CENTRAL BANK OF SAVINGS BANKS FINLAND PLC

BOARD OF DIRECTORS' REPORT AND IFRS FINANCIAL STATEMENTS 31 DECEMBER 2019

Central Bank
of Savings Banks

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BOARD OF DIRECTORS' REPORT

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

In 2019, the focus of the business operations of SB Central Bank was on the Savings Banks' operational service and the continued development of services. SEPA Instant Credit Transfer was adopted in payment transactions, enabling real-time payments 24/7/365. In addition, account and payment interfaces were opened in 2019 in compliance with PSD2.

SB Central Bank's profit for the financial year was EUR 2.3 million, and the balance sheet total amounted to EUR 2.2 million.

The Savings Banks Group and the Savings Banks Amalgamation

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

The Savings Banks Group (hereinafter also "the Group") is the oldest banking group in Finland. It comprises Savings Banks forming the Savings Banks Amalgamation, the Savings Banks' Union Coop, which acts as the Central Institution and the subsidiaries and associated companies owned by the Savings Banks.

The member organisations of the Savings Banks Amalgamation (hereinafter also "the Amalgamation") form a financial entity as defined in the Act on the Amalgamation of Deposit Banks, in which the Savings Banks' Union Coop and its member credit institutions ultimately are jointly liable for each other's liabilities and commitments. The Amalgamation comprises the Savings Banks' Union Coop which acts as the Central Institution of the Amalgamation, 20 Savings Banks, Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc and the companies within the consolidation groups of the abovementioned entities, as well as Sp-Fund Management Company Ltd and Savings Bank Services Ltd. The structure of the Group differs from that of the Amalgamation so that the Group also includes organisations other than credit and financial institutions or service companies. The most significant of these are Sb Life Insurance Ltd and Sp-Koti Oy. Ltd.

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

Description of the operational environment

Global economic outlook

The year 2019 was characterised by slower global economic growth and a high level of political risk. The global economy grew by just over 3.5 per cent in 2018 but, in 2019, the rate of growth was likely to be around 3 per cent. This is about half a percentage point under the long-term average. While the rate of growth was substantially reduced, a recession was avoided.

Uncertainty regarding the development of global economic growth increased already in early 2019 and the economic outlook worsened. Various indicators of future economic development turned negative: business confidence declined globally, particularly with respect to industry. In the service sector, the outlook deteriorated to a lesser extent. Consumers also became more cautious in many countries.

At the same time, the significant uncertainty around Brexit and the trade war contributed to a greater lack of confidence towards the economic outlook. In late summer, the trade war between the United States and China expanded and the increased uncertainty was reflected throughout the global economy. Private sector investments and world trade have been subdued.

After the summer, fears of a recession increased significantly and the yield curve, which is traditionally considered to be a recession indicator, momentarily entered negative territory. In Europe, the economic situation worsened in Germany, in particular, with negative growth recorded in the second quarter.

However, the economic outlook improved slightly towards the end of the year. The decline in confidence indicators levelled off and the yield curve turned back to positive. The feared recession did not materialise, although growth slowed down. At the time of writing this review, the situation in the global economy remains fragile, even if the statistics have shown signs of stabilisation.

As usual, central banks were active in stimulating the economy. Central banks in Europe and the United States lowered interest rates and ramped up their purchasing of securities in 2019. Stimulating monetary policy has also been enabled by the moderate level of inflation. China also engaged in various stimulus measures in its monetary policy and financial policy. The stimulus measures by central banks contributed to stock market returns being excellent in 2019 in spite of the slowing down of economic growth.

Interest rate environment

The level of interest rates in the Euro area has remained very low in 2019. Short rates took a strong dive during May-August but rebounded towards year end. Long rates continued to sink until August whereafter rebounding but not reaching the start of the year level. The situation is expected to remain pretty much unchanged due to the low inflation level in the Euro area.

The current flat interest rate curve is challenging for banking activities as the maturity transformation income is practically non-existent. The regulatory requirements (LCR. MREL) put additional burden on net interest income. However, the two-tiering system of the ECB deposit rate introduced in late October has partially reduced the burden caused by the negative rate. Also the favourable issuance conditions in the debt capital markets have compensated the effect of the flat yield curve and the negative ECB deposit rate.

Investment markets

The year 2019 was very positive from the perspective of the investment markets. Nearly all asset classes generated positive returns. A change in risk appetite among investors was seen in the early part of the year, following changes in central bank monetary policy. Expectations of continued stimulative monetary policy

increased significantly. The uncertainty experienced during the year with respect to risks associated with the threat of trade war and the progress of the Brexit negotiations did not counteract the positive development. Long-term interest rates increased during the year in the United States and Europe. This led to higher returns for government bonds. In the low interest rate environment, the demand for corporate bonds increased among investors, contributing to an increase in the returns of corporate bonds. It was a very strong year in the stock markets. Growth was seen across all capital markets.

The Finnish economy

Mirroring the global economy, the predictive indicators of the Finnish economy weakened in 2019. Business confidence declined across all of the main industries, with the outlook in industry deteriorating particularly fast. Consumer confidence has also continued to fall, although the starting level that preceded the decline was record high.

In spite of the negative development of predictive indicators, the statistics reflecting the development of real economy in Finland remained surprisingly strong in 2019. Economic growth even accelerated in the autumn, with the Finnish economy seeing year-on-year growth of 2.2 per cent in the third quarter. However, the statistics may still be revised. Exports still developed quite favourably, and the weak climate characterising world trade did not reach Finland yet. Exports of services have remained strong, particularly in the case of ICT services. Investments, on the other hand, slowed down substantially compared to the previous year. Investment growth was low due not only to the slowing down of construction but also the low level of corporate investments in machinery and equipment.

Among households, the situation remained stable in 2019. The excellent development seen in the labour market in 2018 levelled off, but employment did not decline. The unemployment rate remained relatively stable at just over 6.5 per cent and the employment rate increased slightly. The development of wages was favourable and low inflation supported household purchasing power. The household saving rate turned positive after several years in negative territory.

SB Central Bank's business activities

SB Central Bank is responsible for providing the Savings Banks with various centralised services. Its most significant operations include the funding and liquidity management of the Amalgamation, asset and liability management, payment card issuing, and payment services and account operator services for the Savings Banks.

Treasury

Short and long-term funding provided for the Savings Banks and efforts to promote the international recognition of the Savings Bank Group in debt issuance constituted the core activities of Treasury during 2019. The Treasury function also had a strong focus on the continued development of the Group's sustainable development policy during the year.

Asset and liability management

The activities of the ALM-team in 2019 were focused on the implementation phase of the project of renewing the Treasury and ALM system environment. The project will continue with system testing in 2020.

Issuing of payment cards

In the area of payment cards, the focus of development efforts was on the card system renewal project, which will be completed in 2020. During the review period SB Central Bank joined Suomen Asiakastieto Plc's consumer credit inquiry system, known also as positive credit information register. By joining the inquiry system, SB Central Bank got new and modern tools for responsible lending.

Payments

SEPA Instant Transfer was adopted in payment transactions during the financial year, enabling real-time payments 24/7/365. In addition, account and payment interfaces were opened in 2019 in compliance with the second Payment Services Directive (PSD2).

Account operator services

In the securities trading and account operator function, a change of broker and custodian was executed in 2019 to enable the development of the securities trading service in new ways going forward. Several features that make securities trading more convenient and improve service quality were also developed and implemented during the financial year.

Financial position

Financial highlights

(EUR 1,000)	12/2019	12/2018	12/2017
Revenue	47,351	45,671	41,722
Net interest income	6,936	9,373	6,707
% of revenue	14.6 %	20.5 %	16.1 %
Operating profit	2,275	3,733	1,900
% of revenue	4.8 %	8.2 %	4.6 %
Total operating revenue	21,971	22,031	17,624
Total operating expenses*	-18,727	-17,216	-14,530
Cost to income ratio	0,9	0,8	0,8
Total assets	2,161,047	2,734,159	2,673,522
Total equity	83,906	53,101	49,901
Return on equity %	2.9 %	7.1 %	4.0 %
Return on assets %	0.08 %	0.13 %	0.08 %
Equity/assets ratio %	3.9 %	1.9 %	1.9 %
Solvency ratio %	46.8%	30.9 %	31.7 %
Impairment losses on loans and other receivables	-969	-1,082	-1,195
Number of employees converted to FTEs	43	39	35
Average number of FTEs during the financial year	44	38	34

Profit trends (comparison figures 1–12/2018)

The operating profit of SB Central Bank decreased by 39 % during the year and amounted to EUR 2.3 million, or 4.8 % of revenue (EUR 3.7 million and 8.2 %, respectively, for the comparison period 1–12/2018).

The operating revenue of SB Central Bank amounted to EUR 22.0 (22.0) million. Net interest income decreased by 26% to EUR 6.9 (9.4) million. Interest income decreased by 11% to EUR 20.8 (23.3) million. The majority of interest income in 2019 consisted of income from credit institutions and credit cards for private customers. Interest expenses decreased by one percent, amounting to EUR 13.8 (13.9) million. Interest expenses consisted mainly of liabilities to credit institutions and interest paid on debt securities issued. Interest rate risk is mitigated through fair value hedging. During the past financial year, hedging improved net interest income by EUR 1.6 (1.8) million. Net interest income was still affected by low interest rates and the negative interest rate on central bank deposits. Decreased loans granted to Savings Banks in the Amalgamation and Sp Mortgage Bank Plc contributed mostly to the decrease in net interest income.

Net fee and commission income remained at the level of the comparison period amounting to EUR 10.8 (10.7) million. This amount consisted of EUR 22.3 (20.4) million in fee income and EUR 11.6 (9.7) million in fee expenses. Fee and commission income from the payment card issuing and payment services were the most significant fee and commission income items in 2019.

Other operating income were EUR 4.2 million and consisted during the reporting period of income from exchange of credit card receivables, other incomes related to payment card issuing and service fees based on service agreements produced for the Savings Banks Group. During the reporting period SB Central Bank sold non-performing and defaulted credit card receivables. Other operating income for the comparison period amounted to EUR 1.7 million, consisting of services based on service agreements produced for the Savings Banks Group.

Operating expenses in the financial year increased by 9%, amounting to EUR 18.7 (17.2) million. Personnel expenses consisted of salaries, as well as pension expenses and other personnel expenses. These expenses totaled EUR 3.9 (3.7) million with increase of 5% from the comparison period. The amount of total resources increased by 11% to 43 FTE in the financial year 2019. Other administrative expenses increased by 9% to EUR 12.4 (11.2) million. The most significant part of other administrative expenses, EUR 9.4 (7.6), is service fees paid for outsourced services. Other expenses, EUR 2.1 (1.9) million, consisted of depreciation and amortisation of property, plant and equipment and intangible assets, amounting to EUR 0.5 (0.7) million, and other operating expenses. During the review period EUR 0.1 (0.2) million net of expected credit losses (ECL) was recognised on financial assets. Occurred credit losses during the reporting period were EUR 0.9 (0.8) million. Increasing investments in the development of operations contributed to the growth in expenses. The cost-to-income ratio remained at the level of the comparison period, 0.9 (0.8).

SB Central Bank's income taxes amounted to EUR 321 thousand (100 thousand). The low tax effect for the review period is related to changes in deferred tax liabilities and receivables.

Balance sheet and financing (comparison figures 31 December 2018)

SB Central Bank's balance sheet decreased and was EUR 2,161 (2,734) million. The amount of loans granted to Savings Banks in the Amalgamation and Sp Mortgage Bank Plc contracted 25%

to EUR 1,259 (1,680) million. In addition to the cash and cash equivalents, EUR 666 (824) million, SB Central Bank's assets are mainly invested in ECB eligible debt instruments, EUR 25 (30) million.

Loans to credit card holders increased by 5% during the financial year to EUR 100 (95) million, representing the most significant part of loans and advances to customers. The amount of bonds issued was EUR 1,227 (1,452) million at the end of the financial year,

During the review period, SB Central Bank issued senior unsecured bonds with a total value of EUR 165 million under the EMTN programme listed with the Irish Stock Exchange (Euronext).

Liabilities to customers consisted of deposits from governments, multinational organisations and foreign funds, decreased by 87% amounting to EUR 50 (379) million at the end of the year.

At the end of December, SB Central Bank had EUR 0.9 (0.8) million in non-performing credit card receivables, representing 0.9% (0.8%) of all credit card receivables.

Irrevocable commitments made to clients, included in off-balance sheet commitments, amounted to EUR 375 (367) million at the end of the financial year and consisted mainly of granted undrawn credits.

Shareholdings and equity

SB Central Bank holds 26,674 (17,391) shares in total. SB Central Bank executed a share issue to the owner banks during the review period. Share issue amounted to EUR 28,344,531.97. SB Central Banks share capital after the share issue is EUR 68,344,150.57. The bank does not hold its own shares.

Equity capital on 31 December 2019 was EUR 83,9 (53,1) million consisting wholly of CET1 capital. Change in equity capital is due to share issue mentioned above. Return on equity was 2.9% (7.1%). Return on assets was 0.1 % (0.1 %).

Capital adequacy and risk position

Capital adequacy (comparative information 31 December 2018)

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

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

Stress tests

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

Capital contingency plan

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

Pillar I capital requirements

The biggest capital requirements of SB Central Bank are comprised of card credit receivables. The standard method is applied to calculate the capital requirement for credit risk of the Bank. The capital requirement for operational risk is calculated by the basic method. The capital requirement relating to market risk is calculated by the basic method for the foreign exchange exposure.

Own funds and capital adequacy

The capital requirement of SB Central Bank is formed by:

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

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

In the beginning of the year 2018 Credit Institution Act was updated to include a new macroprudential measure, Systemic Risk Buffer (SRB). FIN-FSA may impose SRB on the basis of the structural characteristics of the financial system. FIN-FSA made decision to maintain the level of systemic risk buffer unchanged on 29 June 2019. The systemic risk buffer requirement for Savings Banks Amalgamation will be 1 % of risk weighted assets, and this requirement enters into effect at the Amalgamation level on 1 July 2019 based on decision made before.

Board of Financial Supervisory Authority has set a discretionary additional capital requirement according to the Act on Credit Institutions' chapter 11 6th article in their meeting on 4th of July 2019. Financial Supervisory Authority has determined the discretionary additional capital requirement as 1,25 % of total risk amount according to the Act on Credit Institutions' chapter 11 6th article's 2 moment's first paragraph's a) subparagraph. The requirement percentage is based on the methodology of SREP (Supervisory Review and Evaluation Process) for LSI banks from ECB, where the percentage of additional capital requirement is determined from the overall rating of FSA's assessment. Additional capital requirement is to be fulfilled by Common Equity Tier 1 (CET1) capital referred in EU's Capital Requirement Regulation (CRR) (EU 575/2013). The capital requirement ruling the Savings Banks Amalgamation is effective from 31st of March 2020 and is valid maximum 3 years until 31st of March 2023. 31 st of December 2019 the valid discretionary additional capital requirement was 0,5 % of total risk amount.

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

SB Central Bank's own funds totaled EUR 76.4 (49.0) million, while the minimum requirement for own funds was EUR 17.1 (16.7) million. The Tier 1 capital consisted wholly of Common Equity Tier 1 (CET1) capital, amounting to EUR 76.4 million. The capital reserves consist mostly of common equity tier 1 capital.

SB Central Bank's capital adequacy ratio was high at 46.8 (30.9) per cent at year-end. The high capital adequacy ratio is due to the exemption granted to the Amalgamation by the Financial Supervisory Authority, according to which the risk weight applied to the Amalgamation's internal financing items in capital adequacy calculation is 0%.

SB Central Bank's capital adequacy information is included in the consolidated financial statements of the Savings Banks Amalgamation. The Financial Supervisory Authority has granted a permission not to deduct internal holdings of credit institutions included in the Amalgamation from own funds instruments when calculating own funds at the individual institution level and subconsolidation 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 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 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 capital adequacy information according to Pillar III are available online at *www.saastopankki.fi* or from the Savings Banks Union Coop offices at Teollisuuskatu 33, 00510 Helsinki, Finland.

Capital adequacy

Own Funds (EUR 1,000)	2019	2018
Common Equity Tier 1 (CET1) capital before regulatory adjustments	83,906	53,101
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-7,477	-4,138
Common Equity Tier 1 (CET1) capital	**76,429**	**48,963**
Tier 1 capital (T1 = CET1 + AT1)	**76,429**	**48,963**
Total capital (TC = T1 + T2)	**76,429**	**48,963**
Risk weighted assets	**163,251**	**158,709**
of which: credit and counterparty risk	121,604	120,658
of which: credit valuation adjustment (CVA)	973	2,211
of which: market risk	2,199	1,515
of which: operational risk	38,476	34,325
Common Equity Tier 1 (as a percentage of total risk exposure amount)	**46.8**	**30.9**
Tier 1 (as a percentage of total risk exposure amount)	**46.8**	**30.9**
Total capital (as a percentage of total risk exposure amount)	**46.8**	**30.9**
Capital requirement		
Total capital	76,429	48,963
Capital requirement total*	17,141	16,664
Capital buffer	**59,288**	**32,299**

*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 country-specific countercyclical capital requirements of foreign exposures.

Leverage ratio

The leverage ratio of SB Central Bank was 3.4 % (1.7%). The leverage ratio has been calculated according to the known regulation, and it describes the ratio of the Bank's Tier 1 capital to total exposures.

(EUR 1,000)	2019	2018
Tier 1 capital	76,429	48,963
Leverage ratio exposure	2,252,851	2,826,302
Leverage ratio	**3.4**	**1.7**

Resolution plan

The Directive of the European Parliament and of the Union 2014/59/EU on the recovery and resolution framework of credit institutions and investment service firms was brought nationally into force as of 1 January 2015 (the Act on the crisis solution of credit institutions and investment service firms). To implement the resolution act, the Financial Stability Authority was established (the Act on the Financial Stability Authority, 1995/2014). In May 2017 the Stability Authority decided to set a minimum requirement of own funds and eligible liabilities (MREL) at amalgamation level and this requirement came in force starting December 31 2018. The requirement will not be directed at the member credit institutions. The MREL requirement is in nature a Pillar 2 -type continuously required minimum requirement. The Financial Stability Authority has decided that the minimum amount of eligible liabilities is the minimum requirement of own funds times two. Currently, the requirement is 20.79 % of the total risk of Amalgamation.

Risk position

Objective of risk management

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

Principles and organisation of risk management

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

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

In its operations in 2019, SB Central Bank was 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 investment portfolio and derivative contracts, as well as off balance-sheet liabilities, such as undrawn credit facilities and limits as well as granted guarantees.

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

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

Liquidity risk

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

Liquidity risk is managed e.g. by maintaining sufficient liquid assets to ensure sufficient liquidity. SB Central Bank's liquidity remained good throughout 2019.

Market risk

Market risk refers to the impact of changes in interest rates and market prices on the bank's income statement and own funds. SB Central Bank was exposed to interest rate and currency risk in the reporting period 2019, as described below.

Interest rate risk

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

Currency risk

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

Operational risk

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

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

Business risk

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

Credit rating

S&P Global Ratings (S&P) has given long-term counterparty credit rating 'A-' to SB Central Bank. Short-term i rating is 'A-2'. The outlook is stable. The credit rating has not changed during the review period and has been confirmed in April 2017.

Corporate governance

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

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

SB Central Bank's management and personnel

The Annual General Meeting of SB Central Bank was held on 14 March 2019. The Board's proposal on the distribution of profits was approved. The Meeting also granted a discharge to the Board members and Managing Director.

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

Name	**position**
Närhinen Tomi	member, Chairman
Huupponen Juhani	member, deputy Chairman until 14 March 2019
Syvänen Hannu	member, deputy Chairman as from 14 March 2019
Ahonen Pirkko	member, as from 14 March 2019
Hakala Jussi	member, until 14 March 2019
Mangs Monika	member, as from 14 March 2019
Näsman Niklas	member, until 13 March 2019
Rinta Jarmo	member
Siviranta Petri	member, as from 14 March 2019

The Board members hold management positions in the financial sector. During the financial year, the Board convened seventeen (17) times. Managing Director of the Savings Banks` Union Coop Tomi Närhinen chaired the Board of Directors.

During the financial statements period, the duties of the Managing Director of the Central Bank of Savings Banks were carried out by acting Managing Director Kai Brander. On 19 December 2019, the Board of Directors appointed Kai Brander as the Managing Director of the Central Bank of Savings Banks effective from 1 January 2020.

The Annual General Meeting elected KPMG Oy, Authorised Public Accountants, as the auditor of SB Central Bank, with Authorised Public Accountant Petri Kettunen as principal auditor.

The number of personnel at SB Central Bank increased in accordance with the establishment of the new services. Converted into total resources, the number of personnel at the end of the review period on 31 December 2019 was 43.

The related party refers to the key persons holding leading positions at SB Central Bank and their family members. SB Central Bank's related party includes the Board members, Managing Director and Deputy Managing Director. With the exception of credit cards, SB Central Bank has not granted related-party loans or investments and has no related-party business transactions. Credit card loans to related parties are subject to the same general terms and conditions as corresponding customer credits.

Remuneration system

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

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

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

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

The General Meeting held on 14 March 2019 decided on the remuneration of the Board of Directors as follows:

annual remuneration, Chairman, EUR 6 500*
annual remuneration, Deputy Chairman, EUR 2 500
annual remuneration, member, EUR 1 000
attendance allowance, EUR 500**

* In accordance with the decision of the Nomination committee of the Savings Banks Group, if the Managing Director of the Savings Banks' Union Coop acts as the chairman, no annual remuneration will be paid, as this is considered to be included in the Managing Director's duties.

** Attendance allowance is paid for each actual meeting of the Board (excluding decisions that do not involve a meeting). The Managing Director of Savings Banks' Union Coop is not paid meeting fees.

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

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

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

The remuneration details in accordance with Pillar III are published in the Savings Banks Group financial statement. The financial statement is available online on the Savings Banks Group website at *www.saastopankki.fi* or from the Savings Banks Union Coop offices at Teollisuuskatu 33, 00530 Helsinki, Finland.

Main outsourced functions

SB Central Bank's banking system is outsourced to Oy Samlink AB, which is an associated company to the Savings Bank group. SB Central Bank purchases a variety of services related to payment card issuing from Nets Ltd and services related to producing and delivering the plastic cards from EVRY Card Services Oy. SB Central Bank purchases accounting services from both Savings Banks' Union Coop's financial administration and Paikallispankkien PP-Laskenta Oy, which is owned by Savings Banks. SB Central Bank purchases its internal audit services from the internal audit of Savings Banks' Union Coop.

Social responsibility

Information on the social responsibility of the Central Bank of Savings Banks is included in the consolidated financial statements of the Savings Banks Amalgamation and the responsibility report published annually by the Savings Banks Group. The Savings Banks Group observes the principles of good corporate governance, openness and the Savings Banks Group's Code of Conduct. The key management practices are defined in the Governance principles of the Savings Banks Group. The activities of the Savings Banks Group comply with the provisions of current legislation, orders issued by the authorities, good banking practice regulations and trading instructions approved by Finance Finland, as well as the governance principles of the Savings Banks Amalgamation along with the Amalgamation's other internal guidelines. Savings Banks Group's social responsibility is also defined in the governance policies. The social responsibility determined in the governance policies includes financial responsibility, social responsibility, promoting communal wellbeing and environmental responsibility. More information on the Savings Banks Group's responsibility and the Savings Banks Group's annual responsibility report can be found at *www.saastopankki.fi*.

Material events after the closing date

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

Outlook for the year 2020

Outlook for the operational environment

Fears of a recession gave way in late 2019 when the predictive economic indicators pointed to stabilisation. The situation in the global economy remains uncertain, even if it appears probable that a recession will be avoided. Economic recovery is expected in 2020, but the rate of recovery is likely to be slow. The global economy is expected to grow at a rate of slightly over 3.0 per cent.

Political uncertainty will continue in 2020. The familiar themes of Brexit and the trade war will remain on the agenda, although the uncertainty surrounding them was slightly reduced in late 2019. The United Kingdom is likely to leave the EU at the end of January, but that only marks the beginning of difficult negotiations regarding the subsequent relationship. Partial harmony was achieved in the trade war between the United States and China in late 2019, but this does not mean that all of the tensions will be eliminated, and tariffs remain substantially higher than they were before the start of the trade war. It is also possible that the situation will come to a head again. The U.S. presidential election in late 2020 will also bring tensions to the political front.

Economic growth in the United States is expected to slow down slightly in 2020, to just under 2 per cent. President Trump's tax breaks still supported the economy in 2019, but their impact is starting to wane. The labour market situation in the United States is very strong, with employment at the lowest level seen in decades. Consumer confidence is also at a good level.

The outlook of the euro zone is weakened by the uncertain situation of the economically powerful Germany. France, on the other hand, has a more favourable outlook. Potential risks include trade policy disputes and possible tariffs on cars in trade with the U.S. The President of the European Central Bank changed in 2019, and the new President intends to review the central bank's monetary policy strategy in 2020. While major changes are unlikely, there may be some new directions in monetary policy.

Growth in China is expected to slow down to about 6 per cent in 2020. The reliability of the official growth figures is questionable, but many other factors also point towards slower growth. Nevertheless, a sharp decline is unlikely, as the centrally planned Chinese economy features a strong tendency to apply stimulus measures using monetary policy as well as financial policy if the economy slows down more than expected.

While the Finnish economy remained surprisingly immune to the weakness of the global economy in 2019, it is expected that Finland will see a post-cyclical slowing down of the economic growth in 2020. Exports and investments, in particular, suffer from the slowing down of global trade and the general uncertainty. At the same time, private consumption will hold strong, with several factors supporting households: the labour market situation will remain stable, the increase in wages outpaces inflation and the prevailing low interest rates continue to support households that are in debt.

Finnish economic growth is expected to be approximately 1.5 per cent in 2019 and subsequently slow down to about one per cent in 2020. This is a slower rate of growth than what has been seen in recent years, but it is close to Finland's potential growth.

The most significant risks for the Finnish economy arise from the international economy. If the expected recovery in the global economy fails to materialise, Finland's growth outlook will be affected. Uncertainty is also introduced into Finland's outlook by the unsettled labour market situation, which already reared its head in the form of the strikes seen in late 2019.

Business outlook

The low level of market interest rates will continue to pose challenges to financial performance in 2020. However, the low interest rates will not jeopardise the performance or capital adequacy of the SB Central Bank.

In 2020, the main focus of the operations of the Central Bank of Savings Banks is to support the implementation of the Savings Banks Group's strategy as part of the Savings Banks Centre.

SB Central Bank's result for 2020 is expected to show a profit.

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

SB Central Bank's distributable funds amount to EUR 14,641,293.61.

The SB Central Bank Board of Directors proposes to the Annual General Meeting that the profit for the financial year of EUR 1,953,565.93 is entered as accumulated retained earnings with no dividend paid.

Information

Further information Managing Director Kai Brander

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

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

Formulas used in calculating the financial highlights:

Revenues:	Interest income, fee income, net trading income, other operating revenue
Total operating revenue:	Net interest income, net fee and commission income, net trading income, other operating revenue
Total operating expenses:	Personnel expenses, other operating expenses, depreciations of property, plant and equipment and intangible assets

Cost to income ratio:

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

Return on equity %:

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

Return on assets %:

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

Equity/assets ratio %:

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

Solvency ratio, %:

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

Alternative Performance Measures

European Securities and Markets Authority's Guidelines on Alternative Performance measures came into effect on 3 July 2017. An alternative performance measure is a financial measure of historical or future financial performance, financial position or cash flows, other than a financial measure defined or specified in the IFRS framework. Alternative Performance Measures are used to reflect financial development and enhance comparability between different reporting periods.

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

CENTRAL BANK OF SAVINGS BANKS FINLAND PLC: IFRS FINANCIAL STATEMENT 2019

Income statement

(EUR 1,000)	NOTE	1-12/2019	1-12/2018
Interest income		20,758	23,289
Interest expense		-13,822	-13,917
Net interest income	6	6,936	9,373
Net fee and commission income	7	10,781	10,723
Net trading income	8	41	219
Other operating revenue	10	4,213	1,717
Total operating revenue		**21,971**	**22,031**
Personnel expenses	11	-3,908	-3,708
Other operating expenses	12	-14,282	-12,845
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	13	-536	-663
Total operating expenses		**-18,727**	**-17,216**
Net impairment loss on financial assets	14	-969	-1,082
Operating profit		**2,275**	**3,733**
Income tax expense	15	-321	-100
PROFIT		**1,954**	**3,633**

Statement of comprehensive income

(EUR 1,000)	1-12/2019	1-12/2018
PROFIT	**1,954**	**3,633**
OTHER COMPREHENSIVE INCOME		
Items that are or may be reclassified to profit or loss		
Changes in fair value reserve		
Fair value measurements	633	237
Deferred tax from fair value measurements	-127	-47
Total	**506**	**190**
TOTAL COMPREHENSIVE INCOME	**2 460**	**3,823**

Statement of financial position

(1 000,euroa)	Note	31.12.2019	31.12.2018
ASSETS			
Cash and cash equivalents	17	666,315	823,612
Loans and advances to credit institutions	18	1,346,030	1,760,168
Loans and advances to customers	18	101,390	95,278
Derivatives	19	1,248	2,689
Investment assets	20	28,953	37,811
Property, plant and equipment	21	225	222
Intangible assets	22	6,814	3,113
Tax assets	23	1,052	1,381
Other assets	24	9,020	9,885
TOTAL ASSETS		**2,161,047**	**2,734,159**
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions	25	788,232	840,107
Liabilities to customers	25	50,040	379,253
Derivatives	19	1,090	282
Debt securities issued	26	1,226,901	1,451,558
Tax liabilities	23	230	111
Other liabilities	27	10,649	9,746
Total liabilities		**2,077,141**	**2,681,057**
Equity			
Share capital		68,344	40,000
Reserves		19,920	19,414
Retained earnings		-4,359	-6,312
Total equity	28	**83,906**	**53,101**
TOTAL LIABILITIES AND EQUITY		**2,161,047**	**2,734,159**

Statement of cash flows

(EUR 1,000)	1-12/2019	1-12/2018
Cash flows from operating activities		
Profit	1,954	3,633
Adjustments for items without cash flow effect	1,462	1,576
Change in deferred tax	321	100
Cash flows from operating activities before changes in assets and liabilities	**3,737**	**5,309**
Increase (-) or decrease (+) in operating assets	**420,317**	**-332,705**
Loans and advances to credit institutions	417,067	-376,470
Loans and advances to customers	-6,235	-3,417
Investment assets, at fair value through other comprehensive income	8,391	-3,189
Investment assets, at amortized cost	229	322
Other assets	865	50,048
Increase (-) or decrease (+) in operating liabilities	**-603,285**	**57,554**
Liabilities at fair value through profit or loss		
Liabilities to credit institutions	-51,875	26,610
Liabilities to customers	-329,213	115,998
Debt securities issued	-223,089	-82,872
Other liabilities	892	-2,182
Total cash flows from operating activities	**-179,232**	**-269,841**
Cash flows from investing activities		
Investments in property, plant and equipment and intangible assets	-4,271	-2,196
Disposals of investment property and property, plant and equipment and intangible assets	19	35
Total cash flows from investing activities	**-4,252**	**-2,162**
Cash flows from financing activities		
Increase in share capital	28,345	-
Total cash flows from financing activities	**28,345**	**-**
Change in cash and cash equivalents	**-155,139**	**-272 003**
Cash and cash equivalents at the beginning of the period	**835,272**	**1,107,275**
Cash and cash equivalents at the end of the period	**680,133**	**835,272**
Cash and cash equivalents comprise the following items:		
Cash	666,315	823,612
Receivables from central banks repayable on demand	13,818	11,660
Total cash and cash equivalents	**680,133**	**835,272**
Interest received	21,812	22,259
Interest paid	13,877	13,844

Statement of changes in equity

(EUR 1,000)	Share capital	Share premium	Fair value reserve	Total reserves	Retained earnings	Total equity
Equity 1 January 2018	**40,000**	**19,000**	**224**	**19,224**	**-9,946**	**49,278**
Comprehensive income						
Profit					3,633	3,633
Other comprehensive income			190	190		190
Total comprehensive income			**190**	**190**	**3,633**	**3,823**
Total equity 31 December 2018	**40,000**	**19,000**	**414**	**19,414**	**-6,312**	**53,101**

(EUR 1,000)	Share capital	Share premium	Fair value reserve	Total reserves	Retained earnings	Total equity
Equity 1 January 2019	**40,000**	**19,000**	**414**	**19,414**	**-6,312**	**53,101**
Comprehensive income						
Profit					1,954	1,954
Other comprehensive income			506	506		506
Total comprehensive income			**506**	**506**	**1,954**	**2,460**
Transactions with owners						
Subscription issue	**28,345**					28,345
Total equity 31 December 2019	**68,344**	**19,000**	**920**	**19,920**	**-4,359**	**83,906**

BASIS OF PREPARATION

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

Central Bank of Savings Banks Finland Plc (hereinafter "SB Central Bank") is a depository bank owned by Finnish Savings Banks. SB Central Bank's primary function is to provide the Savings Banks with various central credit institution services. The central credit institution services focus on payment services and account operator services, payment card issuing, and services related to liquidity management, funding and asset and liability management. SB Central Bank belongs to the Savings Banks Group and its main owners are the 20 Savings Banks of the Amalgamation and one savings bank outside the Amalgamation.

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

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

The member organizations of the Savings Banks Amalgamation (hereafter Amalgamation) form a financial entity as defined in the Act on Amalgamations, in which the Savings Banks' Union Coop and its member credit institutions are jointly liable for each other's liabilities and commitments. The Amalgamation comprises the Savings Banks' Union Coop, which acts as the Central Institution of the Amalgamation, 20 Savings Banks, the Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc, Sp-Fund Management Company Ltd, Savings Bank Services Ltd, as well as the companies within the consolidation groups of the above-mentioned entities.

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

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

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

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

SB Central Bank's Board of Directors has approved the Bank's financial statement 2019 on 4 February 2020, and the financial statement will be presented to the Annual General Meeting of 2020 for approval. The Annual General Meeting has the choice of approving or not approving the financial statement.

NOTE 2. ACCOUNTING POLICIES

1. Overview

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

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

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

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

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

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

2. Financial intruments

2.1 Financial assets and liabilities

SB Central Bank applies IFRS 9 Financial instruments standard on recognition and measurement of financial instruments. Classification in the SB Central Bank's balance sheet is independent of the IFRS 9 categories. Different valuation bases can therefore be applied to assets and liabilities 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 16.

2.1.1 Initial recognition

A financial asset or liability is recognised on the balance sheet when SB Central Bank becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of a financial asset is 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, SB Central Bank classifies financial assets into following measurement categories:

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

Financial assets are classified on initial recognition based on the business model used for managing the group of financial assets in which the financial assets 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 SB Central Bank manages its financial assets in order to generate cash flows. That is, the business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. If cash flows are realised in a way that is different from the entity's expectations on the date that the entity assessed the business model, that does not give rise to a prior period error in the entity's financial statements nor does it change the classification of the remaining financial assets held in that business model.

ASSESSMENT OF CASH FLOW CHARACTERISTICS

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

AMORTISED COST

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

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

MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

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

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

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

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

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

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

CHANGES IN THE CLASSIFICATION OF FINANCIAL ASSETS

Debt instruments are reclassified only when SB Central Bank changes the business models applied in the management of financial assets. SB Central Bank expects such changes to be highly infrequent and has not done any changes during the reporting period.

CHANGES IN CONTRACTUAL CASH FLOWS

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

2.1.3 Derecognition of financial assets and liabilities

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

A financial asset is considered to be transferred if, and only if, Sb Central Bank either:

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

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

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

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

2.2. Determining fair value

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

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

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

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

- Fair values quoted in active markets for identical assets or liabilities (Level 1)
- Fair values that are determined using other input data than the quoted prices at Level 1, which are observable for the assets or

liabilities either directly (e.g. prices) or indirectly (e.g. derived from prices) (Level 2)

- Fair values that are determined using input data which is essentially not based on observable market data (Level 3).

The fair value hierarchy level into which an item measured at fair value is fully classified is determined by the input data which is at the lowest level and is significant in respect of the whole item. The significance of input data is evaluated consid-ering the whole item which is valued at fair value.

2.3 Impairment

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

For the purposes of measurement of the expected credit loss, SB Central Bank assigns financial assets into stages 1, 2 or 3 depending on the change in the credit risk of the financial asset between the date of the initial recognition and reporting date. Stage 1 includes financial assets for which the credit risk has not increased significantly, stage 2 includes financial assets for which the credit risk has increased significantly and stage 3 includes financial assets that are considered to be impaired.

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

Loss Rate model components:

- Loss rate %, i.e. the calculation is based on percentage figures established for each counterparty. Determined by the counterparty's sector code.
- EAD, short for Exposure at Default, is the annual average. Due to upcoming instalments, it is usually lower than the contract balance.

The components used in the PD/LGD model:

- PD % (Probability of Default) is based on external and internal credit ratings.
- LGD % (Loss Given Default) takes into consideration the contract's available collateral at the time of default.
- EAD (Exposure At Default). The amount takes into consideration instalments and advance repayments, calculated for the term of the contract and for the year, for products for which early repayment has been modelled. Off-balance sheet items are considered to remain fixed until the end of the lifecycle of the contract. The undrawn commitment component is included in the calculation in full.

Stage 1: 12-month ECL

- If credit risk has not significantly increased since the loan was originated, the expected credit loss is calculated based on 12-month expected credit loss. The expected credit loss is provided for the credit losses that result from default events that are possible within the next 12 months.

Stage 2: Lifetime ECL – not credit-impaired

- If credit risk has significantly increased since the loan was originated, impairment on exposures that are not credit-impaired is calculated based on lifetime expected credit loss. The expected credit loss is provided for the credit losses expected over the remaining life of the exposure.

Stage 3: Lifetime ECL – credit impaired

- If the contract is assessed as credit-impaired, impairment is recognised based on lifetime expected credit loss. Stage 3 consists of exposures involving one or more occurred negative events impacting cash flows.

Incurred loss is deducted from the balance sheet and the proportion of the exposure recognised as a loss is no longer included in the calculation of expected losses.

The assessment of potential changes in credit risk takes into consideration all relevant and available information that can be obtained without unreasonable effort and cost. The contract's credit risk has increased significantly (the contract migrates from stage 1 to stage 2) when the contract involves payments that are more than 30 days past due (backstop), the contract's PD increases either by 10 basis points or 2.5 times its original value, or the contract is subject to forbearance (performing). The contract migrates to stage 3 when the contract is defaulted, i.e. when the contract or customer has a credit rating of D, the contract is more than 90 days past due, the contract is subject to (non-performing) forbearance or a forbearance concession has been made for the contract at the time of application. ECL calculation applies the same definition of default that the SB Central Bank applies in its lending rules. A contract may migrate to a better stage if the credit risk has improved significantly and it meets the criteria for the stage in question for a period of time specified by Bank (known as the probation period).

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

Scenarios used in calculation

Four different scenarios are calculated for each contract using economic scenarios established by the Savings Banks Group's Chief Economist. The scenarios are the base scenario (50%), a mild downside (8%), a more extreme downside (2%) and an optimistic scenario (40%). The loss allowance recongised is calculated by applying weights to the various scenarios.

Allowance for expected credit losses is recognised as an impairment under Impairment losses on financial assets in the income statement. Final credit losses are also recognised under the same item in the income statement.

2.4 Hedging and derivatives

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

Derivatives are measured at fair value starting from the contract date in the financial statements, and fair value changes are recognised in the balance sheet and income statement or in other comprehensive income.

SB Central Bank hedges its interest rate risk from changes in fair value and applies hedge accounting to hedging relationships

The hedged item in the fair value hedge are fixed rate lending to Savings Banks and the issued fixed rate bond.

Changes in the fair value of derivatives hedging fair value are 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 in the balance sheet as an adjustment to the balance sheet item 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 continuous basis and always on reporting dates.

3. Leases

SB Central Bank as the lessee

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

- The contract pertains to an identified and separate asset.
- The contract conveys the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use.
- The contract conveys the right to direct the use and purpose of the identified asset.

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

The lease term begins at the commencement date specified in the lease. The end of the lease term is determined by the lease. The lease term is reassessed if an option to extend the lease is exercised differently than initially assessed. If the lease term is indefinite, the end of the lease term is considered to be the earliest possible date of termination specified in the lease. The discount rate used is the interest rate at which the Central Bank of Savings Banks provides financing to Savings Banks Group banks.

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

Short-term leases and assets of low value

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

SB Central Bank as the lessor.

SB Central Bank does not act as a lessor.

Basis of preparation effective for the period 1.1.-31.12.2018 (comparative period)

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

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

4. Employee benefits

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

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

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

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

5. Intangible assets

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

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

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

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

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

ready for use is tested annually for impairment.

The estimated useful lives are mainly as follows:

Information systems purchased from external companiest .... 3-5 years

Other intangible assets .... 5 years

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

6. Property, plant and equipment and investment properties

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

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

The estimated useful lives are mainly as follows:

Machinery and equipment .... 3–5 years

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

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

7. Income taxes

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

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

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

8. Operating revenue

Interest income and expenses

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

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

Fees and commissions

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

Net trading income

Net income from fair value hedging is recognised in net trading income.

9. Segment information

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

10. New IFRS standards and interpretations

New and amended standards applied in financial year ended

Sb Central Bank has applied, as from 1 January 2019, the following new and amended standards that have entered into effect.

IFRS 16 Leases

IFRS 16 Leases standard entered into effect on 1 January 2019. On transition, SB Central Bank has applied a simplified approach and the comparison figures have not been adjusted. Prior to the IFRS 16 transition on 1 January 2019, SB Central Bank had no finance leases as referred to in IAS 17 and IFRIC 4. ". The IFRS

16 transition had no effect on profit or loss or balans, nor did it affect retained earnings, because Sb Central Bank has only leases which are under the IFRS 16 exemptions and SB Central Bank has decided to choose use exemptios possibility.

Adoption of new and amended standards in future financial years

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

* = not yet endorsed for use by the European Union as of 31 December 2019.

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

The revised Framework codifies IASB's thinking adopted in recent standards. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs.

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

The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The change in the standard will have no significant impact on SB Central Banks financial statement.

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

The amendments clarify the definition of material and include guidance for the definition. In addition, the explanations accompanying the definition have been improved. The change in the standard will have no significant impact on SB Central Banks financial statement.

NOTE 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

Fair value measurement

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

Determination of expected credit losses

The models used in the calculation of expected credit losses include estimates and assumptions that may deviate from actual outcomes. The calculations involve several discretionary factors that require the management's judgement. The most significant of these factors are as follows:

- Criteria used to assess the significant increase of credit risk
- The bank's internal credit rating model, which determines the probability of credit loss for individual receivables
- The calculation models for expected credit losses, which include assumptions regarding the behaviour of receivables in various economic scenarios
- The macroeconomic scenarios included in the calculation of expected credit losses and their impact on the amount of expected credit losses
- The anticipation of the amounts and timing of future cash flows, the realisable value of collateral and the assessment of the borrower's financial situation.

Deferred tax assets

Deferred tax assets arising from tax losses are recognised to the extent that they are expected to be offset against future taxable profits. Recognition of deferred tax assets requires the management to assess the probability and amount of future taxable profit.

For the basis of recognition of tax assets, SB Central Bank's management has assessed SB Central Bank's future operations, considering the general market situation, Savings Banks Group's future development outlook and changes in operations of SB Central Bank.

RISK MANAGEMENT AND PRINCIPLES OF CAPITAL ADEQUACY MANAGEMENT

NOTE 4: RISK MANAGEMENT AND GOVERNANCE

Objective of risk management

The objective of risk management is to secure the bank's risk-bearing capacity and ensure the continuity of its business operations. The risk-bearing capacity comprises adequate and effective risk management based on the nature, scale and complexity of SB Central Bank's business operations, as well as 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. SB Central 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 SB Central Bank's risk appetite. The capital needed for the various risk areas and business lines is determined in a reliable and independent manner and allocated systematically. This is done based on current and planned risk-taking and taking into account the requirements of appropriate liquidity management.

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

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 the Central Bank of Savings Banks is to ensure that the objectives and aims set for different levels at the bank are reached in compliance with the agreed and set internal control guidelines. Internal control is supervision 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 clerical employees. In addition, clerical employees are required to report deviations and misconduct to those higher up in the organisation.

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

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

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

The Board of Directors is regularly informed on the risk positions and their changes affecting SB Central Bank. The Board also approves the authorizations and guidelines of risk-taking by determining risk limits for accepted risk types. The implementation of the risk stategy 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 SB Central Bank's business operations.

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

- independent risk control
- compliance
- internal audit

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

The Compliance unit ensures that SB Central Bank complies with the legislation and authorities' regulation and guidelines. The

Compliance unit is responsible for monitoring that SB Central Bank complies with the internal guidelines, ethical guidelines given to the personnel and other guidelines applied within the financial markets.

The Board of Directors of the Central Bank of Savings Banks has established internal audit for the bank and approved the internal audit plan and reporting principles.

The task of internal audit is to assess the scope and adequacy of the internal control of the bank's operating 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 SB Central Bank is responsible for organising internal control in accordance with legislation, requirements of the authorities and guidelines issued by the Board of Directors of the Central Institution.

The Managing Director and other executives of SB Central Bank are responsible for organising internal control in accordance with legislation, requirements of the authorities and more detailed internal guidelines issued by the Central Institution and the bank's Board of Directors. The Savings Banks Amalgamation's risk control function maintains and develops methods for managing risks within the Central Institution. This ensures that all, even new, fundamental but previously unidentified risks are covered by the risk management of business lines.

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

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

Credit and counterparty risks

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

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

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

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

The credit decisions regarding unsecured lending to Savings Banks Group's strategic partners are made by the Board of SB Central Bank. Related credit risk monitoring is based partly on the daily monitoring and reconciliation process of the credit accounts. Monitoring is supported by the facts that the companies are owned by credit institutions operating in Finland, and a regular communication at least on monthly basis is established.

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

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

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

Non-performing loans and payment delays

The non-performing loans, payment delays and expected credit losses are followed regularly. The non-performing loans levelled with the previous year and were 0.9% of the loan portfolio. In certain circumstances if the customer would otherwise face financial difficulties in the future the customer may be granted a change in the terms and conditions of the loan, for example in-terest-only period or restructuring the loan. The reason for these arrangements is to ensure the customers' ability to pay and avoid possible credit losses. The prerequisite for granting any forbearance measures to the loans is that the customers' financial difficulties are estimated to be short-termed and temporary.

Expected credit losses (ECL)

Expected credit losses have calculated on the contract level and those have divided by three different stages based on the condition of contract. On the top of the information about customer and contract, the calculations consider also the economic forecast from the Savings Banks Group Chief Economist. Note 2 Accounting policies includes the further description about ECL model.

The contract is in stage 1, if credit risk has not increased significantly since initial recognition, expected credit loss is calculated based on 12 months credit loss. The contract will be switched to stage 2, if credit risk has increased significantly since initial recognition, expected credit loss has calculated based on credit loss expected during the remaining duration. Lastly, stage 3 has used if contract has defaulted. Then expected credit loss has calculated based on credit loss expected during the remaining duration. Stage 3 includes exposures, which have one or more actual events that have negative impact on cash flows. All the stage 3 ECL amounts are evaluated at least quarterly.

Exposures is returning to stage 1, when it has fulfilled the stage 1 requirements for past 12 months. The same can be implemented for returning to stage 2 from stage 3. All returned exposures from stage 3 to stage 2 are under the monthly evaluations of expected credit losses.

Loans and receivables whose recovery is deemed impossible are recognized as credit losses. Credit losses have recognized in the deduction account. Non-recoverable loans and receivables are recognized as permanent credit loss and the impairment is cancelled when the normal recovery process is completed and the final amount of loss on an individual loan or receivable can be calculated.

Impairment losses on loans and receivables decreased during 2019 and were EUR 1.6 million at the end of the year. Expected credit losses are 0.1 % of the credit portfolio. Note 14 explains more about the level movements of expected credit losses.

Retail exposures are classified into 7 different risk-rating classes. Credit card exposures by risk-rating class 31 December 2019:

Risk-rating class

(EUR 1,000)	12 month PD	Stage 1	Stage 2	Stage 3	Total	% of portfolio
1 Not delayed	0.0 - 0.32 %	91,855	4,674	14	96,543	89 %
2-5 Payment delays < 30 days	0.33 % - 7.78 %	1,802	1,043	5	2,850	3 %
6 Payment delays > 30 days	7.79 % - 22.3 %	1,725	323	38	2,086	2 %
D Non-performing	100.00 %			1,207	1,207	1 %
Total		**95,382**	**6,040**	**1,264**	**102,686**	**95 %**

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

Liquidity risk

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

Liquidity risk is managed e.g. by maintaining sufficient liquid assets to ensure sufficient liquidity. SB Central Bank's liquidity remained good throughout 2019. Daily liquidity is monitored at SB Central Bank and a daily liquidity position report of Amalgamation member banks is also provided to the Savings Banks Union Coop risk control unit. Funding risk is managed by ensuring adequate long-term financing in relation to long-term receivables

Maturity distribution of financial assets and liabilities:

2019 (EUR 1,000)	under 3 months	3 - 12 months	1 - 5 years	over 5 years	Total
Financial assets					
Cash and cash equivalents	666 315				666 315
Loans and advances to credit institutions	344 130	532 000	448 400	21 500	1 346 030
Loans and advances to customers	101 390				101 390
Investment assets		26 755		2 199	28 953
Total	**1 111 835**	**558 755**	**448 400**	**23 699**	**2 142 688**
Financial liabilities					
Liabilities to credit institutions	750 232	18 000	20 000		788 232
Liabilities to customers	40	50 000			50 040
Debt securities issued		613 954	563 039	49 908	1 226 901
Off balance-sheet commitments	233 490	47 000	95 000		375 490
Total	**983 761**	**728 954**	**678 039**	**49 908**	**2 440 662**

2018 (EUR 1,000)	under 3 months	3 - 12 months	1 - 5 years	over 5 years	Total
Financial assets					
Cash and cash equivalents	823 612				823 612
Loans and advances to credit institutions	366 062	776 800	614 306	3 000	1 760 168
Loans and advances to customers	95 278				95 278
Investment assets		11 116	25 180	1 515	37 811
Total	**1 284 952**	**787 916**	**639 486**	**4 515**	**2 716 869**
Financial liabilities					
Liabilities to credit institutions	787 607	14 500	38 000		840 107
Liabilities to customers	211 452	167 801			379 253
Debt securities issued	111 992	255 890	1 073 765	9 911	1 451 558
Off balance-sheet commitments	225 982	65 000	76 000		366 982
Total	**1 337 033**	**503 191**	**1 187 765**	**9 911**	**3 037 900**

Market risk

Market risk refers to the impact of interest rates and market prices on the bank's income statement and own funds. Market risks arise from the banking book, comprised of lending, wholesale funding and the investment portfolio. Of the market risks, SB Central Bank was exposed to interest rate and currency risk in the reporting period 2019, as described below.

Interest rate risk

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

- yield curve risk, which arises as a result of the impact of changes in the interest rate curve on the present value of the future cash flows of assets and liabilities
- re-pricing risk, which arises from the difference between maturities for fixed rate assets and liabilities and from the timing mismatch between re-pricing for floating rate assets and liabilities
- basis risk, arising from the different interest rate bases of assets and liabilities
- optionality risk, arising from stand-alone and embedded options in which the decision to exercise may depend on interest rates. These include call and put options embedded in bonds, which entitle to an early redemption of a loan or an early withdrawal without compensation.

The purpose of the management of interest rate risks is to stabilize the net interest income and present value at a level where bank's business is profitable and to limit their fluctuations without threatening the capital adequacy even by severe changes in the interest rate environment. The Bank's appetite for interest rate risk has described by the interest rate limits set by the Board of

Directors. Interest rate risk is possible to manage by modifying the product and balance sheet structure, by planning the interest rate structure and maturities for investments and issued funding and by hedging interest rate derivatives. SB Central Bank hedges its interest rate risk from changes in fair value and applies hedge accounting for the hedge relationships. The hedged item in the fair value hedge are fixed rate lending to Savings Banks and the issued fixed rate bond.

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

Interest rate sensitivity analysis, parallel change of 1 percentage point in the yield curve.

Change in net interest income:		31.12.2019
(EUR 1,000)	Down	Up
Period		
Change, next 12 months	- 1,450	5,467
Change, 13-24 months	-296	7,185

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

Currency risk

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

Operational risk

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

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

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

During the financial year 2019, no such operational risks materialised that would cause financial loss. Disruption reports were prepared for the operational risks that realised during the year. The disruptions resulted mainly from malfunctions in information systems and process errors and typically required manual investigations at SB Central Bank

Legal risks

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

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

Business risk

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

NOTE 5. CAPITAL ADEQUACY MANAGEMENT

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

In line with its strategy, SB Central Bank provides Savings Banks with various central credit institution services, such as payment transaction and account operator services for all Savings Banks and payment card issuing for customers of Savings Banks, as well as services related to liquidity management, funding and asset and liability management. By operating only in this business sector, the Bank is able to maintain its operational risks at a manageable level.

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

Stress tests

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

Capital contingency plan

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

Pillar I capital requirements

The biggest capital requirements of SB Central Bank are comprised of card credit receivables. The standard method is applied to calculate the capital requirement for credit risk of the Bank. The capital requirement for operational risk is calculated by the basic method. The capital requirement relating to market risk is calculated by the basic method for the foreign exchange exposure.

Own funds and capital adequacy

The capital requirement of SB Central Bank is formed by:

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

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

In the beginning of the year 2018 Credit Institution Act was updated to include a new macroprudential measure, Systemic Risk Buffer (SRB). FIN-FSA may impose SRB on the basis of the structural characteristics of the financial system. FIN-FSA made decision to maintain the level of systemic risk buffer unchanged on 29 June 2019. The systemic risk buffer requirement for Savings Banks Amalgamation will be 1 % of risk weighted assets, and this requirement enters into effect at the Amalgamation level on 1 July 2019 based on decision made before.

Board of Financial Supervisory Authority has set a discretionary additional capital requirement according to the Act on Credit Institutions' chapter 11 6th article in their meeting on 4th of July 2019. Financial Supervisory Authority has determined the discretionary additional capital requirement as 1,25 % of total risk amount according to the Act on Credit Institutions' chapter 11 6th article's 2 moment's first paragraph's a) subparagraph. The requirement percentage is based on the methodology of SREP (Supervisory Review and Evaluation Process) for LSI banks from ECB, where the percentage of additional capital requirement is determined from the overall rating of FSA's assessment. Additional capital requirement is to be fulfilled by Common Equity Tier 1 (CET1) capital referred in EU's Capital Requirement Regulation (CRR) (EU 575/2013). The capital requirement ruling the Savings Banks Amalgamation is effective from 31st of March 2020 and is valid maximum 3 years until 31st of March 2023. 31 st of December 2019 the valid discretionary additional capital requirement was 0,5 % of total risk amount.

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

SB Central Bank's own funds totalled EUR 76.4 (49.0) million, while the minimum requirement for own funds was EUR 17.1 (16.7) million. The Common Equity Tier 1 (CET1) stood at EUR 76.4 million. Tier 1 capital amounted to 76.4 EUR (49.0) million. The capital and reserves consist entirely of common equity tier 1 capital, core capital, and SB Central Bank has no equity classified as Tier 2 or other capital.

SB Central Bank's capital adequacy ratio was high at 46.8 (30.9) per cent at year-end. The high capital adequacy ratio is due to the exemption granted to the Amalgamation by the Financial Supervisory Authority, according to which the risk weight applied to the Amalgamation's internal financing items in capital adequacy calculation is 0%.

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

Capital adequacy

Own Funds (EUR 1,000)	2019	2018
Common Equity Tier 1 (CET1) capital before regulatory adjustments	83,906	53,101
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-7,477	-4,138
Common Equity Tier 1 (CET1) capital	**76,429**	**48,963**
Tier 1 capital (T1 = CET1 + AT1)	**76,429**	**48,963**
Total capital (TC = T1 + T2)	**76,429**	**48,963**
Risk weighted assets	**163,251**	**158,709**
of which: credit and counterparty risk	121,604	120,658
of which: credit valuation adjustment (CVA)	973	2,211
of which: market risk	2,199	1,515
of which: operational risk	38,476	34,325
Common Equity Tier 1 (as a percentage of total risk exposure amount)	**46.8**	**30.9**
Tier 1 (as a percentage of total risk exposure amount)	**46.8**	**30.9**
Total capital (as a percentage of total risk exposure amount)	**46.8**	**30.9**
Capital requirement		
Total capital	76,429	48,963
Capital requirement total*	17,141	16,664
Capital buffer	59,288	32,299

*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 country-specific countercyclical capital requirements of foreign exposures.

Leverage ratio

The leverage ratio of SB Central Bank was 3.4 % (1.7 %). The leverage ratio has been calculated according to the known regulation, and it describes the ratio of the Bank's Tier 1 capital to total liability.

(EUR 1,000)	2019	2018
Tier 1 capital	76 429	48 963
Leverage ratio exposure	2 252 851	2 826 302
Leverage ratio	3.4	1.7

Resolution plan

The Directive of the European Parliament and of the Union 2014/59/EU on the recovery and resolution framework of credit institutions and investment service firms was brought nationally into force as of 1 January 2015 (the Act on the crisis solution of credit institutions and investment service firms). To implement the resolution act, the Financial Stability Authority was established (the Act on the Financial Stability Authority, 1995/2014). In May 2017 the Stability Authority decided to set a minimum requirement of own funds and eligible liabilities (MREL) at amalgamation level and this requirement came in force starting December 31 2018. The requirement will not be directed at the member credit institutions. The MREL requirement is in nature a Pillar 2 -type continuously required minimum requirement. The Financial Stability Authority has decided that the minimum amount of eligible liabilities is the minimum requirement of own funds times two. Currently, the requirement is 20.79 % of the total risk of Amalgamation.

PROFIT FOR THE PERIOD

NOTE 6. NET INTEREST INCOME

(EUR 1,000)	1-12/2019	1-12/2018
Interest income		
Debts eligible for refinancing with Central Bank	249	253
Loans and advances to credit institutions	9,163	10,604
Loans and advances to customers*	6,587	6,480
Debt securities	58	58
Derivative contracts		
Hedging derivatives	3,995	4,753
Other**	706	1,141
Total	**20,758**	**23,289**
Interest expense		
Liabilities to credit institutions***	-3,781	-3,297
Liabilities to customers	-78	-84
Derivative contracts		
Hedging derivatives	-2,380	-3,000
Debt securities issued	-7,582	-7,533
Other		-3
Total	**-13,822**	**-13,917**
Net interest income	**6,936**	**9,373**
* of which interest income from loans in stage 3	**10**	**18**

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

***) The interest expense from Liabilities to credit institutions consists mainly of the negative interest on central bank deposits (for the year 2019 EUR -3,746 thousand, for the year 2018 EUR -3,285 thousand).

NOTE 7. NET FEE AND COMMISSION INCOME

(EUR 1,000)	1-12/2019	1-12/2018
Fee and commission income		
Lending*	15,322	13,911
Payment transfers	4,770	4,402
Securities	1,575	1,450
Other	670	683
Total	**22,339**	**20,446**
Fee and commission expense		
Payment transfers	-3,700	-3,097
Securities	-484	-489
Other**	-7,374	-6,137
Total	**-11,558**	**-9,723**
Net fee and commission income	**10,781**	**10,723**

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

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

NOTE 8. NET TRADING INCOME

(EUR 1,000)	1-12/2019	1-12/2018
Net income from hedge accounting		
Change in hedging instruments' fair value	-2,249	-701
Change in hedged items' fair value	2,290	920
Total	**41**	**219**

NOTE 9. INCOME AND EXPENSES FROM FINANCIAL INSTRUMENTS

(EUR 1,000)	1-12/2019	1-12/2018
Amortized cost investments	16,705	18,478
Fair value through other comprehensive income	58	58
Financial incomes	**16,763**	**18,536**
Financial liabilities measured at amortized cost - interest expense	-7,696	-7,632
Financial assets at fair value through profit or loss - interest expense	-3,746	-3,285
Amortized costs investments - impairment loss	-1,014	-1,049
Fair value through other comprehensive financial assets - impairment loss	44	-33
Finance expenses	**-12,411**	**-11,999**
Net income and expenses from financial instruments	**4,351**	**6,538**

NOTE 10. OTHER OPERATING REVENUE

(EUR 1,000)	1-12/2019	1-12/2018
Other income from Banking*	4,213	1,717
Other operating revenue	**4,213**	**1,717**

* Other operating income were EUR 4.2 million and consisted during the reporting period of income from exchange of credit card receivables, other incomes related to payment card issuing and service fees based on service agreements produced for the Savings Banks Group. During the reporting period SB Central Bank sold non-performing and defaulted credit card receivables. Other operating income for the comparison period amounted to EUR 1.7 million, consisting of services based on service agreements produced for the Savings Banks Group.

NOTE 11. PERSONNEL EXPENSES

(EUR 1,000)	1-12/2019	1-12/2018
Wages and salaries	-3,228	-3,065
Pension expenses		
Defined contribution plans	-575	-556
Other personnel related costs	-105	-88
Personnel expenses	**-3,908**	**-3,708**
Full-time	41,0	38,0
Part-time	3,0	1,0
Temporary	-	3,0
Total	**44,0**	**42,0**
Number of employees converted to FTEs	43	39
Average number of FTEs during the financial year	44	38

NOTE 12. OPERATING EXPENSES

(EUR 1,000)	1-12/2019	1-12/2018
Other administrative expenses		
Other personnel expenses	-212	-229
Office expenses	-6,714	-5,586
ICT expenses	-5,051	-5,008
Telecommunications	-385	-344
Representation expenses	0	-1
Marketing	-13	-19
Total	**-12,377**	**-11,187**
Other operating expenses		
Rental expenses	-330	-411
Expenses arising from owner-occupied property	-41	-54
Other operating expenses**	-1,534	-1,193
Total	**-1,905**	**-1,658**
Other operating expenses	**-14,282**	**-12,845**
****Audit fees**		
Statutory audit	-27	-25
Audit related services	-1	-6
Other services	-49	-
Total	-77	-31

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

(EUR 1,000)	1-12/2019	1-12/2018
Depreciation and amortisation of property, plant and equipment	-76	-72
Depreciation and amortisation of intangible assets	-460	-591
Total depreciation and amortisation	**-536**	**-663**

NOTE 14 IMPAIRMENT LOSS ON FINANCIAL ASSETS

Expected Credit Losses (ECL), Loans and advances to customers and off-balance sheet	Stage 1	Stage 2	Stage 3	Total
(EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected Credit Losses 1 January 2019	**174**	**314**	**820**	**1,308**
New assets originated or purchased	26	10	139	175
Assets derecognised or repaid (excluding write offs)	-7	-148		-155
Transfers from Stage 1 to Stage 2	-11	147		136
Transfers from Stage 1 to Stage 3	-1		537	536
Transfers from Stage 2 to Stage 1	4	-23		-19
Transfers from Stage 2 to Stage 3		-33	322	289
Transfers from Stage 3 to Stage 2			0	0
Amounts written off			-907	-907
Net change in ECL	**12**	**-48**	**91**	**55**
Expected Credit Losses 31 December 2019	**186**	**265**	**911**	**1,363**

Expected Credit Losses (ECL), Loans and advances to credit institutions and off-balance sheet	Stage 1	Stage 2	Stage 3	Total
(EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected Credit Losses 1 January 2019	**259**			**259**
New assets originated or purchased	16			16
Assets derecognised or repaid (excluding write offs)	-60			-60
Net change in ECL	**-45**	-	-	**-45**
Expected Credit Losses 31 December 2019	**215**	-	-	**215**

Expected Credit Losses (ECL), Investment asset	Stage 1	Stage 2	Stage 3	Total
(EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected Credit Losses 1 January 2019	**343**			**343**
New assets originated or purchased	97			97
Assets derecognised or repaid (excluding write offs)	-45			-45
Net change in ECL	**52**	**-**	**-**	**52**
Expected Credit Losses 31 December 2019	**395**	**-**	**-**	**395**

Expected Credit Losses 31 December 2019 total	**796**	**265**	**911**	**1,972**

Net change in ECL 1.1.-31.12.2018: loans and advances, off-balanse sheet and investment assets	**20**	**-48**	**998**	**969**

Expected Credit Losses (ECL), Loans and advances to customers and off-balance sheet	Stage 1	Stage 2	Stage 3	Total
(EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected Credit Losses 1 January 2018	**166**	**213**	**743**	**1,122**
New assets originated or purchased	15	17	31	63
Assets derecognised or repaid (excluding write offs)	-6	-94		-99
Transfers from Stage 1 to Stage 2	-2	213		211
Transfers from Stage 1 to Stage 3	-1		563	562
Transfers from Stage 2 to Stage 1	2	-8		-6
Transfers from Stage 2 to Stage 3		-29	317	288,51
Transfers from Stage 3 to Stage 1				
Transfers from Stage 3 to Stage 2		1	-1	-1
Amounts written off			-833	-833
Net change in ECL	**8**	**101**	**77**	**186**
Expected Credit Losses 31 December 2018	**174**	**314**	**820**	**1,308**

Expected Credit Losses (ECL), Loans and advanc-es to credit institutions and off-balance sheet	Stage 1	Stage 2	Stage 3	Total
(EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected Credit Losses 1 January 2018	**208**			**208**
New assets originated or purchased	51			51
Net change in ECL	**51**			**51**
Expected Credit Losses 31 December 2018	**259**			**259**

Expected Credit Losses (ECL), Investment asset	Stage 1	Stage 2	Stage 3	Total
(EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected Credit Losses 1 January 2018	**330**			**330**
New assets originated or purchased	13			13
Net change in ECL	**13**	**-**	**-**	**13**
Expected Credit Losses 31 December 2018	**343**	**-**	**-**	**343**
Expected Credit Losses 31 December 2018 total	**776**	**314**	**820**	**1,910**
Net change in ECL 1.1.-31.12.2018: loans and advances, off-balanse sheet and investment assets	**72**	**101**	**910**	**1,082**

NOTE 15. INCOME TAXES

(EUR 1,000)	1-12/2019	1-12/2018
Change in deferred tax assets	-337	-118
Change in deferred tax liabilities	16	19
Income taxes	**-321**	**-100**

Reconciliation between tax expense in the in-come statement and tax expense calculated by the applicable tax rate.

Reconciliation of effective tax rate		
Accounting operating profit	2,275	3,733
Differences between accounting and taxable profit	140	321
Taxable profit	**2,415**	**4,054**
Tax using the domestic corporation tax rate	-455	-747
Non-deductible expenses	-28	-67
Unrecognised deductible expenses	-	3
Use of approved tax losses for prior years	130	711
Tax expense	**-353**	**-100**
Corporate income tax rate	**20 %**	**20 %**

ASSETS

NOTE 16. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

31.12.2019 (EUR 1,000)	Amortized costs	Fair value through other comprehensive income	Fair value through profit or loss	Total
Cash and cash equivalents			666,315	666,315
Loans and advances to credit institutions	1,346,030			1,346,030
Loans and advances to customers	101,390			101,390
Derivatives				
hedging derivatives			1,248	1,248
fair value			1,248	1,248
Investment assets	24,758	4,196		28,953
Total assets	**1,472,177**	**4,196**	**667,563**	**2,143,936**
Liabilities to credit institutions	788,232			788,232
Liabilities to customers	50,040			50,040
Derivatives				
hedging derivatives			1,090	1,090
fair value			1,090	1,090
Debt securities issued	1,226,901			1,226,901
Total liabilities	**2,065,172**		**1,090**	**2,066,262**

31.12.2018 (EUR 1,000)	Amortized costs	Fair value through other comprehensive income	Fair value through profit or loss	Total
Cash and cash equivalents			823,612	823,612
Loans and advances to credit institutions	1,760,168			1,760,168
Loans and advances to customers	95,278			95,278
Derivatives				
hedging derivatives			2,689	
fair value			2,689	2,689
Investment assets	25,180	12,631		37,811
Total assets	**1,880,626**	**12,631**	**826,301**	**2,719,558**
Liabilities to credit institutions	840,107			840,107
Liabilities to customers	379,253			379,253
Derivatives				
hedging derivatives			282	282
fair value			282	282
Debt securities issued	1,451,558			1,451,558
Total liabilities	**2,670,918**		**282**	**2,671,200**

NOTE 17. CASH AND CASH EQUIVALENTS

(EUR 1,000)	31.12.2019	31.12.2018
Receivables from central banks repayable on demand	666,315	823,612
Cash and cash equivalents	**666,315**	**823,612**

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

NOTE 18. LOANS AND ADVANCES

(EUR 1,000) 31.12.2019	Not impaired (gross)	Expected credit losses (ECL)	Balance sheet value
Loans and advances to credit institutions			
Deposits	86,197	-13	86,184
Loans and other receivables	1,260,027	-182	1,259,845
Total	**1,346,224**	**-194**	**1,346,030**
Loans and advances to customers			
Tuotteittain			
Used overdrafts	2,683	-10	2,672
Credit cards	100,011	-1,293	98,717
Total	**102,693**	**-1,304**	**101,390**
Loans and advances total	**1,448,918**	**-1,498**	**1,447,420**

(EUR 1,000) 31.12.2018	Not impaired (gross)	Expected credit losses (ECL)	Balance sheet value
Loans and advances to credit institutions			
Deposits	80,624	-2	80,622
Loans and other receivables	1,679,788	-242	1,679,546
Total	**1,760,412**	**-244**	**1,760,168**
Loans and advances to customers			
Tuotteittain			
Used overdrafts	1,493	-4	1,489
Credit cards	95,039	-1,250	93,790
Total	**96,532**	**-1,254**	**95,278**
Loans and advances total	**1,856,944**	**-1,498**	**1,855,446**

NOTE 19. DERIVATIVES AND HEDGE ACCOUNTING

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

Changes in the fair value of derivatives hedging fair value are recognised in the income statement under Net trading income. When hedging fair value, also the hedged item is measured at fair value during the hedging period even if the item is otherwise measured at amortised cost. Changes in the fair value of the hedged item are recognized in the balance sheet as an adjustment to the corresponding balance sheet item and in the income statement under Net trading income. Interest arising from hedging derivatives are presented as an adjustment to interest expense.

(EUR 1,000)	Nominal value / remaining maturity			Fair value	
31.12.2019	less than 1 year	1 - 5 years	Total	Assets	Liabilities
Hedging derivative contracts					
Fair value hedging					
Interest rate derivatives	470,000	65,000	535,000	1,248	1,090
Total	**470,000**	**65,000**	**535,000**	**1,248**	**1,090**

(EUR 1,000)	Nominal value / remaining maturity			Fair value	
31.12.2018	less than 1 year	1 - 5 years	Total	Assets	Liabilities
Hedging derivative contracts					
Fair value hedging					
Interest rate derivatives	10,000	505,000	505,000	2,689	282
Total	**10,000**	**505,000**	**505,000**	**2,689**	**282**

NOTE 20. INVESTMENT ASSETS

(EUR 1,000)	31.12.2019	31.12.2018
At fair value through other comprehensive income		
Debt securities	1,997	11,116
Shares and participations	2,199	1,515
Total	**4,196**	**12,631**
Amortised cost investments		
Debt securities	25,152	25,478
Expected Credit Losses	-394	-298
Total	**24,758**	**25,180**
Investment assets	**28,953**	**37,811**

2019 (EUR 1,000)	Measured at fair value through other comprehensive income	Measured at amortised cost	Total
Quoted			
From public entities	-	24,758	24,758
From others	1,997		1,997
Other			
From others	2,199		2,199
Total	**4,196**	**24,758**	**28,953**

2018 (EUR 1,000)	Measured at fair value through other comprehensive income	Measured at amortised cost	Total
Quoted			
From public entities	5,128	25,180	30,308
From others	5,988		5,988
Other			
From others	1,515		1,515
Total	**12,631**	**25,180**	**37,811**

NOTE 21. PROPERTY, PLANT AND EQUIPMENT

(EUR 1,000)	31.12.2019	31.12.2018
Machinery and equipment	183	166
Other tangible assets	42	56
Property, plant and equipment	**225**	222

2019 (EUR 1,000)	Machinery and equipment	Other tangible assets	Total
Changes in property, plant and equipment			
Acquisition cost 1 January	356	72	428
Increases	110	-	110
Decreases	-107	-	-107
Acquisition cost 31 December	**359**	**72**	**430**
Accumulated depreciation and impairments 1 January	-190	-16	-206
Depreciation for the financial year	-62	-14	-76
Decreases	77	-	77
Accumulated depreciation and impairments 31 December	**-176**	**-30**	**-206**
Carrying amount 31 December	**183**	**42**	**225**

2018 (EUR 1,000)	Machinery and equipment	Other tangible assets	Total
Changes in property, plant and equipment			
Acquisition cost 1 January	414	19	433
Increases		53	53
Decreases	-58		-58
Acquisition cost 31 December	**356**	**72**	**428**
Accumulated depreciation and impairments 1 January	-148	-1	-149
Depreciation for the financial year	-57	-14	-72
Decreases	15		15
Accumulated depreciation and impairments 31 December	**-190**	**-16**	**-206**
Carrying amount 31 December	**166**	**56**	**222**

NOTE 22. INTANGIBLE ASSETS

(EUR 1,000)	31.12.2019	31.12.2018
Intangible rights	918	975
Intangible assets under development	5,896	2,138
Intangible assets	**6,814**	**3,113**

The impairment testing of intangible assets under development have been performed by using market based approach and there was no indicators of impairment.

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

2019 (EUR 1,000)	Intangible rights	Intangible assets under development	Total
Changes in intangible assets			
Acquisition cost 1 January	3,107	2,138	5,245
Increases		4,162	4,162
Transfers between items	403	-403	0
Acquisition cost 31 December	**3,511**	**5,896**	**9,407**
Accumulated depreciation and impairments 1 January	-2,132		-2,132
Depreciation for the financial year	-460		-460
Accumulated depreciation and impairments 31 December	**-2,593**	**-**	**-2,593**
Carrying amount 31 December	**918**	**5,896**	**6,814**

2018 (EUR 1,000)	Intangible rights	Intangible assets under development	Total
Changes in intangible assets			
Acquisition cost 1 January	2,602	500	3,102
Increases	125	2,018	2,143
Transfers between items	381	-381	0
Acquisition cost 31 December	**3,107**	**2,138**	**5,245**
Accumulated depreciation and impairments 1 January	-1,541		-1,541
Depreciation for the financial year	-591		-591
Accumulated depreciation and impairments 31 December	**-2,132**	**-**	**-2,132**
Carrying amount 31 December	**975**	**2,138**	**3,113**

NOTE 23. DEFERRED TAXES

(EUR 1,000)	31.12.2019	31.12.2018
Deferred tax assets	1,052	1,381
Tax assets	**1,052**	**1,381**
Deferred tax liabilities	230	111
Tax liability	**230**	**111**

(EUR 1,000)	31.12.2019	31.12.2018
Deferred tax assets		
Impairment	392	373
Intangible assets	6	-
Approved tax losses	655	1,008
Total	**1,052**	**1,381**

(EUR 1,000)	31.12.2019	31.12.2018
Deferred tax liabilities		
Financial assets	230	95
Intangible assets	-	16
Total	**230**	**111**

(EUR 1,000)	1.1.2019	Change recognised in profit or loss	Financial assets	31.12.2019
Deferred tax assets				
Impairment	373	19		392
Intangible assets	-	6		6
Approved tax losses	1,008	-353		655
Total	**1,381**	**-329**	**-**	**1,052**

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

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

When determining the recognition principle for deferred tax assets, the management of SB Central Bank has assessed the SB Central Bank's future operations, taking into account the general market circumstances, the development prospects of Savings Banks Group, particularly with respect to wholesale funding, and changes in SB Central Bank's own operations. According to the forecasts prepared, the result is expected to improve and start showing profit on a permanent basis.

Based on management's estimate on the probability and the amount of future taxable profits, EUR 57 thousand of deferred tax assets have not been recognized. They relate to an amount of EUR 287 thousand of losses, which can be utilized against the future taxable profit. The tax losses will expire from 2021 to 2025.

(EUR 1,000)	1.1.2019	Change recognised in profit or loss	Financial assets	31.12.2019
Deferred tax liabilities				
Financial assets	95		135	230
Intangible assets	6	-6		0
Other	10	-10		0
Total	**111**	**-16**	**135**	**230**

(EUR 1,000)	1.1.2018	Change recognised in profit or loss	Financial assets	31.12.2018
Deferred tax assets				
Impairment	332	41		373
Approved tax losses	1,176	-168		1,008
Total	**1,508**	**-127**	**-**	**1,381**

(EUR 1,000)	1.1.2018	Change recognised in profit or loss	Financial assets	31.12.2018
Deferred tax liabilities				
Financial assets	54		41	95
Intangible assets	25	-19		6
Other	10			10
Total	**89**	**-19**	**41**	**111**

NOTE 24. OTHER ASSETS

(EUR 1,000)	31.12.2019	31.12.2018
Accrued income and prepaid expenses	8,833	9,566
Interest	6,307	7,361
Other accrued income and prepaid expenses	2,526	2,206
Other	187	318
Other assets	**9,020**	**9,885**

LIABILITIES AND EQUITY

NOTE 25. LIABILITIES TO CREDIT INSTITUTIONS AND CUSTOMERS

(EUR 1,000)	31.12.2019	31.12.2018
Liabilities to credit institutions		
Liabilities to central banks	38,000	38,000
Liabilities to credit institutions	750,232	802,107
Total	**788,232**	**840,107**
Liabilities to customers		
Deposits	40	51
Other financial liabilities*	50,000	379,202
Total	**50,040**	**379,253**
Liabilities to credit institutions and customers	**838,271**	**1,219,360**

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

NOTE 26. DEBT SECURITIES ISSUED

	31.12.2019		31.12.2018	
(EUR 1,000)	Nominal value	Book value	Nominal value	Book value
Measured at amortised cost				
Bonds	1,210,000	1,212,901	1,195,000	1,198,643
Other Certificates of deposit	14,000	14,000	253,000	252,915
Debt securities issued	**1,224,000**	**1,226,901**	**1,448,000**	**1,451,558**
Of which				
Variable interest rate	540,000	541,247	515,000	518,892
Fixed interest rate	684,000	685,654	933,000	932,666
Total	**1,224,000**	**1,226,902**	**1,448,000**	**1,451,559**

During the review period, SB Central Bank issued senior unsecured bonds with a total value of EUR 165 million under the EMTN programme listed with the Irish Stock Exchange.

SB Central Bank's bonds issued (EUR 1,000)	Nominal value	Carrying amount	Maturity	Interest	Maturity date
EMTN, SB Central Bank	550,000	549,963	5 year	Fixed	6.5.2020
EMTN, SB Central Bank	300,000	300,296	3 year	Floating	8.3.2021
Total	**850,000**	**850,259**			

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

NOTE 27. PROVISIONS AND OTHER LIABILITIES

(EUR 1,000)	31.12.2019	31.12.2018
Other liabilities	2,013	1,180
Accrued expenses	8,556	8,496
Interest payable	4,830	4,885
Interest advances received	347	341
Other accrued expenses	3,378	3,270
Provisions	80	70
Other provisions*	80	70
Other liabilities	**10,649**	**9,746**

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

NOTE 28. CAPITAL AND RESERVES

(EUR 1,000)	31.12.2019	31.12.2018
Share capital	68,344	40,000
Reserves		
Reserve for invested non-restricted equity	19,000	19,000
Fair value reserve	920	414
Retained earnings		
Profit (loss) for previous financial years	-6,312	-9,946
Profit (loss) for the financial year	1,954	3,633
Total equity	**83,906**	**53,101**

Share capital

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

SB Central Bank has in total 26,674 shares without nominal value SB Central Bank executed a share issue to the owner banks during the review period. Share issue amounted to EUR 28,344,531.97.

Reserve for invested non-restricted equity

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

Fair value reserve

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

(EUR 1,000)	2019	2018
Specification of changes in fair value reserve		
Fair value reserve 1 January	414	281
Profit/loss from fair value measurements, shares	684	203
Profit/loss from fair value measurements, debt securities	-6	0
Deferred tax from fair value measurements	-135	-95
Expected credit losses from debt securities, fair value through other comprehensive income	-44	33
Deferred tax from expected credit losses	9	-9
Fair value reserve 31 December	**920**	**414**

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.

SB Central Bank's distributable funds amount to EUR 14,641,293.61. The SB Central Bank Board of Directors proposes to the Annual General Meeting that the profit for the financial year is entered as accumulated retained earnings with no dividend paid.

OTHER NOTES

NOTE 29. COLLATERALS

(EUR 1,000)	31.12.2019	31.12.2018
Collateral given		
Given on behalf of Group's own liabilities and commitments		
Securities	47,360	50,351
Other	4,520	510
Collateral given	**51,880**	**50,861**
Collateral received		
Securities	39,380	39,339
Other	4,730	4,730
Collateral received	**44,110**	**44,069**

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

NOTE 30. OFF BALANCE-SHEET COMMITMENTS

(EUR 1,000)	31.12.2019	31.12.2018
Guarantees	10,000	10,000
Loan commitments	223,490	215,982
Other*	142,000	141,000
Off balance-sheet commitments	**375,490**	**366,982**

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

NOTE 31. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The derivative contracts of the SB Central Bank are subject to either ISDA Master Agreement or the Master Agreement of the Federation of Finnish Financial Services. 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.

31.12.2019				Amounts which are not offset but are subject to enforceable master netting arrangements or similar agreements		
(EUR 1,000)	Recognised financial assets, gross	Recognised financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Financial instruments	Cash held/ received as collateral	Net amount
Assets						
Derivative contracts				1,248	4,730	-3,482
Total				**1,248**	**4,730**	**-3,482**
Liabilities						
Derivative contracts				1,090,496	4,520,000	-3,429,504
Total				**1,090,496**	**4,520,000**	**-3,429,504**

31.12.2018				Amounts which are not offset but are subject to enforceable master netting arrangements or similar agreements		
(EUR 1,000)	Recognised financial assets, gross	Recognised financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Financial instruments	Cash held/ received as collateral	Net amount
Assets						
Derivative contracts				2,689	4,730	-2,041
Total				**2,689**	**4,730**	**-2,041**
Liabilities						
Derivative contracts				282	510	-228
Total				**282**	**510**	**-228**

NOTE 32. FAIR VALUES BY VALUATION TECHNIQUE

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

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

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

Fair value hierarchy

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

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

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

Transfers between the levels

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

SB Central Bank has made no transfers between the levels during reporting period January to December 2019.

31.12.2019	Carrying amount	Fair value by hierarchy level			
Financial assets (EUR 1,000)		**Level 1**	**Level 2**	**Level 3**	**Total**
Measured at fair value					
At fair value through profit or loss	666,315	666,315			666,315
Derivative contracts	1,248		1,248		1,248
Fair value through other comprehensive income	4,196	2,001		2,199	4,200
Measured at amortised cost	1,472,177	114,156	1,268,226	99,616	1,481,998
Total financial assets	**2,143,936**	**782,473**	**1,269,474**	**101,815**	**2,153,761**

31.12.2019	Carrying amount	Fair value by hierarchy level			
Financial liabilities (EUR 1,000)		**Level 1**	**Level 2**	**Level 3**	**Total**
Measured at fair value					
Derivative contracts	1,090		1,090		1,090
Measured at amortised cost	2,065,172	-694,771	-1,375,889		-2,070,660
Total financial liabilities	**2,066,262**	**-694,771**	**-1,374,799**	**-**	**-2,069,570**

Changes at level 3

Reconciliation of changes in financial instruments at level 3

Fair value through other comprehensive income (EUR 1,000)	
Carrying amount 1 January 2019	**1,515**
Changes in value recognised in comprehensive income statement	684
Carrying amount 31 December 2019	**2,199**

Sensitivity analysis of financial instruments at level 3	Effect of hypothetical changes'		
31.12.2019	**Carrying amount**	**Positive**	**Negative**
Fair value through other comprehensive income	**2,199**	**2,528**	**1,869**
Total	**2,199**	**2,528**	**1,869**

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

31.12.2018	Carrying amount	Fair value by hierarchy level			
Financial assets (EUR 1,000)		Level 1	Level 2	Level 3	Total
Measured at fair value					
At fair value through profit or loss	823,612	823,612			823,612
Other operations**	2,689		2,689		2,689
Derivative contracts	12,631	5,160	6,001	1,515	12,676
Measured at amortised cost	1,880,626	107,959	1,688,354	94,702	1,891,015
Total financial assets	**2,719,558**	**936,732**	**1,697,044**	**96,217**	**2,729,992**

31.12.2018	Carrying amount	Fair value by hierarchy level			
Financial liabilities (EUR 1,000)		Level 1	Level 2	Level 3	Total
At fair value through profit or loss					
Derivative contracts	282		282		282
Measured at amortised cost	2,670,918	768,224	1,905,793		2,674,017
Total financial liabilities	**2,671,200**	**768,224**	**1,906,076**	**-**	**2,674,299**

NOTE 33. LEASES

SB Central Bank as lessee

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

Income statement items (EUR 1,000)	2019
Expense relating to short-term leases	27
Total	**27**

SB Central Bank don't acts as a lessor.

NOTE 34. RELATED PARTIES

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

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

Key management personnel compensation (EUR 1,000)	2019	2018
Short-term employee benefits	197	279
Total	**197**	**279**

Key personnel compensation*

2019	Salary and remuneration	Statutory pension expenses
Brander Kai, Acting Managing Director	164	29
Ahonen Pirkko, member of the Board, as from 14 March	5	
Hakala Jussi, member of the Board, until 14 March	2	
Huupponen Juhani, member of the Board, Chairman of the Board of Directors until 14 March	2	
Mangs Monica, member of the Board, as from 14 March	5	
Näsman Niklas, member of the Board, until 13 March	2	
Rinta Jarmo	7	
Siviranta Petri, member of the Board, as from 14 March	5	
Syvänen Hannu, member of the Board, Chairman of the Board of Directors as from 14 March	8	
Total	**197**	**29**

2018	Salary and remuneration	Statutory pension expenses
Autiosalo Kirsi, Managing Director, until 19 March	74	14
Brander Kai, Acting Managing Director, as from 19 March	170	30
Huupponen Juhani, Deputy Chairman of the Board of Directors	9	
Bondén Hans, member of the Board, until 15 March	2	
Hakala Jussi, member of the Board	6	
Näsman Niklas, member of the Board, as from 15 March	5	
Rinta Jarmo, member of the Board, as from 15 March	5	
Seppälä Risto, member of the Board, until 15 March	2	
Syvänen Hannu, member of the Board	7	
Total	**279**	**44**

NOTE 35. MATERIAL EVENTS AFTER THE CLOSING DATE

The Board of Directors of SB Central Bank is not aware of any factors that would have a material effect on its financial position after the date of completion of the financial statements.

PILLAR III DISCLOSURES

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

A copy of the financial statement and Pillar III capital adequacy information of the Savings Banks Group is available online at *www.saastopankki.fi* or from the Savings Banks Union Coop offices at Teollisuuskatu 33, 00510 Helsinki, Finland.

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

Central Bank
of Savings Banks