 5 years	over 5 yearsv
Loans and advances to credit institutions	445,545	383,045		62,500	
Loans and advances to customers	2,238,721	30,970	79,359	420,341	1,708,051
Total	2,684,266	414,015	79,359	482,841	1,708,051

Financial liabilities 31.12.2022 (EUR 1,000)	Total	under 3 months	3 – 12 months	1 – 5 years	over 5 years
Liabilities to credit institutions	525,500	6,000	190,000	162,000	167,500
Debt securities issued	2,050,000			1,550,000	500,000
Total	2,575,500	6,000	190,000	1,712,000	667,500

OPERATIONAL RISK

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

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

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

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

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

LEGAL RISK

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

The compliance function is responsible for complying with the regulations and coordinating them. It ensures that the legislation, as well as the instructions and regulations issued by the authorities, are followed. The responsibility of the compliance function is also to monitor that given internal instructions and ethical principles binding on personnel, as well as other instructions prevailing in the financial and insurance markets, are followed. The ultimate goal is to avoid the realization of compliance risks in the operations of the savings banks group.

BUSINESS RISK

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

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

NOTE 5. CAPITAL ADEQUACY MANAGEMENT

PILLAR I CAPITAL REQUIREMENTS

The biggest capital requirements of Sp Mortgage Bank are comprised of mortgage loan receivables. The standard method is applied to calculate the capital requirement for credit and counterparty risk of the Sp Mortgage 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 2% of the aggregate amount of own funds. Sp Mortgage Bank does not have a trading book and Sp Mortgage Bank's business does not involve taking commodity risk.

OWN FUNDS AND CAPITAL ADEQUACY

At the end of the financial year, the Sp Mortgage Bank own funds were EUR 96.8 (114.4) million, consisting of CET1 capital. Risk-weighted assets amounted to EUR 772.2 (783.1) million, i.e., they were 1.4% lower than at the end of the previous year. The decrease in risk-weighted exposure amounts was driven by the decrease in the credit portfolio, and the biggest decrease was seen in the exposure classes of receivables with real estate collateral and retail receivables. The capital ratio of Sp Mortgage Bank was 12.5 (14.6) % and the CET1 capital ratio was 12.5 (14.6) %.

The capital requirement of Sp Mortgage Bank was EUR 81.1 (82.2) million that equals to 10.5% of risk-weighted assets. The components of the capital requirement have remained unchanged compared to the previous year. The capital requirement is formed by:

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

The Pillar II capital requirement imposed by the Financial Supervisory Authority on the Savings Banks Amalgamation is 1.5 (1.25) %. 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.

In March 2023, the Financial Supervisory Authority decided to set a systemic risk buffer requirement of 1.0% for the Savings Banks Amalgamation. The decision will enter into effect on 1 April 2024.

In 2023, the Financial Supervisory Authority did not impose a 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 permission not to deduct internal holdings of credit institutions included in the Amalgamation from own funds instruments when calculating own funds at the individual bank 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 Finnish Financial Supervisory Authority has granted Savings Banks' Union Coop, which acts as the Central Institution of the Savings Banks Amalgamation, permission pursuant to the Act on the Amalgamation of Deposit Banks to decide that its member credit institutions will not be subject to the requirements stipulated by Section 6 of the EU Capital Requirements Regulation (EU 575/2013) and other EU statutes issued on the basis of the Regulation regarding the liquidity of credit institutions. The authorisation granted to the Central Institution also covers the NSFR claim.

The standard method is used to calculate the capital requirement to the credit risk of the Savings Banks Amalgamation. The capital requirement to the 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 2% of the aggregate amount of own funds. The Savings Banks Amalgamation does not have a trading book and the Amalgamation's business does not involve taking commodity risk.

The amendments to the EU's Capital Requirements Regulation (CRR3), which will implement the final Basel III regulation in the EU, are not expected to have a material impact on the capital adequacy of the Savings Banks Amalgamation. The amendments are scheduled to enter into force on 1 January 2025.

Sp Mortgage Bank publishes the relevant information with regard to capital adequacy calculation each year as part of its Annual Report and Notes to the Financial Statement. The main capital adequacy information has been published in the Half-year Report.

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

SP MORTGAGE BANK'S CAPITAL ADEQUACY'S MAIN ITEMS

Own funds (EUR 1,000)	**31.12.2023**	**31.12.2022**
Common Equity Tier (CET1) capital before regulatory adjustments	99,361	118,033
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-2,607	-3,650
Common Equity Tier (CET1) capital	96,754	114,383
Additional tied 1 (AT1) capital	0	0
Tier 1 capital (T1 = CET1 + AT1) total	96,754	114,383
Tier 2 (T2) capital	0	0
Total Capital (TC = T1 + T2)	96,754	114,383
Risk weighted assets	772,204	783,052
of which: credit and counterparty risk	760,062	768,931
of which: credit valuation adjustments (CVA)	8,244	6,339
of which: market risk		
of which: operational risk	3,899	7,782
Common Equity Tier 1 (as percentage of total risk exposure amount)	12.5%	14.6%
Tier 1 (as a percentage of total risk exposure amount)	12.5%	14.6%
Total capital (as a percentage of total risk exposure amount)	12.5%	14.6%
Capital requirements		
Total capital	96,754	114,383
Capital requirement total*	81,123	82,242
Capital buffer	15,631	32,141

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

LEVERAGE RATIO

The leverage ratio of Sp Mortgage Bank's was 4.4% (5.0%) clearly exceeding the 3% minimum requirement. The leverage ratio describes the level of indebtedness of a credit institution and is calculated by dividing its Tier 1 capital by its total leverage ratio exposure measure. The Sp Mortgage Bank monitors excessive indebtedness as part of the ICAAP process.

LEVERAGE RATIO

(EUR 1,000)	31.12.2023	31.12.2022
Tier 1 capital	96,754	114,383
Leverage ratio exposure	2,217,976	2,269,552
Leverage ratio	4.4%	5.0%

RESOLUTION PLAN

Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms was implemented nationally effective from 1 January 2015 (Act on the Resolution of Credit Institutions and Investment Firms). To implement the Resolution Act, the Financial Stability Authority was established in Finland (Act on the Financial Stability Authority, 1995/2014). In May 2023, the Financial Stability Authority decided to set a minimum requirement for own funds and eligible liabilities (MREL requirement) for the Savings Banks Amalgamation and 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 Central Bank of Savings Banks.

The MREL requirement is by nature a Pillar 2 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 effective from 1 January 2024, the MREL requirement is 20.53% of the total risk exposure amount or 7.74% 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 effective from 1 January 2024, it is 15.72% of the total risk exposure amount or 5.91% of the total exposures, whichever is higher.

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

NOTES RELATED TO PROFIT AND LOSS AND BALANCE SHEET ITEMS

NOTE 6. NET INTEREST INCOME

Interest income and expense are accrued over maturity using the effective interest rate method. Using this method, the income and expenses arising from an instrument are accrued in relation to the residual receivable and liability in the balance sheet until maturity.

When a financial asset is impaired, the original effective interest rate is used when calculating interest income. Interest is calculated for the loan balance less impairment.

(EUR 1,000)	1–12/2023	1–12/2022
Interest income		
From financial assets at amortised cost		
Debt securities eligible for refinancing with Central Bank	125	
Loans and advances to credit institutions	11,989	826
Loans and advances to customers*	73,803	27,932
Other	353	453
Total	86,270	29,212
From financial assets at fair value through profit or loss		
Derivative contracts		
Hedging derivatives	26,139	11,788
Total	26,139	11,788
Interest income, total	112,409	41,000

(EUR 1,000)	1–12/2023	1–12/2022
Interest expense		
Financial liabilities at amortised cost		
Liabilities to credit institutions	-8,498	-6,234
Debt securities issued	-28,484	-8,353
Other	-103	-99
Total	-37,084	-14,686
From financial assets at fair value through profit or loss		
Derivative contracts		
Hedging derivatives	-61,829	-7,364
Total	-61,829	-7,364
Interest expenses, total	-98,913	-22,050
Net interest income	13,495	18,950

NOTE 7. NET FEE AND COMMISSION INCOME

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

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

(EUR 1,000)	1–12/2023	1–12/2022
Fee and commission income		
Lending	784	818
Total	784	818
Fee and commission expense		
Loans*	-9,990	-20,537
Other	-24	-5
Total	-10,014	-20,542
Net fees and commissions income, net	-9,229	-19,724

* Consists mainly of fees paid to the intermediating banks.

NOTE 8. NET TRADING INCOME

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

(EUR 1,000)	1–12/2023	1–12/2022
Net income from financial assets at fair value through other comprehensive income		
Net income from hedge accounting		
Change in hedging instruments' fair value	61,023	-147,835
Change in hedged items' fair value	-81,249	149,132
Net trading income	-20,226	1,297
Total	-20,226	1,297

Detailed information on derivative contracts defined for hedge accounting are presented in note 13.

NOTE 9. OTHER OPERATING REVENUE AND EXPENSES

9.1 OTHER OPERATING REVENUE

Rental and dividend income and other operating income are recognised as other operating revenue.

(EUR 1,000)	1–12/2023	1–12/2022
Other income from Banking	150	
Other operating revenue	150	

9.2 OTHER OPERATING EXPENSES

(EUR 1,000)	1–12/2023	1–12/2022
Other administrative expenses		
Other personnel expenses		
Office expenses	-833	-953
ICT expenses	-698	-523
Telecommunications	-8	-8
Marketing	-7	-13
Other administrative expenses	-3	-2
Total	-1,548	-1,498
Other operating expenses		
Other operating expenses*	-679	-732
Total	-679	-732
Other operating expenses total	-2,227	-2,230
***Audit fees**		
Statutory audit	-20	-16
Other services	-26	-26
Total	-46	-42

NOTE 10. LOANS AND ADVANCES

10.1 LOANS AND ADVANCES TO CREDIT INSTITUTIONS AND CUSTOMERS

Loans and advances to credit institutions and customers are primarily classified as measured at amortised cost and are consequently subject to calculation of expected credit losses. The table below presents the gross values, allowances for expected credit losses and balance values for loans and advances by product type.

31.12.2023 **(EUR 1,000)**	**Not impaired (gross)**	**Expected credit losses (ECL)**	**Balance sheet value**
Loans and advances to credit institutions			
Deposits*	371,444	-57	371,388
Total	371,444	-57	371,388
Loans and advances to customers			
Loans	2,198,143	-2,057	2,196,086
Total	2,198,143	-2,057	2,196,086
Loans and advances total	2,569,587	-2,114	2,567,473

* of which Deposits to Credit Institutions belonging to the Savings Banks Amalgamation EUR 371 387 thousand.

31.12.2022 **(EUR 1,000)**	**Not impaired (gross)**	**Expected credit losses (ECL)**	**Balance sheet value**
Loans and advances to credit institutions			
Deposits*	445,545	-9	445,536
Total	445,545	-9	445,536
Loans and advances to customers			
Loans	1,994,369	-1,074	1,993,295
Total	1,994,369	-1,074	1,993,295
Loans and advances total	2,439,915	-1,083	2,438,832

* of which Deposits to Credit Institutions belonging to the Savings Banks Amalgamation EUR 445 545 thousand.

10.2 INVESTMENT ASSETS

(EUR 1,000)	**31.12.2023**	**31.12.2022**
Amortised cost investments		
Debt securities	4,994	
Expected Credit Losses	-1	
Total	4,993	

10.3 IMPAIRMENT LOSS ON FINANCIAL ASSETS

The Sp Mortgage Bank determines impairments on financial assets based on an expected credit loss model. The loss allowance for expected credit loss is measured and recognized for financial assets that are subsequently measured at amortized cost or at fair value through other comprehensive income as well as for financial guarantees and loan commitments.

For the purpose of measuring expeted credit losses, the Sp Mortgage Bank applies a three-stage model in which the stage to be applied in the measurement is determined based on the change in the credit risk of the financial asset between the date of initial recognition and the reporting date.

- 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 probability of a default event 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 probability of a default event being incurred within the remaining life of the financial asset.

- Stage 3 includes financial assets that are impaired. The measurement of the expected credit loss for stage 3 financial assets is based on the probability of a default event being incurred within the remaining life of the financial asset.

The adjacent table presents the financial assets within the scope of measurement of expected credit losses by impairment stage broken down into investment assets, loans and advances and off-balance sheet items.

FINANCIAL ASSET WITHIN THE SCOPE OF ACCOUNTING FOR EXPECTED CREDIT LOSSES BY IMPAIRMENT STAGE

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Financial asset 31 Dec. 2023				
Loans and advances to customers	1,996,901	195,207	6,035	2,198,143
Loans and advances to credit institutions	316,364			316,364
Investments	4,994			4,994
Off-balance sheet items	6,785	10		6,795
Total	2,325,043	195,217	6,035	2,526,295

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Financial asset 31 Dec. 2022				
Investment asset	2,055,720	181,584	2,491	2,239,795
Loans and advances to customers	62,500			62,500
Off-balance sheet items	5,403	173		5,576
Total	2,123,623	181,757	2,491	2,307,871

In assessing the significance of change in credit risk, the Sp Mortgage Bank takes into account the following qualitative and quantitative information, amongst others.

- Payment delay: the credit risk of a financial asset is deemed to have increased significantly and the contract is migrated from stage 1 to stage 2 when payment delay exceeds 30 days. When payment delay for a financial asset exceeding the threshold exceeds 90 days, it is deemed to be impaired and is migrated to stage 3.

- PD% increase: the risk of a financial asset is deemed to have increased significantly and the contract is migrated from stage 1 to stage 2 when the defined relative or abslute thresholds for the PD% increase are exceeded.

- Forbearance: the credit risk of a performing financial asset subject to forbearance is deemed to have increased significanlty and the contract is migrated from stage 1 to stage 2. If the contract is forborne and 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 the counterparty of a financial asset is in default, the contract is deemed to be impaired and is migrated to stage 3.

The financial asset can revert from stage 2 and 3 if its credit risk has improved significantly and it has consistently met the criteria for the previous stage during the length of the defined probation period. The length of the probation period for transition from stage 2 to stage 1 is three months and from stage 3 to stage 2 three months.

The tables below present the development of the expected credit losses as of the begining of the reporting period.

EXPECTED CREDIT LOSSES (ECL), LOANS AND ADVANCES AND OFF-BALANCE SHEET

	Stage 1	Stage 2	Stage 3	Total
(EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected Credit Losses 1 January 2022	302	703	77	1,082
Transfers to stage 1	51	-137		-86
Transfers to stage 2	-85	604	-50	469
Transfers to stage 3	-1	-38	386	348
New assets originated or purchased	265	81	10	357
Assets derecognised or repaid	-97	-309	-117	-523
Change in credit risk without stage change	187	244		430
Net change in ECL	321	445	229	995
Expected Credit Losses 31 December 2022	623	1,148	306	2,077

EXPECTED CREDIT LOSSES (ECL), LOANS AND ADVANCES AND OFF-BALANCE SHEET

	Stage 1	Stage 2	Stage 3	Total
(EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected Credit Losses 1 January 2021	184	255	50	489
Transfers to stage 1	29	-68		-39
Transfers to stage 2	-42	241	-39	160
Transfers to stage 3	-1	-6	105	98
New assets originated or purchased	141		10	151
Assets derecognised or repaid	-66	-97	-43	-206
Change in credit risk without stage change	218	75	-6	287
Manual repair, individual level	-161	302		141
Net change in ECL	118	447	27	593
Expected Credit Losses 31 December 2021	302	703	77	1,082

METHODS AND PARAMETERS USED IN CALCULATION OF EXPECTED CREDIT LOSSES

The Sp Mortgage Bank's assessment of expected credit loss is based on the PD*LGD*EAD model. The calculations are carried out separately for each contract and based on the following parameters:

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

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

Sp Mortgage Bank assesses expected credit losses for loans and debt securities belonging to investment assets 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.

The calculation of expected credit loss for the credit portfolio (loans and advances to customers and off-balance sheet items) includes forward-looking information by incorporating three different economic scenarios based on macroeconomic forecasts prepared by the Savings Banks Groups' Chief Economist. The effect of the changes in macroeconomic forecasts is modelled in the PD parameter that is used in calculation of ECL. 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 key macroeconomic factors and their forecasted values for the next three years are presented below (the value variation range between different scenarios).

	2023	2024	2025
- Change in EuropeStoxx%	-8.4% / 12%	-2.9% / 8.0%	-0.5% / 10.0%
- Change in GDP	-1.0% / 0.5%	0.006	1.00%
- Investments	-5.0% / -1.0%	0.005	1.50%

IMPACTS OF THE WAR IN UKRAINE AND THE ECONOMIC SANCTIONS AGAINST RUSSIA

Sp Mortgage Bank has assessed the financial impacts of the war in Ukraine and the economic sanctions against Russia on their customers' credit risk. At the time of reporting, Sp Mortgage Bank does not have direct or significant indirect sector-specific risk concentrations related to the Ukrainian, Russian or Belarusian markets in sectors such as agriculture, logistics, construction or industries dependent on energy commodities. As the exceptional situation prevails, the Sp Mortgage Bank will monitor and report the development of their customers' credit risk and, if necessary, makes an adjustment, based on the management's assessment, to the amount of expected credit losses.

NOTE 11. FUNDING

11.1 LIABILITIES TO CREDIT INSTITUTIONS

(EUR 1,000)	31.12.2023	31.12.2022
Liabilities to credit institutions		
Other than those repayable on demand*	389,350	525,500
Total liabilities to credit institutions	389,350	525,500

* of which Liabilities to Credit Institutions belonging to the Savings Banks Amalgamation EUR 380 000 (525 500) thousand.

11.2 DEBT SECURITIES ISSUED

(EUR 1,000)	31.12.2023		31.12.2022	
Measured at amortised cost	**Nominal value**	**Carrying amount**	**Nominal value**	**Carrying amount**
Covered bonds	2,050,000	2,046,356	2,050,000	2,045,010
Fair value hedging on covered bonds		-73,483		-154,732
Total debt securities issued	2,050,000	1,972,873	2,050,000	1,890,278

SP MORTGAGE BANK PLC'S COVERED BONDS ISSUED

(EUR 1,000)	Nominal value	Carrying amount	Maturity	Interest base	Coupon	Maturity date
Sp Mortgage Bank 2019	500,000	498,966	7 years	Fixed	0.050%	19.6.2026
Sp Mortgage Bank 2021	500,000	501,973	7 years	Fixed	0.010%	28.9.2028
Sp Mortgage Bank 2022	300,000	299,490	3 years	Fixed	1.00%	28.4.2025
Sp Mortgage Bank 2022	750,000	745,927	5 years	Fixed	3.125%	1.11.2027
Total	2,050,000	2,046,356				

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

NOTE 12. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and liabilities are classified into measurement categories on initial recognition. The measurement category defines subsequent measurement of a financial asset or liability.

CLASSFICATION AND MEASUREMENT OF FINANCIAL ASSETS

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

Business model assessment

The business model refers to how the Sp Mortgage Bank manages its financial assets in order to generate cash flows. That is, the business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. If cash flows are realised in a way that is different from 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 statements nor does it change the classification of the remaining financial assets held in that business model.

Assesment 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. The cash flow criteria is assessed separately for each instrument and 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.

FINANCIAL ASSETS – MEASUREMENT CATEGORIES AND PRINCIPLES FOR CLASSIFICATION

Amortised cost

A financial asset is measured at amortised cost when 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.

On initial recognition the Sp Mortgage Bank Plc may make an irrevocable choice to present the subsequent fair value changes of an equity instrument in other comprehensive income. This election is made on instrument basis. These financial assets are measured at fair value and the change in value is recognised, less deferred taxes, in the statement of other comprehensive income.

Financial assets measured at fair value through profit or loss

All items that are not measured at amortised cost or recognised at fair value through other comprehensive income are recognised at fair value through profit or loss. However, a financial asset may, at initial recognition, be irrevocably designated as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial assets that are investments in debt instruments are reclassified only when the Sp Mortgage Bank changes the business models applied in the management of financial assets. The Sp Mortgage Bank expects such changes to be highly infrequent and it has not reclassified any financial assets during the review period.

Classification and measruement of financial liabilities

Financial liabilities are classified into following measurement categories for the purposes of subsequent measurement:

- amortised cost
- fair value through profit or loss.

Financial liabilities are principally measured at amortised cost. Derivative contracts and other investors' participation in consolidated funds are measured at fair value through profit or loss.

The table below presents financial assets and libilities by balance items broken down into measurement categories for continuing operations.

31.12.2023 (EUR 1,000)	Amortized costs	Financial assets at fair value through profit or loss	Total
Loans and advances to credit institutions	371,388		371,388
Loans and advances to customers	2,196,086		2,196,086
Derivatives		13,093	13,093
fair value hedges		13,093	13,093
Investment assets	4,993		4,993
Total assets	2,572,467	13,093	2,585,560
Liabilities to credit institutions	389,350		389,350
Derivatives		101,201	101,201
of which fair value hedging		101,201	101,201
Debt securities issued	1,972,873		1,972,873
Total liabilities	2,362,223	101,201	2,463,424

31.12.2022 (EUR 1,000)	Amortized costs	Financial assets at fair value through profit or loss	Total
Loans and advances to credit institutions	445,536		445,536
Loans and advances to customers	1,993,411		1,993,411
Derivatives	245,310		245,310
Total assets	2,684,258		2,684,258
Liabilities to credit institutions	525,500		525,500
Derivatives		149,131	149,131
fair value hedging		149,131	149,131
Debt securities issued	1,890,278		1,890,278
Total liabilities	2,415,778	149,131	2,564,909

12.1 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

31.12.2023				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	Financial instruments held as collateral	Cash held as collateral	Net amount
Assets							
Derivative contracts	19,093		19,093	11,082	9,350		0
Total			19,093				0
Liabilities							
Derivative contracts	133,585		133,585	11,082			122,503
Total			133,585				122,503

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	Financial instruments held as collateral	Cash held as collateral	Net amount
Assets							
Derivative contracts	6,592		6,592	6,592			0
Total			6,592				0
Liabilities							
Derivative contracts	155,050		155,050	6,592			148,458
Total			155,050				148,458

NOTE 13. DERIVATIVES AND HEDGE ACCOUNTING

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

Changes in the fair value of derivatives in fair value hedging are recognised in the income statement under “Net trading income”. In fair value hedging, also the hedged item is measured at fair value during the hedging period even if the item is otherwise measured at amortised cost. Changes in the fair value of the hedged item are recognized in the balance sheet as an adjustment to the corresponding balance sheet item and in the income statement under “Net trading income”. Interests on hedging derivatives are presented as interest income and expense depending on their nature.

31.12.2023	Nominal value / remaining maturity				Fair value	
(EUR 1,000)	**Less than 1 year**	**1 – 5 years**	**Over 5 years**	**Total**	**Assets**	**Liabilities**
Hedging derivative contracts						
Fair value hedging		2,050,000		2,050,000	13,093	-101,201
Interest rate derivatives		2,050,000		2,050,000	13,093	-101,201
Total		2,050,000		2,050,000	13,093	-101,201
Derivatives total						-88,108

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**
Hedging derivative contracts						
Fair value hedging		1,550,000	500,000	2,050,000		-149,131
Interest rate derivatives		1,550,000	500,000	2,050,000		-149,131
Total		1,550,000	500,000	2,050,000		-149,131
Derivatives total						-149,131

Fixed rate issued bonds designated as exposures in fair value hedging groups have total nominal value of 2,050,000 thousand EUR and total fair value of 2,046,356 thousand EUR. Nominal values of hedges equal to the nominal values of exposures. The fair value adjustment to the balance sheet value of the underlying issued bonds was -73,483 thousand EUR, resulting the balance value of hedged bonds to be 1,972,873 thousand EUR. The fair value of interest rate derivatives related to the issued bonds was -88,108 thousand EUR.

NOTE 14. PERSONNEL EXPENSES

(EUR 1,000)	1–12/2023	1–12/2022
Wages and salaries	-43	-42
Personnel expenses	-43	-42

Personnel expenses consist of remuneration paid to the members of the Board of Directors.

NOTE 15. FAIR VALUES BY VALUATION TECHNIQUE

FAIR VALUE MEASUREMENT

Financial instruments are presented in the Sp Mortgage Bank's balance sheet at amortised cost and at fair value in derivatives. The classification of financial assets and liabilities by valuation technique as well as the criteria for measurement methods and for determining fair value are described in the Note 12.

"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. The fair values of financial instruments are primarily determined using quotations on a publicly traded market 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 a financial asset.

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. In respect of cash and deposits payable on demand, the nominal value is considered as an approximation of the fair value.

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

The fair value measurement of derivatives takes account of the credit risk of the parties to a transaction. Credit risk is adjusted with a Credit Valuation Adjustment (CVA) and with a Debit Valuation Adjustment (DVA). CVA and DVA valuation adjustments are calculated for each counterparty.

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

FAIR VALUE HIERARCHY

The fair values are divided into three hierarchical levels, depending on how the fair value is defined. 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.

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 financial reporting period January to December 2023, there were no transfers between levels 2 and 3.

31.12.2023	Carrying amount	Fair value by hierarchy level			Fair value
Financial assets (EUR 1,000)		**Level 1**	**Level 2**	**Level 3**	**total**
Measured at fair value					
Derivative contracts	13,093		13,093		13,093
Measured at amortised cost					
Loans and advances to credit institutions	371,388		383,852		383,852
Loans and advances to customers	2,196,086		2,816,479		2,816,479
Investment assets	4,993	4,990			4,990
Total financial assets	2,585,560	4,990	3,213,424		3,218,415

31.12.2023	Carrying amount	Fair value by hierarchy level			Fair value
Financial liabilities (EUR 1,000)		**Level 1**	**Level 2**	**Level 3**	**total**
Measured at fair value					
Derivative contracts	101,201		101,201		101,201
Measured at amortised cost					
Liabilities to credit institutions	389,350	9,350	393,096		402,446
Debt securities issued*	1,972,873	2,046,356			2,046,356
Total financial liabilities	2,463,424	2,055,706	494,297		2,550,003

* Carrying amount includes the adjustment from the hedging EUR -73.5 million.

31.12.2022	Carrying amount	Fair value by hierarchy level			Fair value
Financial assets (EUR 1,000)		**Level 1**	**Level 2**	**Level 3**	**total**
Measured at amortised cost					
Loans and advances to credit institutions	445,536		445,479		445,479
Loans and advances to customers	1,993,411		2,217,063		2,217,063
Assets held for sale	245,310		245,310		245,310
Total financial assets	2,684,258		2,907,852		2,907,852

31.12.2022	Carrying amount	Fair value by hierarchy level			Fair value
Financial liabilities (EUR 1,000)		**Level 1**	**Level 2**	**Level 3**	**total**
Measured at fair value					
Derivative contracts	149,131		149,131		5,362
Measured at amortised cost					
Liabilities to credit institutions	525,500		520,808		710,720
Debt securities issued*	1,890,278	1,973,185			1,561,224
Total financial liabilities	2,564,909	1,973,185	669,939		2,643,124

* Carrying amount includes the adjustment from the hedging EUR -154.7 million.

NOTE 16. INTANGIBLE ASSETS

An intangible asset is an identifiable asset that has no physical substance. The intangible assets of the Sp Mortgage Bank include e.g. computer softwares and software licenses. An intangible asset is recognised in the balance sheet only if it is probable that the expected future economic benefits that are attributable to the asset will flow to the Sp Mortgage Bank and the acquisition cost of the asset can be measured reliably. The future economic benefits may include sales revenue on services or goods, cost savings or other benefits resulting from the Sp Mortgage Bank utilising the asset.

Intangible assets are initially measured at cost. The cost comprises the purchase price, including all costs that are directly attributable to preparing the asset for its intended use. The acquisition cost does not include the costs of using the asset, staff training expenses or administration and other general overhead costs.

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

Amortisation begins when the asset is available for use. An intangible asset that is not yet available for use is tested for impairment annually.

Estimated useful lives are mainly as follows:

Information systems purchased from a third party .... 3–5 years

Other intangible assets ....5 years

Intangible assets are recognised in the item Intangible Assets in the balance sheet. Amortisation and impairment losses are recognised in the income statement under Depreciation, amortisation and impairment of property, plant and equipment and intangible assets.

Software as a Service (SaaS) projects

Cloud-based SaaS arrangements are arrangements in which the Sp Mortgage Bank does not own the software it uses and the software is not installed in the Sp Mortgage 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.

If services are not separable from the software concerned and the criterion for recognising intangible assets is missing, the deployment costs are recorded as an expense for the period during which Sp Mortgage Bank has access to the software concerned.

The services are considered to be separable from access to the software if the Sp Mortgage Bank produces the services with its internal resources or if the Sp Mortgage 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 the Sp Mortgage 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 the Sp Mortgage Bank may meet the criteria of an intangible asset.

INTANGIBLE ASSETS

(EUR 1,000)	31.12.2023	31.12.2022
Intangible assets	1,108	
Intangible assets under development		1,033
Total	1,108	1,033

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

2023 (EUR 1,000) Changes in intangible assets	Intagible assets	Intagible assets under development	Total
Acquisition cost 1 January		1,033	1,033
Increases	93		93
Transfers	1,033	-1,033	
Acquisition cost 31 December	1,126		1,126
Accumulated depreciation and impairments 1 January			
Depreciation for the financial year	-19		-19
Accumulated depreciation and impairments 31 December	-19		-19
Carrying amount 31 December	1,108		1,108

2022 (EUR 1,000) Changes in intangible assets	Intagible assets	Intagible assets under development	Total
Acquisition cost 1 January		260	260
Increases		773	773
Acquisition cost 31 December		1,033	1,033
Carrying amount 31 December		1,033	1,033

NOTE 17. CAPITAL AND RESERVES

(EUR 1,000)	31.12.2023	31.12.2022
Share capital	72,051	72,051
Reserves		
Reserve for invested non-restricted equity	35,972	35,972
Retained earnings		
Profit (loss) for previous financial years	10,010	12,361
Profit (loss) for the period	-18,672	-2,351
Total capital and reserves	99,361	118,033

Share capital

This item includes the paid share capital. If share capital is wholly or partly not entered in trade register, the unregistered amount must be presented in the balance sheet separately as a sub-item of this item. On 31 December 2023 SB Mortgage Bank has 108,023 shares in total.

Reserve for invested non-restricted equity

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

Retained earnings

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

NOTE 18. TAXES

18.1 INCOME TAXES

Income taxes comprises tax based on the profit for the financial year, previous financial years' tax adjustments and changes in deferred taxes. Taxes are recognised in the income statement except if they relate directly to items recognised directly in equity or in other comprehensive income. In these circumstances the tax is also recognised directly in equity or in other comprehensive income, respectively.

(EUR 1,000)	1–12/2023	1–12/2022
Change in deferred tax assets	470	
Income taxes	470	

RECONCILIATION BETWEEN TAX EXPENSE IN THE INCOME STATEMENT AND TAX EXPENSE CALCULATED BY THE APPLICABLE TAX RATE

Reconciliation of effective tax rate (EUR 1,000)	1–12/2023	1–12/2022
Accounting profit before tax	-19,142	-2,351
Differences between accounting and taxable profit		
Taxable profit	-19,142	-2,351
Tax using the domestic corporation tax rate		
Tax for prior years		
Tax expense as specified above		
Corporate income tax rate	20%	20%

18.2 DEFERRED TAXES

Deferred taxes are calculated on the basis of temporary taxable differences between accounting and taxation. Deferred tax is determined on the basis of the IAS 12 standard using tax rates that have been enacted at the balance sheet date and that apply when the related deferred tax is expected to be realised. A change in deferred tax resulting from changing tax rates is recognised in the income statement or other comprehensive income if the tax was recorded there during earlier financial years.

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

(EUR 1,000)	31.12.2023	31.12.2022
Deferred tax assets		
Change recognised in profit or loss	470	
Approved tax losses	470	
Deferred taxes, total	470	

NOTE 19. OTHER ASSETS, OTHER LIABILITIES AND PROVISIONS

19.1 OTHER ASSETS

(EUR 1,000)	31.12.2023	31.12.2022
Accrued income and prepaid expenses		
Interest	15,461	9,360
Other accrued income and prepaid expenses	4,379	4,582
Other assets total	19,840	13,942

19.2 OTHER LIABILITIES AND PROVISIONS

(EUR 1,000)	31.12.2023	31.12.2022
Other liabilities		
Payment transfer liabilities	154	168
Expected credit losses (ECL), off-balance sheet items	20	8
Total other liabilities	173	176
Accrued expenses		
Interest payable	41,469	14,665
Interest advances received	4	1
Other accrued expenses	2,077	1,449
Total accured expenses	43,550	16,115
Total provisions and other liabilities	43,723	16,291

OTHER NOTES

NOTE 20. COLLATERALS

(EUR 1,000)	31.12.2023	31.12.2022
Collateral given		
Given on behalf of Group's own liabilities and commitments		
Loans	3,113,976	3,158,567
Total colateral given	3,113,976	3,158,567
Collateral received		
Real estate collateral	2,197,616	2,239,521
Other	9,877	274
Total collateral received	2,207,493	2,239,795

On 31 December 2023, loans pledged as collateral for covered bonds issued in the bond programme established in 2016 under the Act on Mortgage Credit Banks (688/2010) amounted to EUR 2,134 million. On 31 December 2023, loans pledged as collateral for covered bonds issued in the bond programme updated in 2022 under the act on mortgage banks and covered bonds (151/2022) amounted to EUR 976 million.

NOTE 21. OFF BALANCE-SHEET COMMITMENTS

(EUR 1,000)	31.12.2023	31.12.2022
Loan commitments	6,815	5,916
Total off balance-sheet commitments	6,815	5,916

Binding credit commitments and other similar off-balance-sheet commitments, are recognised under off-balance sheet commitments. Commitments are recorded in the minimum amount that can be expected to be paid on the basis of them.

NOTE 22. RELATED PARTIES

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

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

Key management personnel compensation* (EUR 1,000)	2023	2022
Short-term employee benefits	43	42
Total	43	42

* Key personnel compensation

2023	Salary and remuneration
Mangs Monika, Chairman of the board	15
Rouhe Samu	9
Siviranta Petri	9
Öhman Ossi, Vice-Chairman of the board	11
Total	43

2022	Salary and remuneration
Koivunen Maija	2
Mangs Monika	14
Niuro Jouni	2
Rouhe Samu	6
Siviranta Petri	8
Toivonen Anne	2
Öhman Ossi	10
Total	42

NOTE 23. SUBSEQUENT EVENTS

Sp Mortgage Bank's extraordinary general meeting was held on Friday, 2 February 2024. The extraordinary general meeting decided on the organization of a directed share issue to strenghten its CET1 -capital ratio.

PILLAR III DISCLOSURES

Sp Mortgage Bank is part of the Savings Banks Amalgamation and the Savings Banks Group. Sp Mortgage Bank's capital adequacy information is included in the information concerning the capital adequacy of the Savings Banks Amalgamation, presented in the consolidated financial statements of the Savings Banks Group.The Savings Banks Group publishes the so-called Pillar III capital adequacy information separately at the same time with its financial statements. The Financial Supervisory Authority has granted a permission not to deduct internal holdings of credit institutions included in the Amalgamation from own funds instruments when calculating own funds at the individual institution level and sub-consolidation group level. In addition, the Financial Supervisory Authority has granted a permission to apply a 0 per cent risk weight to internal credit institution liabilities included within the scope of the Amalgamation's joint and several liability. These permissions are based on the European Union Capital Requirements Regulation (EU 575/2013) and the Act on the Amalgamation of Deposit Banks (599/2010). A copy of the financial statement of the Savings Banks Group is available online at www.saastopankki.fi or at the Savings Banks Union Coop offices at Teollisuuskatu 33, 00510 Helsinki, Finland.

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

Auditor's Report

To the Annual General Meeting of Sp Mortgage Bank Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sp Mortgage Bank Plc (business identity code 2685273-8) for the year ended 31 December, 2023. The financial statements comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including material accounting policy information.

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

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

Basis for Opinion

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

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

In our best knowledge and understanding, the non-audit services that we have provided to the company in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 9 to the financial statements.

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

Materiality

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

Key Audit Matters

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

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

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Valuation of receivables (loans and receivables from customers); Notes to financial statements 2, 3, 4 and 10	
— Calculation of expected credit losses in accordance with IFRS 9 Financial Instruments is based on the valuation models used by the company. The calculation of expected credit losses involves assumptions, estimates and management judgements for example in respect to the probability of the expected credit losses, the realizable value of the collateral as well as determining significant increases in credit risk. — The components of the calculation of expected credit losses are continuously updated and specified based on realized development of credit losses, validation and development of the calculation process as well as regulatory changes and requirements. — Due to the significance of the carrying amount involved, complexity of the accounting methods and management judgement involved, receivables from customers are addressed as a key audit matter.	— We assessed principles and controls over recognition and monitoring of loan receivables. Our audit procedures included testing of controls regarding determination and recording of expected credit losses on loans. — We have obtained an understanding of the control environment of the calculation of expected credit losses using centralized audit procedures. — Furthermore, we assessed the appropriateness of the note disclosures made in relation to receivables and impairment losses.

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

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

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

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

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

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

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

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on 16 of April 2015, and our appointment represents a total period of uninterrupted engagement of 9 years.

Other Information

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

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

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

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

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

Helsinki, 13 February 2024

KPMG OY AB

MIKKO KYLLIÄINEN
Authorised Public Accountant, KHT

Sp Mortgage Bank Plc

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