CENTRAL BANK OF SAVINGS BANKS FINLAND PLC

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

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 2020, the focus of the business operations of SB Central Bank was on the good-quality services and the continued development of services. During the reporting period card system renewal project was completed. System renewal reduced costs and enabled new payment card functionalities to the customers in Savings banks group. Savings Banks Group's core banking renewal has employed also significantly SB Central Bank.

SB Central Bank's profit for the financial year was EUR -1.5 million, and the balance sheet total amounted to EUR 2.8 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, 18 Savings Banks, Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc and the companies within the consolidation groups of the above-mentioned entities, as well as Sp-Fund Management Company Ltd and Savings Bank Services Ltd. The 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 2020 started in an atmosphere of emerging economic optimism. The International Monetary Fund (IMF) predicted that the global economy would grow by 3.3 per cent in 2020, in other words: slightly more than last year. Then, during the first weeks of the year, the world became aware of a new coronavirus spreading in China. When the virus began spreading elsewhere, it became evident that it was a global pandemic. Various countries introduced shutdowns and restrictions on movement aimed at preventing the spread of the virus. The restrictions and caution among people also had an unprecedented negative impact on the economy.

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

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

The world economy as a whole is expected to contract by approximately 4% in 2020. Economic development during the year was characterised by fluctuations that reflected the spread of the virus. When COVID-19 case numbers grew, the economy suffered. Conversely, when the number of cases declined, the economy began to recover. The development of the economy was dictated by COVID-19, but there were also other significant events in 2020. The most significant of these were the US presidential election and the Brexit deal in December. The industry that was the hardest hit by the COVID-19 crisis was naturally the service sector, where social contact is frequent. The industrial sector has also suffered from the pandemic, although the impact has not been as severe as feared. Indeed, the industrial sector turned out to be surprisingly resilient during the second wave of the pandemic late in the year.

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

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

Interest rate environment

Interest rates in the euro zone continued to decrease during

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

Refinancing costs in the wholesale market have fluctuated almost identically with the development of the underlying interest rates. Margins rose sharply in March–April but subsequently began to decline, reaching a level that was even lower than at the beginning of the year. This trend was particularly influenced by the ECB's substantial support for the refinancing market, which in turn has reduced debt emission operations and narrowed credit risk margins due to the low supply. In the sovereign debt market, differences in returns narrowed as the European Central Bank continued its purchase programme. The recovery of investors' risk appetite contributed to the narrowing of differences in the returns of sovereign bonds in the second half of 2020.

Investment markets

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

The Finnish economy

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

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

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

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

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

During year 2020 Treasury's focus was to ensure Savings banks group's liquidity position, because the COVID-19 pandemic had a negative impact on the debt capital markets especially during spring.

Asset and liability management

Asset and liability management has started and worked for various projects related to regulation and development. Special emphasis has been on more detailed liquidity risk analysis and reporting under the COVID -19 pandemic.

Issuing of payment cards

In the area of payment cards, the focus of development efforts was on the card system renewal project, which was completed in autumn 2020. System renewal reduced costs and enabled new payment card functionalities to the customers in Savings banks group.

Payments

During the year 2020 development of processes and functionalities was continued. Several functionalities and changes required by regulation were implemented.

Account operator services

Account operator services concentrated on development of digital services and widening of trading possibilities during review period. In addition, several functionalities and changes required by regulation were implemented.

Financial position

Financial highlights

(EUR 1,000)	12/2020	12/2019	12/2018
Revenue	43 904	47 351	45 671
Net interest income	6 487	6 936	9 373
% of revenue	14.8 %	14.6 %	20.5 %
Operating profit	-1 452	2 275	3 733
% of revenue	-3.3 %	4.8 %	8.2 %
Total operating revenue	21 332	21 971	22 031
Total operating expenses	-21 678	-18 727	-17 216
Cost to income ratio	1.0	0.9	0.8
Total assets	2 817 010	2 161 047	2 734 159
Total equity	83 620	83 906	53 101
Return on equity %	-1.7 %	2.9 %	7.1 %
Return on assets %	-0.06 %	0.08 %	0.13 %
Equity/assets ratio %	3.0 %	3.9 %	1.9 %
Solvency ratio %	32.2 %	46.8%	30.9 %
Impairment losses on loans and other receivables	-1 107	-969	-1 082
Number of employees converted to FTEs	44	43	39
Average number of FTEs during the financial year	47	44	38

Profit trends (comparison figures 1–12/2019)

The operating profit of SB Central Bank decreased by 3.7 million euros during the year and amounted to EUR -1.5 million, or -3.3 % of revenue (EUR 2.3 million and 4.8 %, respectively, for the comparison period 1–12/2019).

The operating revenue of SB Central Bank amounted to EUR 21.3 (22.0) million. Net interest income decreased by 6% to EUR 6.5 (6.9) million. Interest income decreased by 18% to EUR 17.1 (20.8) million. The majority of interest income in 2020 consisted of income from credit institutions and credit cards for private customers. Interest expenses decreased by 23% percent, amounting to EUR 10.6 (13.8) 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 0.7 (1.6) million. Net interest income decreased mostly because of lower interest income from loans granted to Savings Banks in the Amalgamation and Sp Mortage Bank Plc.

Net fee and commission income remained at the level of the comparison period amounting to EUR 11.1 (10.8) million. This amount consisted of EUR 23.1 (22.3) million in fee income and EUR 12.0 (11.6) 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 2020.

Other operating income were EUR 3.8 million and consisted during the reporting period of other incomes related to payment card issuing and service fees based on service agreements produced for the Savings Banks Group. Other operating income for the comparison period amounted to EUR 4.2 million, consisting of incomes mentioned before and income from exchange of credit card receivables.

Operating expenses in the financial year increased by 16%, amounting to EUR 21.7 (18.7) million. Personnel expenses consisted of salaries, as well as pension expenses and other personnel expenses. These expenses totaled EUR 4.4 (3.9) million with increase of 12% from the comparison period. The amount of total resources increased by 2% to 44 FTE in the financial year 2020. Other administrative expenses were at the same level with comparison period amounting to EUR 12.4 (12.4) million. The most significant part of other administrative expenses, EUR 9.0 (9.4), is service fees paid for outsourced services. Other expenses, EUR 4.5 (2.1) million, consisted of depreciation and amortisation of property, plant and equipment and intangible assets, amounting to EUR 3.3 (0.5) million, and other operating expenses. During the reporting period an impairment of EUR 2,3 million was recognized in intangible assets under development. This was based on management's judgement on financial use value of the asset under development. During the review period EUR 10 thousand (0.1 million) net of expected credit losses (ECL) was recognized on financial assets. Changes in expected credit losses were at a low level, because there were no significant changes in loan stock during the period. Occurred credit losses during the reporting period were EUR 1.1 (0.9) 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, 1.0 (0.9).

SB Central Bank's income taxes amounted to revenue EUR 64 thousand (expense 100 thousand). The low tax effect for the review period is related to operating loss for the financial year.

Balance sheet and financing (comparison figures 31 December 2019)

SB Central Bank's balance sheet increased and was EUR 2,817 (2,161) million. The amount of loans granted to Savings Banks in the Amalgamation and Sp Mortgage Bank Plc contracted one percent to EUR 1,248 (1,259) million. In addition to the cash and cash equivalents, EUR 1,170 (666) million, SB Central Bank's assets are mainly invested in ECB eligible debt instruments, EUR 50 (25) million and in Sp-Fund Management company's fund EUR 44,5 million. Fund investment is going to be sold in the beginning of the year 2021.

Loans to credit card holders decreased by 6% during the financial year to EUR 94 (100) million, representing the most significant part of loans and advances to customers. The amount of bonds issued was EUR 1,111 (1,227) 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 434 million under the EMTN programme listed with the Irish Stock Exchange (Euronext).

Liabilities to customers consisted of deposits from governments and organisations increased amounting to EUR 511 (50) million at the end of the year.

At the end of December, SB Central Bank had EUR 1.0 (0.9) million in non-performing credit card receivables, representing 1.0% (0.9%) of all credit card receivables.

Irrevocable commitments made to clients, included in off-balance sheet commitments, amounted to EUR 329 (375) million at the end of the financial year and consisted mainly of granted undrawn credits.

Shareholdings and equity

SB Central Bank holds 26,674 shares in total. SB Central Banks share capital is EUR 68,344,150.57. The bank does not hold its own shares.

Equity capital on 31 December 2020 was EUR 83,6 (83.9) million consisting wholly of CET1 capital. Change in equity capital was mainly due to loss for the review period and positive change in fair value reserve. Return on equity was -1.7% (2.9%). Return on assets was -0.6 % (0.1 %).

Capital adequacy and risk position

Capital adequacy (comparative information 31 December 2019)

SB Central Bank has adopted an internal capital adequacy assessment process, the objective of which is to ensure the bank's risk-bearing capacity is sufficient in relation to all the major risks re-sulting 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 meas-urement and assessment of capital adequacy and the general principles for the capital adequacy management process. In practice this means that the Board of Directors approves the risk strategies and defines target levels for the capital needed to cover all material risks caused by the business operations and changes in the operating environment, The capital adequacy, liquidity and risk positions of the entities belonging to the Savings Bank Amalgamation are monitored and consolidated at the Amalgamation level. The Board of Directors of the Central Institution has set target levels for the capital adequacy of the Amalgamation and banks, which are monitored quarterly.

Stress tests

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

Capital contingency plan

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

Pillar I capital requirements

The biggest capital requirements of SB Central Bank are comprised of card credit receivables. 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.

Finnish Financial Supervisory Authority made decision on pillar

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

The Finnish Financial Supervisory Authority is responsible for domestic 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 exept 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 been taken at least once a year

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

The Board of the Financial Supervision Authority decided that countercyclical capital buffer (CCyB) requirement will remain at 0%. Countercyclical buffer requirement can vary from 0-2.5% of risk weighted assets. FIN-FSA has not imposed additional O-SII capital requirement for Savings Banks Amalgamation.

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 75.6 (76.4) million, while the minimum requirement for own funds was EUR 24.7 (17.1) million. The Tier 1 capital consisted wholly of Common Equity Tier 1 (CET1) capital, amounting to EUR 75.6 million. The capital reserves consist mostly of common equity tier 1 capital.

SB Central Bank's capital adequacy ratio was high at 32.2 (46.8) 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 state-ments 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)	2020	2019
Common Equity Tier 1 (CET1) capital before regulatory adjustments	83,620	83,906
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-8,055	-7,477
Common Equity Tier 1 (CET1) capital	**75,564**	**76,429**
Tier 1 capital (T1 = CET1 + AT1)	**75,564**	**76,429**
Total capital (TC = T1 + T2)	**75,564**	**76,429**
Risk weighted assets	**234,847**	**163,251**
of which: credit and counterparty risk	188,947	121,604
of which: credit valuation adjustment (CVA)	833	973
of which: market risk	4,026	2,199
of which: operational risk	41,040	38,476
Common Equity Tier 1 (as a percentage of total risk exposure amount)	**32.2**	**46.8**
Tier 1 (as a percentage of total risk exposure amount)	**32.2**	**46.8**
Total capital (as a percentage of total risk exposure amount)	**32.2**	**46.8**
Capital requirement		
Total capital	75,564	76,429
Capital requirement total*	24,659	17,141
Capital buffer	**50,905**	**59,288**

*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, 0.5% Pillar 2 requirement set by the Financial Supervisory Authority and the country-specific countercyclical capital requirements of foreign exposures.

Leverage ratio

The leverage ratio of SB Central Bank was 2.6 % (3.4 %). 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)	2020	2019
Tier 1 capital	75,564	76,429
Leverage ratio exposure	2,878,392	2,252,851
Leverage ratio	**2.6**	**3.5**

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

Resolution plan

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

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 2020, 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 2020.

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 2020, 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) changed SB Central Banks outlook to negative in May 2020. At the same time long-term counterparty credit rating was affirmed to 'A-' and short-term investment grade to 'A-2'. The previous S&P's rating report was from 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 Cen-tral 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 11 March 2020. 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
NärhTomi	member, Chairman
Syvänen Hannu	member, deputy Chairman
Ahonen Pirkko	member, until 11 March 2020
Hakala Jussi	member, as from 11 March 2020
Mangs Monika	member
Rinta Jarmo	member, until 11 March 2020
Siviranta Petri	member, until 11 March 2020
Toivonen Anne	member, as from 11 March 2020

The Board members hold management positions in the financial sector. During the financial year, the Board convened twelve (12) times. Managing Director of the Savings Banks` Union Coop Tomi Närhinen chaired the Board of Directors.

SB Central Bank's CEO during the financial year has been Kai Brander. Mervi Luurila was appointed to Debuty of CEO 4 February 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 2020 was 44.

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 11 March 2020 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. 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 Figure Taloushallinto Oy, which is owned by Savings Banks with equal shares with three other bank groups. 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

S&P Global Ratings confirmed long-term counterparty credit rating 'A-' and short-term rating 'A-2' to SB Central Bank on 22nd January 2021. The outlook is negative.

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 2021

Outlook for the operational environment

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

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

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

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

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

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

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

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

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

Business outlook

The low level of market interest rates will continue to pose challenges to financial performance in 2021. However, the low interest rates will not jeopardise the performance or capital adequacy of the SB Central Bank.

In 2021, 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 2021 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 13,253,824.51.

The SB Central Bank Board of Directors proposes to the Annual General Meeting that the loss for the financial year of EUR 1,387,469.10 is entered as accumulated retained earnings with no dividend paid.

Information

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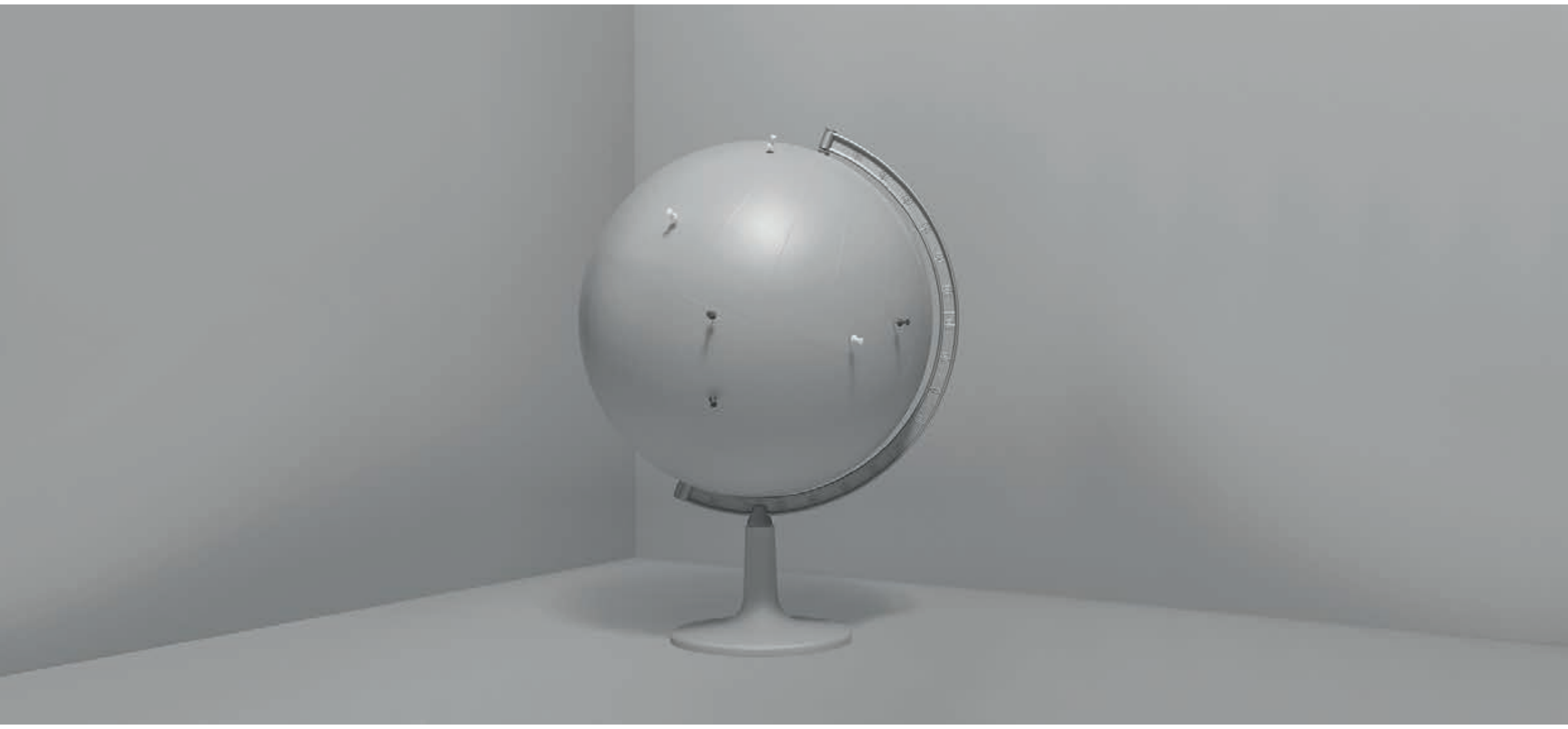
Releases and other corporate data are available on the SB Central Bank's website at *www.spkeskuspankki.fi*

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



Formulas used in calculating the financial highlights:

Revenues:	Interest income, fee income, net trading income, other oper-ating 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 2020

Income statement

(EUR 1,000)	Note	1-12/2020	1-12/2019
Interest income		17,094	20,758
Interest expense		-10,606	-13,822
Net interest income	6	6,487	6,936
Net fee and commission income	7	11,114	10,781
Net trading income	8	-44	41
Other operating revenue	10	3,774	4,213
Total operating revenue		**21,332**	**21,971**
Personnel expenses	11	-4,383	-3,908
Other operating expenses	12	-14 015	-14,282
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	13	-3 279	-536
Total operating expenses		**-21,678**	**-18,727**
Net impairment loss on financial assets	14	-1,107	-969
Operating profit		**-1,452**	**2,275**
Income tax expense	15	65	-321
PROFIT		**-1,387**	**1,954**

Statement of comprehensive income

(EUR 1,000)	1-12/2020	1-12/2019
PROFIT	**-1,387**	**1,954**
OTHER COMPREHENSIVE INCOME		
Items that are or may be reclassified to profit or loss		
Changes in fair value reserve		
Fair value measurements	1,376	633
Deferred tax from fair value measurements	-275	-127
Total	**1,101**	**506**
TOTAL COMPREHENSIVE INCOME	**-286**	**2,460**

Statement of financial position

(EUR 1,000)	Note	31.12.2020	31.12.2019
ASSETS			
Cash and cash equivalents	17	1,170,028	666,315
Loans and advances to credit institutions	18	1,333,894	1,346,030
Loans and advances to customers	18	92,462	101,390
Derivatives	19	1,471	1,248
Investment assets	20	103,292	28,953
Property, plant and equipment	21	137	225
Intangible assets	22	7,237	6,814
Tax assets	23	1,317	1,052
Other assets	24	107,172	9,020
TOTAL ASSETS		2,817,010	2,161,047
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions	25	1,099,645	788,232
Liabilities to customers	25	511,102	50,040
Derivatives	19	315	1,090
Debt securities issued	26	1,111,076	1,226,901
Tax liabilities	23	705	230
Other liabilities	27	10,547	10,649
Total liabilities		**2,733,391**	**2,077,141**
Equity			
Share capital		68,344	68,344
Reserves		21,022	19,920
Retained earnings		-5,746	-4,359
Total equity	28	**83,620**	**83,906**
TOTAL LIABILITIES AND EQUITY		**2,817,010**	**2,161,047**

Statement of cash flows

(EUR 1,000)	1-12/2020	1-12/2019
Cash flows from operating activities		
Profit	-1,387	1,954
Adjustments for items without cash flow effect	4,328	1,462
Change in deferred tax	65	321
Cash flows from operating activities before changes in assets and liabilities	**3,006**	**3,737**
Increase (-) or decrease (+) in operating assets	**-154,805**	**420,317**
Loans and advances to credit institutions	8,422	417,067
Loans and advances to customers	7,678	-6,235
Investment assets, at fair value through other comprehensive income	-53,005	8,391
Investment assets, at amortized cost	25,152	229
Investment assets, fair value through profit or loss	-44,900	-
Other assets	-98,152	865
Increase (-) or decrease (+) in operating liabilities	**656,483**	**-603,285**
Liabilities to credit institutions	311,413	-51,875
Liabilities to customers	461,063	-329,213
Debt securities issued	-115,800	-223,089
Other liabilities	-192	892
Total cash flows from operating activities	**504,684**	**-179,232**
Cash flows from investing activities		
Investments in property, plant and equipment and intangible assets	-3,635	-4,271
Disposals of investment property and property, plant and equipment and intangible assets	24	19
Total cash flows from investing activities	**-3,612**	**-4,252**
Cash flows from financing activities		
Increase in share capital	0	28,345
Total cash flows from financing activities	**0**	**28,345**
Change in cash and cash equivalents	**501,072**	**-155 139**
Cash and cash equivalents at the beginning of the period	**680,133**	**835,272**
Cash and cash equivalents at the end of the period	**1,181,204**	**680,133**
Cash and cash equivalents comprise the following items:		
Cash	1,170,028	666,315
Receivables from central banks repayable on demand	11,176	13,818
Total cash and cash equivalents	**1,181,204**	**680,133**

(EUR 1,000)	1-12/2020	1-12/2019
Adjustments for items without cash flow effect		
Impairment losses on financial assets	1,074	969
Changes in fair value	44	-41
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	3,279	536
Income taxes	-69	-2
Total Adjustments for items without cash flow effect	**4,328**	**1,462**
Interest received	20,098	21,812
Interest paid	12,885	13,877

Statement of changes in equity

(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**
Equity 1 January 2020	**68,344**	**19,000**	**920**	**19,920**	**-4,359**	**83,906**
Comprehensive income						
Profit					-1,387	-1,387
Other comprehensive income			1,101	1,101		1,101
Total comprehensive income			**1,101**	**1,101**	**-1,387**	**-286**
Total equity 31 December 2020	**68,344**	**19,000**	**2,022**	**21,022**	**-5,746**	**83,620**

BASIS OF PREPARATION

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

Central Bank of Savings Banks Finland Plc (hereinafter “SB Central Bank”, “company”, “entity”) is a depository bank owned by Finnish Savings Banks. SB Central Bank’s primary function is to provide the Savings Banks with various central credit institution services. The central credit institution services focus on payment services and account operator services, payment card issuing, and services related to liquidity management, funding and asset and liability management. SB Central Bank belongs to the Savings Banks Group and its main owners are the 23 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, 18 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 inter-nal 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 recognized 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 realize 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 recognized on the same line in the balance sheet. The classification of financial assets and liabilities recognized in the balance sheet into valuation categories is set out in Note 16.

2.1.1 Initial recognition

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

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

2.1.2 Classification of financial assets and the determination of classification

SFor the purposes of subsequent measurement, SB Central Bank classifies financial assets into following measurement categories:

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

Financial assets are classified on initial recognition based on the business model used for managing the group of financial assets in which the financial assets 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.

AMORTIZED COST

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

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

MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of interest and payments of principal

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

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

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

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

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

CHANGES IN THE CLASSIFICATION OF FINANCIAL ASSETS

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

CHANGES IN CONTRACTUAL CASH FLOWS

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

2.1.3 Derecognition of financial assets and liabilities

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

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

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

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

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

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

2.2. Determining fair value

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

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

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

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

- Fair values quoted in active markets for identical assets or liabilities (Level 1)
- Fair values that are determined using other input data than the quoted prices at Level 1, which are observable for the assets or liabilities either directly (e.g. prices) or indirectly (e.g. derived from prices) (Level 2)
- Fair values that are determined using input data which is essentially not based on observable market data (Level 3).

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

2.3 Impairment

2.3.1 Expected credit losses

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

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

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

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

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

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

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

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 in-stitutions and state-guaranteed 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 coun-terparty. 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.
- As a rule, the assigned stage is stage 1.

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.

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

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

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

Impairment of debt securities

The Savings Banks Group assesses the expected credit losses of debt securities per purchasing lot by using the PD*LGD*EAD model, the components of which are Probability of Default, Loss Given Default and Exposure at Default.

The probability of default (PD) is based on credit ratings provided by Bloomberg and, if they are not available, external credit rating information, which is converted into PD values. The LGD values used in the assessment correspond to analysed historical actuals by investment type and are not assessed separately per issuer or investment.

A significant increase in the credit risk of debt securities is assessed with qualitative and quantitative criteria. A contract's credit risk is assessed to have grown significantly when its PD increases either by 10 basis points or 2.5 times its original value, it is subject to forbearance or it involves payments that are more than 30 days past due. Investments related to an issuer in default are classified in stage 3.

2.3.2 Incurred credit losses

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

2.4 Hedging and derivatives

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

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

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

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

3. Leases

SB Central Bank as the lessee

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

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

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

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

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

Short-term leases and assets of low value

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

SB Central Bank as the lessor.

SB Central Bank does not act as a lessor.

4. Employee benefits

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

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

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 con-structive 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 insur-ance (TyEL), as stipulated by the Pensions Act. An independent pension insurance company is responsible for this pension security in SB Central Bank.

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

5. Intangible assets

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

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

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

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

An asset is amortized from the date when it is ready for use. An intangible asset that is not yet ready for use is tested annually for impairment.

The estimated useful lives are mainly as follows:

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

Other intangible assets .... 5 years

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

6. Property, plant and equipment and investment properties

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

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

The estimated useful lives are mainly as follows:

Machinery and equipment .... 3-5 years

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

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

7. Income taxes

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

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

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

8. Operating revenue

Interest income and expenses

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

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

Fees and commissions

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

Net trading income

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

9. Segment information

SP 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 2020, the following new and amended standards that have entered into effect.

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

The revised Framework codifies IASB's thinking adopted in recent standards. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs. The change in the standard had no impact on SB Central Banks financial statement.

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

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

Definition of Material – Amendments to IAS 1 Presentation of Financial Instruments and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for financial years beginning on or after 1 January 2020)

The amendments clarify the definition of material and include guidance to help improve consistency in the application of that concept across all IFRS Standards. In addition, the explanations accompanying the definition have been improved. The change in the standard had no impact on SB Central Banks financial statement.

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

Amendments have been issued to address uncertainties related to the reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform. The change in the standard had no impact on SB Central Banks financial statement.

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

The amendment allows the lessees not to account for rent concessions as lease modifications if the concessions are a direct consequence of the covid-19 pandemic and only if certain conditions are met. The change in the standard had no impact on SB Central Banks financial statement.

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.

Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases* (to be applied from 1 January 2021)

Amendments address issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of interest rate benchmark reform. Amendments assist companies in providing useful information about the effects of interest rate benchmark reform on financial statements. The change in the standard will have no significant impact on SB Central Banks financial statement.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets* (to be applied from 1 January 2022)

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

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

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

- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities: This amendment clarifies that – for the purpose of performing the ''10 per cent test' for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

- IFRS 16 Leases – Lease incentives – Example 13. The amendment removes the illustration of payments from the lessor relating to leasehold improvements. The example was not clear as to why such payments are not a lease incentive.

The change in the standard will have no significant impact on SB Central Banks financial statement.

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

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

NOTE 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

IFRS-compliant financial statements require SB Central Bank's management to exercise judg-ment 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.

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

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

Expected credit loss calculation models contain several factors that require the management's judgment.

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

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

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

Impairment of non-financial assets

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

During the financial year, a total of EUR 2.3 million in impairment losses was recognized on intangible assets not yet available for use based on the management's estimate of the future recoverable amount of the asset not yet available for use.

Deferred tax assets

Deferred tax assets arising from tax losses are recognized 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 enables the identification, assessment and meas-urement 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. SB Central Bank has a risk control function that is independent of business operations.

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

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

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

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

The Board of Directors is regularly informed on the risk positions and their changes affecting SB Central Bank. The Board also approves the authorizations and guidelines of risk-taking by determining risk limits for accepted risk types. The implementation of the risk 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 adequacy of risks arising from customer liabilities at an acceptable level. The business and risk management strategies approved by the Board of Directors set the maximum exposures for concentration risks and control investment and lending activities.

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

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

Doubtful exposures

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

Delayed payment refers to the customer's receivables being overdue for 1–3 months and the customer being a potential problem customer. The COVID-19 pandemic did not have a significant effect on payment delays in 2020. A non-performing receivable is the remaining principal, reported as a receivable that is more than 90 days past due, of a receivable for which the interest of principal has been due and unpaid for more than three months. The amount of non-performing receivables remained at the same level with comparison period and were 1 % of credit receivables. The definition and number of non-performing receivables will expand in 2021 when the credit institutions belonging to the Savings Banks Group adopt the thresholds defined pursuant to EU 2018/171 in determining default starting from 1 January 2021.

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

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

Risk-rating class

(EUR 1,000)	12 month PD	Stage 1	Stage 2	Stage 3	Total	% of portfolio 31.12.2020
1 Not delayed	0.22 – 1.67%	85,390	2,160	27	87,577	94 %
2-5 Payment delays < 30 days	1.68 – 2.25%	2,080	783	15	2,877	3 %
6 Payment delays > 30 days	2.26% - 28.87%	795	1,257	6	2,058	2 %
D Non-performing	100.00 %			1,323	1,323	1 %
Total		**88,264**	**4,200**	**1,371**	**93,834**	**100 %**

(EUR 1,000)	12 month PD	Stage 1	Stage 2	Stage 3	Total	% of portfolio 31.12.2019
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 %		1,191	16	1,207	1 %
Total		**95,382**	**7,231**	**73**	**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.

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

Liquidity risk

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

Liquidity risk is managed e.g. by maintaining sufficient liquid assets to ensure sufficient liquidity. SB Central Bank's liquidity remained good throughout 2020. 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:

2020 (EUR 1,000)	under 3 months	3 - 12 months	1 - 5 years	over 5 years	Total
Financial assets					
Cash and cash equivalents	1,170,028				1,170,028
Loans and advances to credit institutions	233,110	576,000	462,284	62,500	1,333,894
Loans and advances to customers	92,462				92,462
Investment assets	48,499		50,367	4,426	103,292
Total	**1,544,099**	**576,000**	**512,651**	**66,926**	**2,699,677**
Financial liabilities					
Liabilities to credit institutions	880,412	219,233			1,099,645
Liabilities to customers	176,102	260,000	75,000		511,102
Debt securities issued	319,838	132,938	448,923	209,376	1,111,075
Off balance-sheet commitments	265,285	20,000	43,500		328,785
Total	**1,641,637**	**632,171**	**567,423**	**209,376**	**3,050,607**

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**

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 ex-posed to interest rate and currency risk in the reporting period 2020, 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:		31.12.2020
(EUR 1,000)	Down	Up
Period		
Change, next 12 months	4,283	-806
Change, 12-24 months	10,157	-2,988

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 2020, 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 cus-tomer 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 result-ing 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.

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

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

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

The Board of the Financial Supervision Authority also decided that countercyclical capital buffer (CCyB) requirement will remain at 0%. Countercyclical buffer requirement can vary from 0-2.5% of risk weighted assets. FIN-FSA has not imposed additional O-SII capital requirement for Savings Banks Amalgamation.

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

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 75.6 (76.4) million, while the minimum requirement for own funds was EUR 24.7 (17.1) million. The Common Equity Tier 1 (CET1) stood at EUR 75.6 million. Tier 1 capital amounted to 75.6 EUR (76.4) 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 32.2 (46.8) 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)	2020	2019
Common Equity Tier 1 (CET1) capital before regulatory adjustments	83,620	83,906
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-8,055	-7,477
Common Equity Tier 1 (CET1) capital	**75,564**	**76,429**
Tier 1 capital (T1 = CET1 + AT1)	**75,564**	**76,429**
Total capital (TC = T1 + T2)	**75,564**	**76,429**
Risk weighted assets	**234,847**	**163,251**
of which: credit and counterparty risk	188,947	121,604
of which: credit valuation adjustment (CVA)	833	973
of which: market risk	4,026	2,199
of which: operational risk	41,040	38,476
Common Equity Tier 1 (as a percentage of total risk exposure amount)	**32.2**	**46.8**
Tier 1 (as a percentage of total risk exposure amount)	**32.2**	**46.8**
Total capital (as a percentage of total risk exposure amount)	**32.2**	**46.8**
Capital requirement		
Total capital	75,564	76,429
Capital requirement total*	24,659	17,141
Capital buffer	50,905	59,288

*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, 0.5% Pillar 2 requirement set by the Financial Supervisory Authority 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)	2020	2019
Tier 1 capital	75,564	76,429
Leverage ratio exposure	2,878,392	2,252,851
Leverage ratio	2.6	3.4

Resolution plan

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

PROFIT FOR THE PERIOD

NOTE 6. NET INTEREST INCOME

(EUR 1,000)	1-12/2020	1-12/2019
Interest income		
Debts eligible for refinancing with Central Bank	330	249
Loans and advances to credit institutions	7,111	9,163
Loans and advances to customers*	6,670	6,587
Debt securities	13	58
Derivative contracts		
Hedging derivatives	2,001	3,995
Other**	968	706
Total	**17,094**	**20,758**
Interest expense		
Liabilities to credit institutions***	-3,632	-3,781
Liabilities to customers	-318	-78
Derivative contracts		
Hedging derivatives	-1,325	-2,380
Debt securities issued	-5,330	-7,582
Other	-1	0
Total	**-10,606**	**-13,822**
Net interest income	**6,487**	**6,936**
* of which interest income from loans in stage 3	**52**	**10**

**) 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 inter-est on central bank deposits (for the year 2020 EUR -3,211 thousand, for the year 2019 EUR -3,746 thousand).

NOTE 7. NET FEE AND COMMISSION INCOME

(EUR 1,000)	1-12/2020	1-12/2019
Fee and commission income		
Lending*	15,196	15,322
Payment transfers	5,460	4,770
Securities	1,795	1,575
Other	628	670
Total	**23,080**	**22,339**
Fee and commission expense		
Payment transfers	-3,301	-3,700
Securities	-601	-484
Other**	-8,063	-7,374
Total	**-11,965**	**-11,558**
Net fee and commission in-come	**11,114**	**10,781**

*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)	1-12/2020	1-12/2019
Net income from hedge accounting		
Change in hedging instruments' fair value	1,013	-2,249
Change in hedged items' fair value	-1,057	2,290
Total	**-44**	**41**

NOTE 9. INCOME AND EXPENSES FROM FINANCIAL INSTRUMENTS

(EUR 1,000)	1-12/2020	1-12/2019
Amortized cost investments – interest income	14,862	16,705
Fair value through other comprehensive income – interest income	231	58
Financial incomes	**15,093**	**16,763**
Financial liabilities measured at amortized cost - interest expense	-6,071	-7,696
Financial assets at fair value through profit or loss - inter-est expense	-3,211	-3,746
Amortized costs investments - impairment loss	-921	-1,014
Fair value through other comprehensive financial assets - impairment loss	-185	44
Finance expenses	**-10,388**	**-12,411**
Net income and expenses from financial instruments	**4,704**	**4,351**

NOTE 10. OTHER OPERATING REVENUE

(EUR 1,000)	1-12/2020	1-12/2019
Other income from Banking*	3,774	4,213
Other operating revenue	**3,774**	**4,213**

* Other operating income were EUR 4.2 million and consisted during the reporting period of income from exchange of credit card receivables, other incomes than interest or fee and commission relat-ed 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)	1-12/2020	1-12/2019
Wages and salaries	-3,687	-3,228
Pension expenses		
Defined contribution plans	-568	-575
Other personnel related costs	-128	-105
Personnel expenses	**-4,383**	**-3,908**
Full-time	46,0	41,0
Part-time	2,0	3,0
Temporary	2,0	-
Total	**48,0**	**44,0**
Number of employees converted to FTEs	44	43
Average number of FTEs during the financial year	47	44

NOTE 12. OPERATING EXPENSES

(EUR 1,000)	1-12/2020	1-12/2019
Other administrative expenses		
Other personnel expenses	-134	-212
Office expenses	-6,452	-6,714
ICT expenses	-5,366	-5,051
Telecommunications	-442	-385
Marketing	-11	-13
Total	**-12,404**	**-12,377**
Other operating expenses		
Rental expenses	-370	-330
Expenses arising from owner-occupied property	-53	-41
Other operating expenses**	-1,188	-1,534
Total	**-1,611**	**-1,905**
Other operating expenses	**-14,015**	**-14,282**
****Audit fees**		
Statutory audit	-27	-27
Audit related services	-	-1
Other services	-20	-49
Total	-48	-77

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

(EUR 1,000)	1-12/2020	1-12/2019
Depreciation and amortisation of property, plant and equipment	-64	-76
Depreciation and amortisation of intangible assets	-922	-460
Impairment intangible assets	-2,293	-
Total depreciation and amortisation	**-3,279**	**-536**

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 2020	**186**	**265**	**911**	**1,363**
Transfers to Stage 1	4	-27		-23
Transfers to Stage 2	-15	138		123
Transfers to Stage 3	-2	-33	991	956
New assets originated or purchased	3	10	45	58
Assets derecognized or repaid	-10	-61	-221	-292
Amounts written off			-589	-589
Change in credit risk without change in Stage	21	-66	-3	-49
Changes in ECL model	73	-34		38
Net change in ECL	**74**	**-73**	**222**	**222**
Expected Credit Losses 31 December 2020	**260**	**192**	**1,133**	**1,585**

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 2020	**215**			**215**
New assets originated or purchased	140			140
Assets derecognized or repaid (excluding write offs)	-143			-143
Net change in ECL	**-3**	**-**	**-**	**-3**
Expected Credit Losses 31 December 2020	**212**	**-**	**-**	**212**

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 2020	**395**			**395**
New assets originated or purchased	186			186
Assets derecognized or repaid (excluding write offs)	-395			-395
Net change in ECL	**-209**	**-**	**-**	**-209**
Expected Credit Losses 31 December 2020	**186**	**-**	**-**	**186**
Expected Credit Losses 31 December 2020 total	**658**	**192**	**1,133**	**1,983**
Net change in ECL 1.1.-31.12.2020: loans and advances, off-balanse sheet and investment assets	**-138**	**-73**	**1 318**	**1 107**

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**
Transfers from Stage 2 to Stage 1	4	-23		-19
Transfers from Stage 1 to Stage 2	-11	147		136
Transfers from Stage 1 to Stage 3	-1	-33	859	825
New assets originated or purchased	26	10	139	175
Assets derecognized or repaid (excluding write offs)	-7	-148		-155
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 derecognized 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 derecognized 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.-31.12.2019: loans and advances, off-balanse sheet and investment assets	**27**	**-139**	**139**	**27**

NOTE 15. INCOME TAXES

(EUR 1,000)	1-12/2020	1-12/2019
Change in deferred tax assets	65	-337
Change in deferred tax liabilities	-	16
Income taxes	**65**	**-321**

Reconciliation between tax expense in the income statement and tax expense calculated by the ap-plicable tax rate

Reconciliation of effective tax rate		
Accounting operating profit	-1,452	2,275
Differences between accounting and taxable profit	4	140
Taxable profit	**-1,448**	**2,415**
Tax using the domestic corporation tax rate	290	-455
Non-deductible expenses	2	-28
Unrecognized deductible expenses	5	32
Use of approved tax losses for prior years	57	130
Recognition of previously unrecognized tax losses	-290	0
Tax expense	**65**	**-321**
Corporate income tax rate	**20 %**	**20 %**

ASSETS

NOTE 16. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

31.12.2020 (EUR 1,000)	Amortized costs	Fair value through other comprehensive income	Fair value through profit or loss	Total
Cash and cash equivalents			1,170,028	1,170,028
Loans and advances to credit institutions	1,333,894			1,333,894
Loans and advances to customers	92,462			92,462
Derivatives				
hedging derivatives			1,471	1,471
fair value			1,471	1,471
Investment assets		58,392	44 900	103 292
Total assets	**1,426,356**	**58,392**	**1 216 399**	**2 701 147**
Liabilities to credit institutions	1,099,645			1,099,645
Liabilities to customers	511,102			511,102
Derivatives				
hedging derivatives			315	315
fair value			315	315
Debt securities issued	1,111,076			1,111,076
Total liabilities	**2,721,823**		**315**	**2,722,139**

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**

NOTE 17. CASH AND CASH EQUIVALENTS

(EUR 1,000)	31.12.2020	31.12.2019
Receivables from central banks repayable on demand	1,170,028	666,315
Cash and cash equivalents	**1,170,028**	**666,315**

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

NOTE 18. LOANS AND ADVANCES

(EUR 1,000) 31.12.2020	Not impaired (gross)	Expected credit losses (ECL)	Balance sheet value
Loans and advances to credit institutions			
Deposits	85,923	-23	85,900
Loans and other receivables	1,248,174	-180	1,247,994
Total	**1,334,097**	**-203**	**1,333,894**
Loans and advances to customers			
By products			
Used overdrafts	52	-1	50
Credit cards	93,834	-1,423	92,412
Total	**93,886**	**-1,424**	**92,462**
Loans and advances total	**1,427,983**	**-1,627**	**1,426,356**

(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			
By products			
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**

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 recognized 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	
31.12.2020	less than 1 year	1 - 5 years	over 5 years	Total	Assets	Liabilities
Hedging derivative contracts						
Fair value hedging						
Interest rate derivatives	15,000	20,000	178,000	213,000	1,471	315
Total	**15,000**	**20,000**	**178,000**	**213,000**	**1,471**	**315**

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

NOTE 20. INVESTMENT ASSETS

(EUR 1,000)	31.12.2020	31.12.2019
At fair value through other comprehensive income		
Debt securities*	54,366	1,997
Shares and participations	4,026	2,199
Total	**58,392**	**4,196**
Fair value through profit or loss		
Shares and participations*	44,900	
Total	44,900	-
Amortized cost investments		
Debt securities		25,152
Expected Credit Losses		-394
Total	-	**24,758**
Investment assets	**103,292**	**28,953**

*SB Central Bank had a fund investment EUR 44.5 million in Sp-Fund Management Company's fund. Investment is going to be sold in the beginning of the year 2021.

Breakdown by issuer of quotation

2020 (EUR 1,000)	Measured at fair value through other comprehensive income	Fair value through profit or loss	Measured at amortized cost	Total
Quoted				
From public entities				-
From others		44,500		44,500
Other				
From others	58,392	400		58,792
Total	**58,392**	**44,900**	-	**103,292**

2019 (EUR 1,000)	Measured at fair value through other comprehensive income	Fair value through profit or loss	Measured at amortized 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**

NOTE 21. PROPERTY, PLANT AND EQUIPMENT

(EUR 1,000)	31.12.2020	31.12.2019
Machinery and equipment	109	183
Other tangible assets	28	42
Property, plant and equipment	**137**	225

2020 (EUR 1,000)	Machinery and equipment	Other tangible assets	Total
Changes in property, plant and equipment			
Acquisition cost 1 January	359	72	430
Decreases	-32	-	-32
Acquisition cost 31 December	**327**	**72**	**399**
Accumulated depreciation and impairments 1 January	-176	-30	-206
Depreciation for the financial year	-50	-14	-64
Decreases	7	-	7
Accumulated depreciation and impairments 31 December	**-218**	**-44**	**-262**
Carrying amount 31 December	**109**	**28**	**137**

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

NOTE 22. INTANGIBLE ASSETS

(EUR 1,000)	31.12.2020	31.12.2019
Intangible rights	6,668	918
Intangible assets under development	569	5,896
Intangible assets	**7,237**	**6,814**

2020 (EUR 1,000)	Intangible rights	Intangible assets under development	Total
Changes in intangible assets			
Acquisition cost 1 January	3,511	5,896	9,407
Increases		3,639	3,639
Decreases		-2,293*	-2,293
Transfers between items	6,672	-6,672	0
Acquisition cost 31 December	**10,183**	**569**	**10,752**
Accumulated depreciation and impairments 1 January	-2,593		-2,593
Depreciation for the financial year	-922		-922
Accumulated depreciation and impairments 31 December	**-3,515**	-	**-3,515**
Carrying amount 31 December	**6,668**	**569**	**7,237**

* During the reporting period an impairment of EUR 2,3 million was recognized in intangible assets under development. This was based on management's judgement on financial use value of the asset under development. The project, to which impairment was targeted, was impaired in its entirety.

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**

NOTE 23. DEFERRED TAXES

(EUR 1,000)	31.12.2020	31.12.2019
Deferred tax assets	1,317	1,052
Tax assets	**1,317**	**1,052**
Deferred tax liabilities	705	230
Tax liability	**705**	**230**

(EUR 1,000)	31.12.2020	31.12.2019
Deferred tax assets		
Impairment	397	392
Financial assets	200	-
Intangible assets	9	6
Approved tax losses	711	655
Total	**1,317**	**1,052**

(EUR 1,000)	31.12.2020	31.12.2019
Deferred tax liabilities		
Financial assets	705	230
Total	**705**	**230**

(EUR 1,000)	1.1.2020	Change recognized in profit or loss	Financial assets	31.12.2020
Deferred tax assets				
Impairment	392	5		397
Financial assets	0		200	200
Intangible assets	6	4		9
Approved tax losses	655	57		711
Total	**1,052**	**65**	**200**	**1,317**

(EUR 1,000)	1.1.2020	Change recognized in profit or loss	Financial assets	31.12.2020
Deferred tax liabilities				
Financial assets	230		475	705
Total	**230**	**-**	**475**	**705**

(EUR 1,000)	1.1.2019	Change recognized 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**

(EUR 1,000)	1.1.2019	Change recognized 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**

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 forecast there will be enough with taxable profit before losses expire. The tax losses will expire from 2023 to 2025.

NOTE 24. OTHER ASSETS

(EUR 1,000)	31.12.2020	31.12.2019
Accrued income and prepaid expenses	5,751	8,833
Interest	3,302	6,307
Other accrued income and prepaid expenses	2,449	2,526
Other*	101,421*	187
Other assets	**107,172**	**9,020**

*of which the most significantly a money market deal, where the settlement date is on year 2021.

LIABILITIES AND EQUITY

NOTE 25. LIABILITIES TO CREDIT INSTITUTIONS AND CUSTOMERS

(EUR 1,000)	31.12.2020	31.12.2019
Liabilities to credit institutions		
Liabilities to central banks	62,000	38,000
Liabilities to credit institutions	1,037,645	750,232
Total	**1,099,645**	**788,232**
Liabilities to customers		
Deposits	315	40
Other financial liabilities*	511,001	50,000
Total	**511,316**	**50,040**
Liabilities to credit institutions and customers	**1,610,961**	**838,271**

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

NOTE 26. DEBT SECURITIES ISSUED

	31.12.2020		31.12.2019	
(EUR 1,000)	Nominal value	Book value	Nominal value	Book value
Measured at amortized cost				
Bonds	1,044,000	1,045,142	1,210,000	1,212,901
Other Certificates of deposit	66,000	65,934	14,000	14,000
Debt securities issued	**1,110,000**	**1,111,076**	**1,224,000**	**1,226,901**
Of which				
Variable interest rate	658,000	659,073	540,000	541,247
Fixed interest rate	452,000	452,003	684,000	685,654
Total	**1,110,000**	**1,111,077**	**1,224,000**	**1,226,901**

During the review period, SB Central Bank issued senior unsecured bonds with a total value of EUR 434 million under the EMTN programme listed with the Irish Stock Exchange.

SB Central Bank have had no delays in debt securities issued. In note 4 “Risk management and governance” and in section Liquidity risk is presented maturity distribution.

NOTE 27. PROVISIONS AND OTHER LIABILITIES

(EUR 1,000)	31.12.2020	31.12.2019
Other liabilities	2,147	2,013
Accrued expenses	8,230	8,556
Interest payable	2,551	4,830
Interest advances received	489	347
Other accrued expenses	5,189	3,378
Provisions	170	80
Other provisions*	170	80
Other liabilities	**10,547**	**10,649**

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

NOTE 28. CAPITAL AND RESERVES

(EUR 1,000)	31.12.2020	31.12.2019
Share capital	68,344	68,344
Reserves		
Reserve for invested non-restricted equity	19,000	19,000
Fair value reserve	2,022	920
Retained earnings		
Profit (loss) for previous financial years	-4,359	-6,312
Profit (loss) for the financial year	-1,387	1,954
Total equity	**83,620**	**83,906**

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.

Reserve for invested non-restricted equity

Reserve for invested non-restricted equity includes the portion of subscription price which is not recognized in share capital and, according to the Accounting Act, is not recognized in liabilities, as well as other equity investments which are not recognized 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)	2020	2019
Specification of changes in fair value reserve		
Fair value reserve 1 January	920	414
Profit/loss from fair value measurements, shares	1,828	684
Profit/loss from fair value measurements, debt securities	-636	-6
Deferred tax from fair value measurements	-275	-135
Expected credit losses from debt securities, fair value through other comprehensive income	185	-44
Deferred tax from expected credit losses	0	9
Fair value reserve 31 December	**2,022**	**920**

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)	31.12.2020	31.12.2019
Collateral given		
Given on behalf of Group's own liabilities and commitments		
Securities	95,227	47,360
Other	-	4,520
Collateral given	**95,227**	**51,880**
Collateral received		
Securities	46,247	39,380
Other	440	4,730
Collateral received	**46,687**	**44,110**

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)	31.12.2020	31.12.2019
Guarantees	10,000	10,000
Loan commitments	255,285	223,490
Other*	63,500	142,000
Off balance-sheet commitments	**328,785**	**375,490**

* 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.

31.12.2020				Amounts which are not offset but are subject to enforceable master netting arrangements or similar agreements		
(EUR 1,000)	Recognized financial assets, gross	Recognized financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Financial instruments	Cash held/ received as collateral	Net amount
Assets						
Derivative contracts						0
Total				**1,471**	**440**	**1,031**
Liabilities						
Derivative contracts				315	-	315
Total				**315**	**-**	**315**

31.12.2019				Amounts which are not offset but are subject to enforceable master netting arrangements or similar agreements		
(EUR 1,000)	Recognized financial assets, gross	Recognized financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Financial instruments	Cash held/ received as collateral	Net amount
Liabilities						
Derivative contracts				1,248	4,730	-3,482
Total				**1,248**	**4,730**	**-3,482**
Liabilities						
Derivative contracts				1,090	4,520	-3,430
Total				**1,090**	**4,520**	**-3,430**

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 transfers between the levels during reporting period January to December 2020.

31.12.2020	Carrying amount	Fair value by hierar-chy level			
Financial assets (EUR 1,000)		**Level 1**	**Level 2**	**Level 3**	**Total**
Measured at fair value					
At fair value through profit or loss	1,214,928	1,214,528		400	1,214,928
Derivative contracts	1,471		1,471		1,471
Fair value through other comprehensive income	58,392		51,396	8,025*	59,421
Measured at amortized cost	1,426,356	85,950	1,258,391	93,343	1,437,684
Total financial assets	**2,701,147**	**1,300,478**	**1,311,258**	**101,768**	**2,713,504**

* Item includes commercial paper EUR 5 million issued by Stockmann Plc. Stockmann Plc's request for debt restructuring was approved 8th April 2020. Sb Central Bank's management has estimated that receivable's fair value has decreased by 20 % due to uncompleted debt restructuring and uncertainty of receivable.

31.12.2020	Carrying amount	Fair value by hierar-chy level			
Financial liabilities (EUR 1,000)		**Level 1**	**Level 2**	**Level 3**	**Total**
Measured at fair value					
Derivative contracts	315		315		315
Measured at amortized cost	2,721,823	838,014	1,906,143		2,744,157
Total financial liabilities	**2,722,139**	**838,014**	**1,906,458**	-	**2,744,472**

Changes at level 3

Reconciliation of changes in financial instruments at level 3

Financial assets at fair value through profit or loss	
Carrying amount 1 January 2020	-
Purchases	400
Carrying amount 31 December 2020	**400**

Fair value through other comprehensive income (EUR 1,000)	
Carrying amount 1 January 2020	**2,199**
Purchases	4,998
Changes in value recognized in comprehensive income statement	828
Carrying amount 31 December 2020	**8,025**

Sensitivity analysis of financial instruments at level 3	Kirjanpitoarvo	Vaikutus oletetuille muutoksille	
31.12.2020		Positiivinen	Negatiivinen
At fair value through profit or loss	**400**	**460**	**340**
Fair value through other comprehensive income	**8,025**	**9,229**	**6,821**

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

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 amortized 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 amortized 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**

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 recognized for them.

Income statement items (EUR 1,000)	2020	2019
Expense relating to short-term leases	12	27
Total	**12**	**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)	2020	2019
Short-term employee benefits	238	197
Total	**238**	**197**

Key personnel compensation*

2020	Palkka ja palkkiot	Lakisääteiset eläkekulut
Brander Kai, CEO	213	34
Ahonen Pirkko, member of the Board, until 11 March	2	
Hakala Jussi, member of the Board, as from 11 March	4	
Mangs Monica, member of the Board	6	
Rinta Jarmo, Chairman of the Board of Directors until 11 March	2	
Siviranta Petri, member of the Board, until 11 March	2	
Syvänen Hannu, member of the Board, Vice-Chairman of the Board of Directors	7	
Toivonen Anne, member of the Board, as from 11 March	4	
Total	**238**	**34**

2019	Palkka ja palkkiot	Lakisääteiset eläkekulut
Brander Kai, 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 14 March	2	
Rinta Jarmo, hallituksen puheenjohtaja 14.3.2019 alkaen	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**

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 instru-ments 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