SAVINGS BANKS GROUP'S BOARD OF DIRECTORS' REPORT AND CONSOLIDATED IFRS FINANCIAL STATEMENTS

31 DECEMBER 2022

Savings Bank

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BOARD OF DIRECTORS' REPORT OF THE SAVINGS BANKS GROUP

1.1.–31.12.2022

REVIEW BY THE CHIEF EXECUTIVE OFFICER OF THE SAVINGS BANKS' UNION COOP

Karri Alameri
Chief Executive Officer

The year 2022 started with positive expectations. The global pandemic had settled down, and restrictions that slowed down economic growth were widely lifted. The Savings Banks Group was preparing to celebrate its 200th anniversary. Then, even before the first quarter had ended, the expectations changed due to the large-scale attack on Ukraine.

Instead of stable growth, the economy has subsequently been characterised by uncertainty in the investment markets and negative development, which has been exacerbated since the summer by the sharp rise in energy prices. This has been reflected in the financial outlook of energy-intensive companies, but consumer confidence, in particular, declined in the second half of the year as household concerns increased.

The outlook for households was also weakened since the summer by the exceptionally rapid rise in market interest rates, which has an impact on the disposable income of households in the longer term. At the same time, the demand for – and significance of – financial coaching services, which are a cornerstone of our operations, will increase further.

The development of the Savings Banks Group's customer business was excellent in 2022. Boosted by the general rise in interest rates, our net interest income increased faster than we expected, and net fee and commission income grew well despite the difficult market situation. In spite of the weak performance of the investment markets, the net subscriptions of our investment funds were EUR 216.9 million in the positive, and our market share increased. In our operating revenue, we recognised compensation received for the termination of the core banking system renewal project, which had a positive effect of approximately EUR 33.9 million on profit. The amount of credit losses remained low, and the increased economic uncertainty has not been reflected in them.

In a challenging situation with regard to interest rates and the financial markets, Sp Mortgage Bank carried out a covered bond issue of EUR 750 million with favourable terms. The success of the bond issue demonstrates not only the trust of our customers, but also the confidence of investors in the Group's operations.

During the year, we have reacted to the changing operating environment by renewing our operating methods,

To strengthen the unity of the Savings Banks Group and work together towards future success, the other banks in the amalgamation announced in December that they had signed a right of first refusal agreement.

and we have developed new products and services for our customers. In connection with these renewal efforts, many of our banks opened new branches and updated their existing branches. We also had one merger of banks within the Group, as well as expansion to new locations.

In September, Lieto Savings Bank announced it will withdraw from the Savings Banks Amalgamation and leave the Savings Banks' Union Coop effective from 28 February 2023. To strengthen the unity of the Savings Banks Group and work together towards future success, the other banks in the amalgamation announced in December that they had signed a right of first refusal agreement.

Much of the credit for our success in 2022 belongs to our highly competent and committed personnel. The trustees participating in the Group's various administrative bodies have also played an important role as we look to the future together. We have achieved our success through close co-operation, and it is also the foundation on which we are building our future.

I am confident that 2023 will be a successful year for the Savings Banks Group in spite of the challenges that uncertainty in its various forms, both internationally and domestically, poses to everyone in Finland as a community and as individuals. Our strength, the Savings Bank Experience, will remain at the core of our operations. Now and in the future, our goal is to leverage our expertise to provide our customers with Finland's leading combination of digital and face-to-face financial and investment services that produce concrete, long-term benefits for the customers.

Karri Alameri
Chief Executive Officer
Savings Banks' Union Coop

FOR 200 YEARS, THE SAVINGS BANK'S TASK HAS BEEN TO HELP FINNS PROSPER

When the first Savings Bank was established in 1822, it adopted a socially significant mission: to help the hardworking people of Finland prosper and take better care of their finances. We are continuing the same mission to this day, and we are proud to be a bank with a socially important cause.

Last year was Savings Banks operation's 200th anniversary. We celebrated this milestone in several ways. The first customer of the Savings Bank was a maid by the name of Hedvig Nyström, who deposited her money in Turku. We chose her story as the central story of our anniversary. We launched the anniversary year with a campaign to find Hedvig's descendants, and, in addition to Hedvig's family legacy, we also found relatives of Johan Julin, the apothecary who founded the Savings Bank. After the break caused by Covid-19, our staff also got to meet each other for the first time in two years at a joint party held at the Little Finlandia event centre.

Another significant milestone last year was the fact that we were able to donate a record-breaking 1.5 million euros to hundreds of causes all over Finland through our annual Good Deeds campaign. The voting results of last year's campaign revealed that people in Finland are currently concerned about the wellbeing of children and young people. For this reason, donations were given to e.g. low-income families with children, the mental health of children and young people and children's hobbies, such as sports clubs.

Responsible activity, such as our Good Deeds campaign, is at the heart of the savings bank principle. We are, therefore, particularly proud of the fact that we have been able to contribute during these economically challenging times by, among other things, sharing a part of our profits to promote local wellbeing and vitality. We are able to carry out our 200-year mission every day: through our work, we are helping Finns to improve their financial wellbeing and prosper even during difficult times.

Last year was Savings Banks operation's 200th anniversary. Another significant milestone last year was the fact that we were able to donate a record-breaking 1.5 million euros to hundreds of causes all over Finland through our annual Good Deeds campaign.

THE SAVINGS BANKS GROUP AND THE SAVINGS BANKS AMALGAMATION

The Savings Banks Group is the most longstanding banking group in Finland, which consists of Savings Banks that formed the Savings Banks Amalgamation, the Savings Banks' Union Coop that acts as the Central Institution and the subsidiaries and associated companies owned jointly by the banks.

The member organisations of the Savings Banks Amalgamation form a financial entity as defined in the Act on the Amalgamation of Deposit Banks, in which the Savings Banks' Union Coop and its member credit institutions ultimately are jointly liable for each other's liabilities and commitments. The Savings Banks Amalgamation comprises the Savings Banks' Union Coop, which acts as the Central Institution of the Amalgamation, 15 Savings Banks, the 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 Savings Bank Services Ltd and Sp-Fund Management Company Ltd. The coverage of the Savings Banks Group differs from that of the Savings Banks Amalgamation in that the Savings Banks Group also includes institutions other than credit and financial institutions or service companies. The most notable of these are Sb Life Insurance Ltd and Sp-Koti Oy.

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

The Trustees of Lieto Savings Bank approved the corporate restructuring arrangements related to the merger of Lieto Savings Bank and Oma Savings Bank at a meeting of the Trustees on 22 September 2022. Lieto Savings Bank's exit from the Savings Banks Group and the Savings Banks Amalgamation is expected to be completed approximately on 28 February 2023. The financial impact of Lieto Savings Bank's exit on the Savings Banks Group is described in more detail in Note 35 to the financial statements.

On 28 November 2022, Sp Mortgage Bank Plc and Oma Savings Bank Plc signed an agreement on selling the mortgages originated by Lieto Savings Bank and currently held by Sp Mortgage Bank to Oma Savings Bank. The signed agreement is part of a wider set of transactions whereby Lieto Savings Bank will sell its entire banking business to Oma Savings Bank. The mortgages to transferred to Oma Savings Bank on 5 March 2023 amount to approximately EUR 245 million as per 31 December 2022. After the sale, Oma Savings Bank carries all rights and responsibilities relating to the mortgages. The final volume of the mortgages subject to the transaction will be determined by the time the mortgages are transferred to Oma Savings Bank.

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

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

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

DESCRIPTION OF THE OPERATIONAL ENVIRONMENT

THE GLOBAL ECONOMY

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

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

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

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

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

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

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

INTEREST RATE ENVIRONMENT

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

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

INVESTMENT MARKETS

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

THE FINNISH ECONOMY

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

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

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

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

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

In the housing market, 2022 has been an interesting year. After the start of the war, the market came to a standstill for a short time. In March, demand nevertheless returned to a satisfactory level. On the other hand, supply did not increase significantly from the beginning of the year. During the spring, the strong increase in the prices of building materials, rising energy prices, stronger inflation and higher interest rates began to have negative effects on the housing market. However, the change was still quite insignificant but accelerated towards the end of the year. In the spring, we predicted that the housing market would remain 20 per cent below the 2021 level and this was indeed the case: the change was slightly over 20 per cent. Regional differences in the rate of change were large.

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

THE HOUSING MARKET IN FINLAND

In the housing market, 2022 has been an interesting year. At the beginning of the year, demand in the market clearly exceeded supply. There was a shortage of not only old but also new apartments as construction companies reduced their construction start decisions. There were signs that it was going to be a good year in the housing market.

However, the war in Ukraine changed the housing market substantially. After the start of the war, the market came to a standstill for a short time. In March, demand nevertheless returned to a satisfactory level. On the other hand, supply did not increase significantly from the beginning of the year. During the spring, the strong increase in the prices of building materials, rising energy prices, stronger inflation and higher interest rates began to have negative effects on the housing market. However, the change was still quite insignificant but accelerated towards the end of the year. In the spring, we predicted that the housing market would remain 20 per cent below the 2021 level and this was indeed the case: the change was slightly over 20 per cent. Regional differences in the rate of change were large.

Between January and November 2022, the transaction volume of old dwellings declined by 19.5% year-on-year and the five-year price change was -9.5% (source: the price monitoring service of the Central Federation of Finnish Real Estate Agencies). During the period in question, the transaction volume of old dwellings in blocks of flats declined by 14.1%, while the corresponding figure was 16.7% for terraced houses and 18.4% for single-family houses. In old dwellings sold, transaction volumes have decreased more in other parts of Finland (-16.7%) than in large cities (-15.1%). Each region has also seen a year-on-year decline. Among the regions, the strongest decline has been seen in Uusimaa, Kanta-Häme and Kymenlaakso.

The housing market's difficulties have already been reflected as a negative change in the price level. Since the beginning of 2022, the price development of old dwellings in blocks of flats in the Helsinki Metropolitan Area was -6.1%. The corresponding figure collectively for the major cities outside the Helsinki Metropolitan Area is -6.6% and the figures for Turku, Tampere and Oulu are -5.4%, -8.3% and -7.4%, respectively. There is also significant deviation in price development within municipalities.

According to the Confederation of Finnish Construction Industries' latest economic review, published in October, privately financed housing production falls in 2022 to an estimated 33,800 dwellings from the previous year's 38,411 dwellings. The number of starts is expected to decrease to 27,800 dwellings in 2023. According to the price monitoring service of the Central Federation of Finnish Real Estate Agencies, real estate agents' transaction volume for newly constructed dwellings decreased by 44.8% in January–November 2022 compared to the previous year. The change has been significant in growth centres: -62.3% in Helsinki, -61.1% in Espoo and -51.9% in Tampere, for instance.

A significant change has also taken place in the market for holiday homes compared to the last two years of brisk activity. Between January and November, the transaction volume decreased by 26.1% and the total value of the transactions decreased by 28%. When compared to the situation five years ago, the transaction volume decreased by 10.5%. There would probably have been more transactions in the summer if the low supply had not limited the transaction volume.

THE SAVINGS BANKS GROUP'S PROFIT AND BALANCE SHEET

SAVINGS BANKS GROUP'S FINANCIAL HIGHLIGHTS

(EUR 1,000)	1–12/2022	1–12/2021	1–12/2020*	1–12/2019*	1–12/2018*
Revenue	376,108	325,979	337,938	362,701	278,517
Net interest income	169,610	152,324	160,967	155,619	152,704
% of revenue	45,1%	46,7%	47,6%	42,9%	54,8%
Profit before taxes	84,154	77,555	66,740	94,807	36,408
% of revenue	22,4%	23,8%	19,7%	26,1%	13,1%
Total operating revenue	329,059	298,715	306,588	321,395	234,670
Total operating expenses	-229,040	-220,021	-220,157	-219,145	-197,718
Cost to income ratio	69,6%	73,7%	71,8%	68,2%	84,3%
Impairment losses on financial assets	-15,882	-941	-19,760	-8,379	-3,868
Financial highlights, continuing operations and exit from Savings banks group total:					
Total assets	13,779,568	13,079,096	13,097,063	12,009,105	11,705,740
Total equity	1,177,090	1,190,293	1,155,709	1,118,391	1,028,796
Return on equity %	6,6%	6,2%	4,6%	6,9%	3,0%
Return on assets %	0,6%	0,6%	0,4%	0,6%	0,3%
Equity/assets ratio %	8,5%	9,1%	8,8%	9,3%	9,2%
Solvency ratio %	18,7%	19,5%	19,1%	19,1%	18,2%

*The figures for the financial year have not been adjusted to reflect the distribution of continuing operations and exit from the Savings Bank Group.

	2022			2021
Distribution of the balance sheet between continuing operations and exit from the Savings Banks Group	**Continuing operations**	**Exit from the Savings Banks Group**	**Total**	**Total**
Loans and advances to customers	9,024,439	1,016,646	10,041,085	9,602,782
Loans and advances to credit institutions	205,047	13,299	218,346	129,484
Investment assets	784,650	78,808	863,458	974,226
Assets total	12,409,582	1,369,986	13,779,568	13,079,096
Liabilities to customers	6,994,366	942,741	7,937,108	7,682,351
Liabilities to credit institutions	450,946	13,488	464,434	423,705
Liabilities total	11,632,662	969,816	12,602,478	11,888,804

PROFIT TRENDS (COMPARISON FIGURES 1–12/2021)

Lieto Savings Bank has decided to withdraw from the Savings Banks Group and the Savings Banks Amalgamation in February 2023. The IFRS 5 Non-current Assets Held for Sale and Discontinued Operations standard is applied to Lieto Savings Bank's withdrawal from the Savings Banks Group. Lieto Savings Bank's share of the Savings Banks Group's result is presented in the Savings Banks Group's income statement as a separate line item. The information for the comparison period has been adjusted accordingly. The text below, describing the profit trends of the Savings Banks Group, presents figures for continuing operations unless otherwise mentioned.

The Savings Banks Group's financial performance in 2022 was very good. Savings Banks Group's profit before tax increased to EUR 84.2 (77.6) million. Profit for the period totalled EUR 66.8 (62.8) million. Profit related to the withdrawal of Lieto Savings Bank was EUR 11.3 (9.9) million. Profit was favorably affected by one-off compensation received from Cognizant in connection with the termination of the agreement related to the core banking system renewal project and higher income from the customer business. Profit was adversely affected by the decline in net investment income due to the challenging investment environment.

The Savings Banks Group and Cognizant announced in February that they will terminate their agreement related to the core banking system renewal. As part of the agreement, Cognizant paid compensation to the Savings Banks Group, which had a positive effect of EUR 33.9 million on the Savings Banks Group's profit before tax. In connection with the termination of the agreement, impairment of EUR 7.6 million was recognised on assets previously capitalised in relation to the core banking system renewal project.

The development of the Savings Banks Group's customer business was very strong. Net interest income grew by 11.3 per cent and amounted to EUR 169.6 (152.3) million. The increase in net interest income was particularly attributable to the growth of interest income from loans and advances to customers. Interest income from loans and advances to customers amounted to EUR 162.3 (132.0) million. Total interest income grew to EUR 204.9 (168.7) million. The share of the derivatives used for the management of the interest rate risks of net interest income decreased to EUR 12.9 (21.9) million. Interest expenses increased to EUR 35.3 (16.3) million.

Net fee and commission income grew by 2.2 per cent to EUR 103.3 (101.1) million. The increase was due to the growth of payment transaction fees and lending commissions. Payment transaction fees increased by 8.1 per cent to EUR 47.0 (43.5) million. Lending commissions increased by 2.7 per cent to EUR 20.7 (20.2) million. Fees received for funds amounted to EUR 39.7 (40.6) million.

The investment environment was weakened by rising interest rates and the war in Ukraine. Net investment income was negative EUR -7.2 (13.2) million. Most of the net investment income was unrealised changes in the value of financial assets measured at fair value through profit or loss.

Net income from life insurance operations was EUR 18.4 (18.5) million. Premiums written decreased from the comparison year, amounting to EUR 95.6 (116.7) million. Claims incurred increased to EUR 72.6 (68.8) million.

Other operating revenue increased to EUR 45.0 (13.6) million. Other operating revenue was increased by EUR 33.9 million by the compensation received for the termination of the core banking system renewal project.

In total, the Savings Banks Group's operating revenue grew by 10.2 per cent and amounted to EUR 329.1 (298.7) million. Income was increased particularly by the growth of other operating income. Net interest income and net fee and commission income also increased. Income was reduced by the decrease in net income from investment activities.

The Savings Banks Group's operating expenses grew by 4.1 per cent to EUR 229.0 (220.0) million. Personnel expenses remained on par with the comparison period at EUR 92.4 (92.7) million. The number of personnel on 31 December 2022 was 1,268 (1,324).

Other administrative expenses were EUR 89.2 (84.0) million. ICT expenses increased to EUR 51.4 (49.5) million. Other personnel expenses came to EUR 4.9 (4.4) million. Marketing expenses increased to EUR 6.9 (6.3) million.

Other operating expenses amounted to EUR 27.0 (26.1) million.

Depreciation, amortisation and impairment on property, plant and equipment and intangible assets increased to EUR 20.5 (17.2) million. Depreciation, amortisation and impairment was increased by impairment of EUR 7.6 million recognised on intangible assets capitalised on the balance sheet in connection with the core banking system renewal project.

The Group's cost to income ratio was 69.6 (73.7) per cent.

A total of EUR 15.9 (0.9) million was recognised in impairment of financial assets. These impairments had a negative effect on the Savings Banks Group's profit and loss, and they include the change in expected credit losses for loans granted to customers and off-balance sheet commitments and expected credit losses in other financial assets, final credit losses and credit loss recoveries. The change in expected credit losses recognised during the financial year increased impairment by EUR 10.5 million. In the comparison period, the change reduced impairment by EUR 3.9 million. Of the increase in expected credit losses, EUR 8.7 million concerned credit and other advances (comparison period: a decrease of EUR 0.9 million), and EUR 1.8 million concerned other financial assets (comparison period: a decrease of EUR 3.0 million). Net credit losses realised during the financial year totalled EUR 5.4 (4.8) million, and they concerned loans and other receivables.

The Savings Banks Group's effective income tax rate was 20.7 (19.0) per cent.

BALANCE SHEET AND FUNDING (COMPARISON FIGURES 31 DECEMBER 2021)

Lieto Savings Bank's share of the Savings Banks Group's assets and liabilities is presented on the Savings Banks Group's balance sheet as a separate line item under assets and liabilities. In accordance with the IFRS 5 standard, the comparison figures are not adjusted. In the text below, describing the balance sheet and financing, presents figures for continuing operations, unless otherwise mentioned. The distribution of the balance sheet between continuing operations and items related to the withdrawal of Lieto Savings Bank is presented under the key figures table in the Savings Banks Group's Board of Directors' Report.

The Savings Banks Group's balance sheet total was EUR 12.4 (13.1) billion at the end of the financial year. The Savings Banks Group's return on assets was 0.6 (0.6) per cent.

Loans and advances to customers amounted to EUR 9.0 (9.6) billion. Loans and advances to credit institutions amounted to EUR 205.0 (129.5) million.

The Savings Banks Group's investment assets totalled EUR 784.7 (974.2) million. Life insurance assets amounted to EUR 1,006.6 (1,160.7) million.

The Savings Banks Group's liabilities to customers totalled EUR 7.0 (7.7) billion. Liabilities to credit institutions amounted to EUR 450.9 (423.7) million. Debt securities issued stood at EUR 2.8 (2.5) billion. Covered bond issues were carried out in April and November, amounting to EUR 300 million and EUR 750 million, respectively. Life insurance liabilities totalled EUR 950.9 (1,084.7) million.

The Savings Banks Group's equity amounted to EUR 1.2 (1.2) billion. The share of non-controlling interests of the Group's equity was EUR 1.4 (1.4) million. The change in fair value recognised in other comprehensive income was EUR -61.4 (2.2) million during the financial year. The impact of cash flow hedging on the change in equity was EUR -1.0 (-0.9) million. The Savings Banks Group's return on equity was 6.6 (6.1) per cent.

The quality of the Savings Banks Group's credit portfolio is good and most credit is secured. The Savings Banks Group does not have significant risk concentrations in the sectors that have been particularly hard hit by the COVID-19 pandemic or the war in Ukraine. The expected credit loss allowance on loans and advances on the balance sheet at the end of the financial year amounted to EUR 44.6 (31 December 2021: 42.8) million, or 0.49 (31 December 2021: 0.44) per cent of loans and advances. The Savings Banks Group's non-performing receivables remained at a moderate level at 2.1 (31 December 2021: 2.0) per cent of loans and advances.

THE WITHDRAWAL OF LIETO SAVINGS BANK (COMPARISON FIGURES 1–12/2021)

Profit for the period related to the withdrawal of Lieto Savings Bank was EUR 11.3 (9.9) million. Operating revenue totalled EUR 38.0 (28.9) million and operating expenses amounted to EUR 22.3 (16.2) million. On 31 December 2022, the total assets of the discontinued operations amounted to EUR 1,370 million and liabilities totalled EUR 970 million.

CAPITAL ADEQUACY AND RISK POSITION

CAPITAL ADEQUACY (COMPARISON FIGURES 31 DECEMBER 2021)

At the end of 2022, the Savings Banks Amalgamation had a strong capital adequacy, and own funds consisted almost entirely of CET1 capital. Total own funds were EUR 1,090.5 (1,098.3) million, of which CET1 capital accounted for EUR 1,090.5 (1,096.6) million. Compared to the situation at the end of the year 2021, the decrease in CET1 capital was primarily due to the negative impact of changes in the interest rate environment on the market value of the investment portfolio. The growth in own funds was due to the profit for the financial year. Savings Banks Amalgamation does not have additional Tier 1 capital. Tier 2 (T2) capital accounted for EUR 0.03 (1.7) million, which consisted of debentures in the financial year. Risk-weighted assets amounted to EUR 5,837.3 (5,626.7) million, i.e., they were 3.7% higher than at the end of the previous year. The increase in risk-weighted exposure amounts was primarily driven by the increase in the risk-weighted exposures of credit and counterparty risk, and the biggest growth was seen in the exposure classes of corporate receivables, receivables with real estate collateral and retail receivables. The capital ratio of the Savings Banks Amalgamation was 18.7 (19.5) % and the CET1 capital ratio was 18.7 (19.5) %. The impact on the withdrawal of Lieto Savings Bank on the Amalgamation's capital ratio is estimated to be approximately 0.8%-units.

The capital requirement of Savings Banks Amalgamation was EUR 702.0 (661.5) million. The composition of the capital requirement is shown in the table below. The capital requirement of the Savings Banks Amalgamation consists of the 8% minimum capital requirement laid down in the Capital Requirements Regulation, a discretionary additional Pillar II-capital requirement imposed by the Financial Supervisory Authority, a fixed additional capital requirement pursuant to the Act on Credit Institutions and the country-specific countercyclical capital requirements of foreign exposures.

COMBINED CAPITAL REQUIREMENT, %

31.12.2022	Minimum requirement	Pillar 2 (SREP)-requirement	Capital conservation buffer	Countercyclical capital buffer	Combined capital requirement
CET1	4,50	0,84	2,50	0,03	7,87
AT1	1,50	0,28			1,78
T2	2,00	0,38			2,38
Total	8,00	1,50	2,50	0,03	12,03

The Pillar II capital requirement imposed by the Financial Supervisory Authority on the Savings Banks Amalgamation is 1.5 (1.25)%. At least three quarters of the Pillar II capital requirement must be Tier 1 capital, of which at least three quarters must be CET1 capital.

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

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

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

The Financial Supervisory Authority has granted permission to the Central Institution of the Amalgamation to waive fully the application of the requirements regarding liquidity set out in part six of Regulation (EU) No 575/2013 and its amending and supplementing acts to the Amalgamation's member credit institutions. The authorisation granted to the Central Institution also covers the NSFR claim that entered into force on 28 June 2021.

The standard method is used to calculate the capital requirement to the credit risk of the Savings Banks Amalgamation and capital requirement to the operational risk is calculated by the basic method. The capital requirement relating to market risk is calculated by the basic method for the foreign exchange exposure if the total net foreign exchange position is over two per cent of the aggregate amount of the own funds. The Savings Banks Amalgamation does not have a trading book and the amalgamation's business does not involve taking commodity risk.

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

CAPITAL ADEQUACY'S MAIN ITEMS

(EUR 1,000) Own Funds	31.12.2022	31.12.2021
Common Equity Tier 1 (CET1) capital before regulatory adjustments	1,138,741	1,137,326
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-48,237	-40,722
Common Equity Tier 1 (CET1) capital	1,090,504	1,096,604
Tier 1 capital (T1 = CET1 + AT1)	1,090,504	1,096,604
Tier 2 (T2) capital before regulatory adjustments	28	1,673
Tier 2 (T2) capital	28	1,673
Total capital (TC = T1 + T2)	1,090,533	1,098,277
Risk weighted assets	5,837,252	5,626,667
of which: credit and counterparty risk	5,237,903	4,973,830
of which: credit valuation adjustment (CVA)	23,115	83,472
of which: operational risk		
josta operatiivisen riskin osuus	576,235	569,365
Common Equity Tier 1 (as a percentage of total risk exposure amount)	18,7%	19,5%
Tier 1 (as a percentage of total risk exposure amount)	18,7%	19,5%
Total capital (as a percentage of total risk exposure amount)	18,7%	19,5%
Capital requirement		
Total capital	1,090,533	1,098,277
Capital requirement total*	702,048	661,465
of which: Pillar 2 additional capital requirement	87,559	70,333
Capital buffer	388,485	436,812

* 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, the 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 the Savings Banks Amalgamation was 8.3 (8.9) % exceeding the 3% minimum requirement. The leverage ratio describes the level of indebtedness of a credit institution and is calculated by dividing the original own funds by the total of liabilities. The Savings Banks Amalgamation monitors excessive indebtedness as part of the ICAAP process.

LEVERAGE RATIO

(EUR 1,000)	31.12.2022	31.12.2021
Tier 1 capital	1,090,504	1,096,604
Total leverage ratio exposures	13,194,516	12,283,341
Leverage ratio	8,3%	8,9%

Pillar III note includes the information in accordance with the EU's Capital Requirements Regulation (575/2013) regarding the capital adequacy of the Amalgamation.

RESOLUTION PLAN

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

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

The MREL requirement is by nature a Pillar II type minimum requirement that must be met continuously. According to the decision of the Financial Stability Authority, the MREL requirement applied to the Savings Banks Amalgamation is 19.49% of the total risk exposure amount or 5.91% of the total exposures, whichever is higher, until 31 December 2023, and as of 1 January 2024, the MREL requirement is 19.77% of the total risk exposure amount or 7.85% of the total exposures, whichever is higher.

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

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

RISK POSITION

The Savings Banks Group's risk position has remained at a good level. The solvency of the Savings Banks Amalgamation is good, the quality of the credit portfolio is at a good level and most of the loans are secured. Estimates of the impact of the war in Ukraine on risks have an indirect effect on the Group's income and risks, mainly due to customers' changed circumstances and the general market situation.

Risk management and internal control of the Savings Banks Group is a part of the internal control framework applied within the Savings Banks Group and the Amalgamation. It is also at the core of the Group's operational activities. It is the responsibility of the Central Institution's Board of Directors to steer the operation of the Amalgamation and, in order to safeguard liquidity and capital adequacy, issue instructions to the member companies on risk management, corporate governance, internal control and compliance with harmonised accounting principles in the preparation of the consolidated financial statements.

The Central Institution approves the principles for the Group's internal control framework. Functions, which are independent of business operations, have been established within the Central Institution to ensure effective and comprehensive internal control in all the member companies within the Amalgamation and the Group.

The Central Institution's Risk control function maintains and develops methods for managing risks within the Savings Banks Amalgamation to ensure that all, even new, fundamental, but previously unidentified risks are covered by the risk managements of the Group's 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 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.

The Savings Banks Amalgamation has prepared risk strategies and risk limits by risk area. The strategies specific to risk areas are complemented by operational guidelines and instructions issued by the Board of Directors of the Central Institution. The strategies specific to risk areas cover risk identification, measurement and assessment as well as the mitigation, monitoring and reporting of risks.

The Board of Directors of the Central Institution is regularly provided with information on various risks and their levels. The Board of Directors also approves authorisations and frameworks for the desired level of risk-taking by specifying the permitted risk thresholds for different types of risks at the amalgamation level.

The most significant risks affecting the operation of the Savings Banks Group are credit risk, liquidity risk, interest rate risk, operational risk, as well as various business risks.

The Group's risks and risk management are described in more detail in the notes on risk management in the financial statements in Appendix 5.

CREDIT RATINGS

On 4 February 2022, S&P Global Ratings (S&P) confirmed the long-term credit rating of the Central Bank of Savings Banks Finland Plc, acting as the central credit institution of the Savings Banks Group, at A- and its short-term credit rating at A-2. The outlook remained negative.

The Central Bank of Savings Banks Finland Plc is part of the Savings Banks Amalgamation. The role of the Central Bank of Savings Banks is to ensure the liquidity and fundraising of the Savings Banks Group. The Central Bank of Savings Banks raises funds and operates in the money and capital markets on behalf of the Group, manages settlements and the internal balancing of the Group's liquidity. The Central Bank of Savings Banks also manages the levelling out of the Group's internal liquidity.

SUPERVISORY BOARD, BOARD OF DIRECTORS AND AUDITORS OF THE SAVINGS BANKS' UNION COOP

The Savings Banks' Union Coop General Meeting elects the members of the Supervisory Board and their personal deputies for a term extending until the next ordinary general meeting. The Supervisory Board consists of 9–35 members.

During the year under review, the Supervisory Board had 15 members, each with a personal deputy. The chairman of the Supervisory Board was Antero Savolainen (chairman of the Board of Directors of Säästöpankki Optia). The deputy chairmen were Arto Seppänen (chairman of the Board of Directors of Someron Säästöpankki) and Björn West (chairman of the Board of Directors of Kvevlax Sparbank). The members of the Supervisory Board are primarily chairmen of the Boards of Directors of Savings Banks, and their deputies are deputy chairmen of the Boards of Directors of Savings Banks.

During the year 2022, the following persons have been members of the Board of Directors of Savings Banks' Union Coop:

Pirkko Ahonen,
chairman (Aito Säästöpankki Oy)

Jari Oivo,
deputy chairman (Myrskylän Säästöpankki)

Jaakko Ossa
(Liedon Säästöpankki), until 10 March 2022

Jouni Niuro
(Liedon Säästöpankki), from 10 March 2022 and until 19 May 2022

Ulf Sjöblom
(Tammisaaren Säästöpankki)

Tuula Heikkinen
(independent of Savings Banks)

Eero Laesterä
(independent of Savings Banks)

Katarina Segerståhl
(independent of Savings Banks), until 10 March 2022

Heikki Paasonen
(Säästöpankki Optia)

Hannu Syvänen
(Säästöpankki Sinetti)

Simo Leisti
(independent of Savings Banks), from 13 June 2022

Veli-Pekka Mattila
(Länsi-Uudenmaan Säästöpankki), from 13 June 2022

The Board of Directors of Savings Banks' Union Coop constitutes a quorum when five members are present. The Board of Directors of Savings Banks' Union Coop were elected at the annual general meeting of the Savings Banks' Union Coop cooperative on 10 March 2022 and at the additional general meeting on 13 June 2022.

The Managing Director of the Savings Banks' Union Coop has been Tomi Närhinen until 27 June 2022 and Karri Alameri from 15 August 2022.

At the annual general meeting of the Savings Banks' Union Coop cooperative on 10 March 2022, KPMG Oy Ab, Authorised Public Accountants, was elected as the auditor of Savings Banks' Union Coop. The chief auditor designated by the firm is Mikko Kylliäinen, Authorised Public Accountant.

NON-FINANCIAL REPORTING

Financial wellbeing has been an important element of Savings Bank operations ever since the first Finnish Savings Bank was established in 1822. In line with the Savings Bank ideal, the basic mission of Savings Banks has been to help the hardworking population of Finland to prosper and take better care of its finances. That is what Savings Bank is still doing.

Today, the mission and purpose of the Savings Banks Group is to responsibly promote the financial wellbeing and prosperity of its customers. We help our customers take care of their finances, prepare for a rainy day, save and prosper.

In our customer service, the emphasis is on expertise, convenience and having a human, personal touch in the way we serve all of our customers – in digital services, in our offices and on the phone. We want to provide our customers with the best combination of in-person and digital services, which is evident in the excellent Savings Bank Experience that we are known for.

The Savings Banks Group comprises 15 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 business area is Finland, where the Group operates in almost 100 locations. Our business operations are based on low-risk retail banking. In addition, we offer investment, real estate agency and insurance services. Our strategic goal is to grow profitably and sustainably by responding to our customers' needs with a diverse range of services and by increasing the number of long-term customers. Particular growth areas include small-business and entrepreneur customers and Asset Management Services. In our operations, we combine strong customer-drivenness and customer insight with operational efficiency and close cooperation within the Group. The cornerstones of our business are the Savings Banks Group's values – customer-drivenness, cooperation, responsibility and performance.

In order to strengthen our expertise in accordance with our common strategy, we started to build the Financial Wellbeing coaching programme of the Savings Banks Group. Our coaching programme's goal is to strengthen our common way of meeting customers.

MANAGING RESPONSIBILITY

Responsibility has been an integral part of our operations and culture for nearly 200 years. We want to operate in an ethically sustainable manner observing the principles of good corporate governance, openness and the Savings Banks Group's Code of Conduct. The key management practices are described in the Savings Banks Group's principles for reliable management and internal control. 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 Savings Banks Group's principles for reliable management and internal control along with other internal guidelines. The key guidelines and management tools for responsibility are the Savings Banks Group's responsibility strategy roadmap and policy. The personnel's awareness of the key internal guidelines is ensured with regular training. Compliance with the guidelines is monitored with different internal control methods.

The Board of Directors of the Savings Banks' Union Coop approved the Savings Banks Group's responsibility management model in February 2022, which defines the structures and responsibilities for the effective management of the Group's responsibility work. Responsibility matters, such as economic, social and environmental responsibility and sustainability risks, are reviewed in accordance with the management model two to three times a year by the Management Group of the Savings Banks' Union Coop and at least two times a year by the Board of Directors of the Savings Banks' Union Coop. The Audit Committee presents responsibility matters to the Board of Directors of the Savings Banks' Union Coop for discussion, and the Risk Committee reviews and approves the estimates, targets and limits of ESG (environmental, social, governance) risks and opportunities once per year as part of other risk reviews.

In spring 2022, the Savings Banks Group adopted a new responsibility programme and set strategic responsibility targets for the Group at the end of the year, which will create a responsibility strategy out of the responsibility programme. The five main themes of the responsibility strategy are responsibility for the customer's financial wellbeing and the wellbeing of the community, sustainable financing and products, sustainable growth and good corporate governance, and responsibility for the environment and the climate.

With regard to the main themes of the strategy, we aim to: Promote a positive Savings Bank experience and secure digitalisation with our financial wellbeing solutions. Increase the share of green assets and sustainable investments. Develop the management culture and employee experience of our work community. Prevent discrimination and harassment. Support local microenterprises and SMEs. Promote responsibility in our partnerships. Grow with capital adequacy and operate ethically. Reduce our ecological footprint and increase our positive environmental impacts in our own operations and value chain. With regard to the environment and the climate, our aim is, if the operating environment allows, to make investments carbon neutral by 2050, and to set environmental, social and governance (ESG) targets that support the climate for funding in 30% of business loans in selected sectors. With regard to residential and commercial real estate loans, the Savings Banks Group aims, if the operating environment allows, to be carbon neutral by 2050 and to be carbon positive in the locations' own operations (scope 1–2) by 2035. Carbon positive means that more carbon dioxide is removed from the atmosphere than is emitted.

The main themes of the responsibility strategy are based on the Savings Banks Group's key responsibility themes and responsibility roadmap, which defines the responsibility measures and schedule for 2022–2024. The measures in the roadmap and our responsibility policy were updated in autumn 2022. Our responsibility policy sets out the scope and basic principles of the Savings Banks Group's sustainability efforts.

The reporting on the Savings Banks Group's material responsibility themes is based on the materiality analysis, the purpose of which is to identify the key responsibility aspects of the Savings Banks Group and its stakeholders. The materiality analysis is based on a survey conducted among the personnel, management and other stakeholders. Identified on the basis of the materiality analysis, the Savings Banks Group's three most material sustainability themes for stakeholders were Good management and competent personnel, responsibility in services, products and customer work, and understanding of customers needs and developing expertise.

Other essential responsibility themes in our materiality analysis were responsible and sustainable lending, responsible and sustainable investment, wellbeing at work, equality and diversity, promoting the wellbeing, growth and economic skills of the community and taking climate change into account and mitigating it. In addition to these material themes, the basic prerequisites of banking include financial responsibility and good governance, risk management and the customer's data protection and information security. These and the three most material sustainability themes lay the foundation for the Savings Banks Group's sustainability and this foundation must be solid under all circumstances. The material sustainability themes are discussed in more detail in the Savings Banks Group's sustainability report. In 2022, we reviewed our materiality analysis and decided on its next update in 2023.

We have annually monitored the following indicators, for instance, with regard to the most material sustainability themes. To monitor customer satisfaction, we use the Net Promoter Score (NPS) for customer negotiations, which was 81.4 (target 80) in 2022. In the latest EPSI-ranking survey, Savings Bank's result 71.7 was clearly above the sector average in all categories and we ranked among the top three in corporate customer satisfaction, with a result of 74.9. The basic principle guiding our business operations is to operate in a financially sustainable manner. In 2022, our solvency ratio was 18.7 per cent (target a minimum of 18.0%). We want to be a self-directed work community of highly competent professionals, with capacity for renewal, where we promote wellbeing at work, leadership, diversity and equality. The Savings Banks' Union Coop's Board of Directors has approved the principles of diversity, aimed at ensuring that the Board has, in order to perform its duties, sufficient and versatile competence and experience of the credit institution business and the risks involved. The gender distribution of personnel is discussed in more detail in section "Personnel and competence". We also report on the carbon dioxide intensity of the funds managed by the Savings Banks, which is described in more detail in section "Environmental responsibility".

In addition to the above indicators, new indicators were selected for monitoring in the responsibility strategy adopted at the end of 2022. These included the solution rate by phone (target 85), adoption of responsible corporate guarantees/loans during 2023, the sum of Savings Bank funds and insurance baskets compliant with the selected UN Sustainable Development Goals at least 25% (target at least 85%), completed mandatory compliance training (customer due diligence and prevention of money laundering and terrorist financing, data protection, information security and the Code of Conduct) (target 95–100%) and increase in the percentage of companies committed to the Paris Agreement and science-based targets in customer assets managed by the Sp-Fund Management Company by 2026, if the operating environment permits, and the carbon footprint of the electricity consumption of offices (target -50% compared to 2021) by the end of 2030. In addition, a new indicator concerning the work community will be set on the basis of a new personnel survey in 2023.

We publish the Savings Banks Group's sustainability report annually in Finnish and English. The report illustrates how sustainability is reflected in the daily life and actions of everyone at Savings Banks. The Savings Banks Group published its first GRI report on 20 June 2019. With regard to the reporting principles, the Savings Banks Group applies the GRI (Global Reporting Initiative) Standards guidelines (GRI-Core), taking into account the compliance of the guidelines with the SASB (Sustainability Accounting Standards Board) framework.

PROMOTING SOCIAL WELL-BEING LOCALLY

Savings banks have been an important part of the Finnish society for almost 200 years already, and we still have an important duty. According to our mission, savings banks promote saving and their customers' financial wellbeing close to the customer. Customers need a reliable and close partner for their financial matters to help them create a better everyday life and future. The increased prosperity and welfare of our customers are reflected in the Savings Banks Group and in the entire society. It is important to Savings Banks Group that towns, villages and communities in Finland retain their vitality and positive development trends. From the very beginning, Savings Banks have directed a proportion of their profits to enhancing welfare within their operating areas. Rather than making major one-off donations, Savings Banks prefer to give their support to several good, local projects. In recent years, Savings Banks have called on their customers to help with their mission. For example, customers can propose Finnish recipients for donations for the annual Good Deeds campaign.

The 2022 Good Deeds responsibility campaign saw local Savings Banks and savings bank trusts donate almost EUR 1.4 million to more than 500 different charities. The well-being of children and young people was emphasised among the donations. Donations were given to, for example, low-income families with children, the mental health of children and young people and children's hobbies, such as sports clubs. Donations were also made to help Ukraine.

The Savings Banks Research Foundation granted scholarships to university researchers and study projects totalling EUR 65,000 in 2022. In addition, the savings bank trusts that own Savings Banks, structured as limited liability companies, have made significant charitable contributions in various parts of the country.

PERSONNEL AND EXPERTISE

The Savings Banks Group adheres to the principles of corporate governance, openness and the Group's ethical rules. The employees have a responsibility to ensure that customers receive information in accordance with good business conduct and know the consequences of their financial decisions, including any loss risks. Complaints by existing and former customers must be handled without delay and in a fair manner, in compliance with the applicable laws and regulations. Communication to all target groups is open, truthful and unbiased. Employees focus on providing clear and transparent information to customers.

OUR EXPERTISE CREATES ADDED VALUE FOR OUR CUSTOMERS

Expertise is at the heart of our strategy to achieve business goals. At the Savings Banks Group, we want to support and enable everyone's learning and self-direction in maintaining and developing their expertise.

In 2022, we launched the Osuva project, which aims to renew and harmonise the operating methods and processes of competence management into a single entity within the Savings Banks Group. With the project, we adopted a new competence management tool that allows us to naturally incorporate the renewed operating methods into day-to-day life.

COACHING FINANCIAL WELLBEING

In order to strengthen our expertise in accordance with our common strategy, we started to build the Financial Wellbeing coaching programme of the Savings Banks Group in our e-learning environment during the year. This training programme is our new, unified way of developing our expertise by learning from each other and applying new practices in day-to-day life.

At the Savings Banks Group, we have strengthened our common way of meeting customers, and each Savings Bank employee has been targeted with content of the training programme, depending on the role. Towards the end of the year, we adopted a joint model of sales mentoring at the Savings Banks Group, as well as the best tools to further strengthen the mentoring work of supervisors.

WORK TO RENEW THE PERSONNEL SURVEY

During the period, we reformed the Savings Banks Group's joint personnel survey in cooperation with people in various roles. In the Common Direction project, we specified what information about the Savings Banks Group's personnel is needed for developing the business and leading the change towards our goals.

In the upcoming personnel survey, we will focus on the themes of personnel experience, job satisfaction and mood, as well as operating culture. The Savings Banks Group's shared values – customer-drivenness, cooperation, responsibility and performance – make up the framework of the survey. The aim of the new personnel survey is to create an opportunity for employees to voice their views and thus influence the priorities of operational development. We will utilise the survey both locally and at the group level in the development of work communities and managerial work, leadership and our cooperation. Through the personnel survey, we set out concrete measures to promote our operations and work as a team and to monitor how things develop.

Our success in the customer business and the digital transformation requires everyone to continuously maintain and develop their own expertise and work as a coherent team. We also support employee mobility and competence development in the Savings Banks Group by creating various models and practices to support the sharing of expertise. The use of job rotation at the Savings Banks Group has given employees the opportunity to work in various projects and substitute positions.

In 2022, the Savings Banks Group's training, mentoring and meetings with networks took place both remotely and face-to-face. The Savings Bank Centre conducted about 200 training sessions and events during the year. They included training programmes for employees and management, shorter internal remote and online training activities, brief information sessions and training focused on current issues in various business functions. In addition to developing substance knowledge, we continued to increase our competencies in areas such as change management, coaching supervisory work and corporate customer business.

At the end of 2022, Savings Banks Group had 1,268 employees (1,419). Converted into total resources, the average number of employees for the financial year was 1,157 (1,298). Women accounted for 73 per cent of all employees and men for 27 per cent, and the average age was 42 years (42).

HUMAN RIGHTS

The Savings Banks Group respects human rights and strives to prevent discrimination in all of the Group's operations. Our own operations do not involve significant direct risks or impacts related to human rights. Therefore, human rights have not become a material sustainability theme and no indicator to be monitored has been set for it. However, there may be human rights impacts related to the supply chain or the activities of investment and financing targets. The social responsibility of target companies is taken into account in our investment activities. In 2022, we monitored how our direct investments comply with international standards and conventions. We monitored compliance on the basis of the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the ILO Declaration on Fundamental Principles and Rights at Work, for instance. If we notice a shortcoming, we assess the company's measures and willingness to rectify the underlying factors. We exclude from our direct investments all companies that repeatedly breach international agreements related to human rights, decent work and the environment or infringe against good governance practices (UN Global Compact) and that do not make active attempts to rectify the violation.

ENVIRONMENTAL RESPONSIBILITY

The promotion of environmental responsibility is part of the day-to-day operations of the Savings Banks Group. Due to the nature of the business, the direct environmental impacts and risks of the Savings Bank's own operations are relatively small. We encourage employees to use public transport, replace business trips and meetings with telephone and video conferences, and prioritise eco-friendly alternatives in purchasing. We participated in the national Down a Degree campaign to save energy in 2022: we implemented energy saving measures in cooperation with property owners in areas such as heating, ventilation, lighting, water consumption, automation, reduction of the use of advertising lights and energy efficiency of equipment. We also started to build the WWF Green Office environmental management system at eight of our locations, and we will expand the measures to other locations later.

The investments made by Sp-Fund Management Company Ltd and corporate financing by Savings Bank involve indirect environmental impacts. The Savings Banks Group takes sustainability risks into account as part of investment decisions and advice. Climate change related risks and opportunities and environmental regulation may also have economic impacts, particularly in certain industries or with regard to the geographic location. In 2022, the Savings Banks Group set environmental and climate-related targets and indicators for investment, financing and own operations as part of its responsibility strategy, which we explain in the section on responsibility management above. In addition, updating the Savings Banks Group's principles for responsible lending began in late 2022.

Sp-Fund Management Company Ltd aims to evaluate the impacts of sustainable development and climate change on investment targets. Towards the end of the year, Sp-Fund Management Company Ltd updated the climate scenario analyses and stress tests of the equity and interest funds it manages. Sp-Fund Management Company has also excluded coal users and producers from its direct investments. The exclusion concerns mining companies with more than 25% of revenue generated by coal used for energy production or with high production volumes of energy coal (over 30%). With regard to electricity companies, exclusion concerns companies that use significant amounts of coal as fuel (over 30% of total production). If the company has credible plans for implementing the transition to a low-carbon society and plans to reduce its climate impacts and coal use that is compliant with the Paris Agreement or is otherwise credible, it can avoid being excluded. In addition, the Säästöpankki Ympäristö special investment fund complies with more stringent exclusion criteria for coal users and producers.

We report on asset management with regard to climate risks in line with the Task Force on Climate-related Financial Disclosures framework as part of the Savings Banks Group's sustainability report. We also report on the carbon footprints and risks of the funds as part of our asset management's responsible investment review and use the carbon dioxide intensity figure recommended by the TCFD as the indicator to be reported. In the review, the average carbon dioxide intensity of the funds managed by the Savings Banks Group's asset management was 99.4 t C02e/USD million in 2022. We continuously develop the reporting and monitoring of the environmental aspects of investments, including the carbon footprint and carbon risk. We have also started to analyse the carbon footprint of our own operations and lending, and we will continue the work in the following year.

Particularly through responsible investment, Sp-Fund Management Company Ltd has a significant opportunity to promote eco-efficiency with its investment decisions. For example, the Säästöpankki Ympäristö special investment fund invests in companies and funds that promote environmental features. Our investment activities take ESG (environmental, social, governance) issues into consideration, which includes an assessment of environmental impacts. In 2022, the Savings Banks' asset management has actively exerted influence through general meetings and investor initiatives. We also carried out a due diligence analysis relating to climate change with an external partner and aim to influence the companies identified in the analysis. We have also made preparations for the EU's responsible finance policy, covering, for example, the disclosure regulation and the Markets in Financial Instruments Directive. We updated the integration of customers' sustainability preferences into our investment and insurance advisory process and developed sustainability assessment and communication for our products. We also developed data collection through our ESG tools and updated our principles for responsible investment.

FINANCIAL RESPONSIBILITY

Financial responsibility refers to good profitability, capital adequacy and liquidity, good governance and responsible leadership. It is important to us that our customers and partners can rely on our judgment and sense of responsibility in all circumstances.

To maintain financial responsibility, all entities in the Savings Banks Group have to ensure their capital adequacy and liquidity even in poor economic conditions. Savings Banks bear responsibility for promoting the local community's financial wellbeing.

For example, Savings Banks only provide their customers with loans and credit that they can manage without straining their finances.

The Group also takes a responsible attitude towards the Finnish economy. Savings Banks pay all of their taxes directly to Finland. They do not participate in controversial tax planning practices. In 2022, we paid EUR 17.9 million in income taxes. The Savings Banks Group employs financial and service industry professionals around Finland and contributes actively to the development of the Finnish banking sector through its presence on the various committees of Finance Finland.

ANTI-CORRUPTION AND BRIBERY

The Savings Banks Group's Code of Conduct is aimed at ensuring that the Savings Banks Group operates responsibly, ethically and in compliance with laws as well as orders and guidelines issued by the authorities. All Savings Banks Group employees must know the Code of Conduct and follow it. The Code of Conduct is supplemented by policies concerning conflicts of interest and the reporting of infringements. All Savings Banks Group employees are required to complete the online Code of Conduct training annually.

The Savings Banks Group does not condone corruption in any form, neither in business activities nor in business partnerships. The entities belonging to the Savings Banks Group do not condone the receiving or giving of gifts, hospitality or services that could be interpreted as bribery or an attempt to influence business. All employees are required to exercise very careful discretion in receiving gifts from or giving gifts to customers, partners or other people they interact with in their work.

CUSTOMER DUE DILIGENCE AND PREVENTING MONEY LAUNDERING AND TERRORIST FINANCING

The risk management principles related to preventing money laundering and terrorist financing describe the general principles, procedures and key risk management processes used by the Savings Banks Amalgamation in identifying, assessing, controlling and limiting risks.

We follow customer due diligence procedures on a risk-based basis throughout the customer relationship. We monitor customer relationships and the use of services by customers to ensure that each customer's activities correspond to the experience and information the bank has about the customer relationship. Our aim is to manage the risks associated with customer relationships and detect abnormal behaviour, as well as to effectively prevent abuse and criminal activity. We use systems to implement continuous monitoring and regularly assess and update the scenarios used for monitoring. We report suspicious transactions to the Financial Intelligence Unit in compliance with the legal requirements.

All employees in the Savings Banks Group are required to complete a mandatory annual online training programme on customer due diligence and the prevention of money laundering and terrorist financing. We monitor the completion of this training.

RISK MANAGEMENT

The risk monitoring and compliance function also monitors non-financial risks as part of the monitoring of operational and compliance risks. The Compliance function is responsible for monitoring operational compliance and compliance with the regulations. The realisation of non-financial risks can also compromise the Savings Banks Group's reputation and result in potential damage to customer relationships and other stakeholder relations. Non-financial risks are addressed in the regular risk assessments conducted as part of business operations. Potential operational risks and compliance risks are also taken into account in the development of new products and services. The management of non-financial risks is part of day-to-day operations and employees are regularly provided with training and instructions on risk management in their own work. The material risk areas are credit and counterparty risk as well as market, interest rate and liquidity risk. Business risks and operational risks are also key risks and apply to all operations. The above-mentioned risks and their management are described in more detail in the Savings Banks Group's IFRS financial statements. Climate risks and their management in asset management are discussed in more detail in the Savings Banks Group's sustainability report section related to the Task Force on Climate-related Financial Disclosures.

INFORMATION SECURITY

Information security and the provision of secure services to customers are the foundation for successful banking. The extensive phishing and scam attempts targeted at the customers of Finnish banks, which began in 2021, continued in 2022. It is possible that the situation will continue to be similar in the coming years, too.

The Savings Banks Group has developed the security of its services and IT systems on a long-term basis. Different cyber threats and changes in the activities of cybercriminals require that security in its various forms is one of the focus areas in our operational development in the future as well. In addition, the changing operational environment requires increasing investment in guiding, supporting and educating customers in the safe use of digital services.

EU TAXONOMY REPORTING OBLIGATIONS

The EU taxonomy is a classification system that aims to define environmentally sustainable economic activities. Its aim is to provide companies, investors and political decision-makers with uniform definitions of environmentally sustainable business functions and thereby help and direct financing investments made possible by the green transition. To meet the taxonomy criteria, an activity must promote at least one of the six EU environmental objectives: climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems. In addition, the activity must not cause any significant harm to any of these environmental objectives in line with the DNSH (Do No Significant Harm) principle. Furthermore, the corporate social responsibility principles of the UN, the ILO and the OECD must be adhered to.

The purpose of the Savings Banks Group's taxonomy reporting is to explain how and to what extent our activities are related to environmentally sustainable economic activities in accordance with the EU taxonomy definition. The most important performance indicator for credit institutions is the green asset ratio (GAR), which parties in the financial sector must begin to report starting from the financial year.

SAVINGS BANKS GROUP TAXONOMY REPORTING FOR 2022

For 2022, we follow lighter reporting set out in Article 8 of the Delegated Regulation specifying the content and presentation of information to be disclosed by undertakings in accordance with the presented timetables and report the ratio of taxonomy-eligible assets in relation to all assets. The 2022 taxonomy-eligible exposures of the Savings Banks Group currently only include mortgages for private customers. To date, the Savings Banks Group has not assessed the taxonomy of car loans for private customers.

As information sources for the reporting, we have used the Savings Banks Group's financial statements data and our data repository. Total assets to be included in the calculation of the ratio do not include receivables from governments, central banks and supranational issuers. The calculation was unable to determine the proportion of receivables from credit institutions to be paid on demand, or the proportion of exposures vis-à-vis supranational issuers. The central bank exposures consisted of checking account and minimum reserve deposits. The government exposures resulted from the Group's investments and do not include public sector operators. Taxonomy reporting also requires reporting on the trading book. As a rule, the Savings Banks Group's banking operations do not include trading on their own behalf or customer trading (so-called "trading" operations). The Savings Banks Group does not have a small trading book.

In the coming years, we aim to develop data collection and calculation and to assess the nature and development of classification-compliant financial activities. In the future, we aim to report these for the next financial years within the schedule and scope required by regulation.

PERFORMANCE INDICATORS OF THE EU TAXONOMY REGULATION (31.12.2022)

	EUR	Share of total assets covered by the taxonomy regulation %	Share on the balance sheet %
Taxonomy-eligible exposures*	6,108,706,808	49,31%	44,33%
Non-taxonomy-eligible exposures	6,278,869,047	50,69%	45,57%
Total exposures	12,387,575,855	100,00%	89,90%

* Includes private customer mortgages.

DATA ON THE SAVINGS BANKS GROUP'S BALANCE SHEET (31.12.2022)

	EUR	Share on the balance sheet %
Receivables from governments, central banks and supranational issuers*	1,391,992,357	10,10%
Derivatives	89,226	0,00%
Exposures by companies not subject to NFRD**	2,571,827,978	18,66%
On-demand receivables from credit institutions	0	0,00%
Trading Portfolio***	0	0,00%

* Receivables from supranational issuers could not be identified. The central bank exposures consisted of checking account and minimum reserve deposits.

** Includes corporate credit (companies other than NFRD reporting entities)

*** The Savings Banks Group does not have a trading book

VOLUNTARY TAXONOMY REPORTING

We have also made an assessment of the taxonomy-eligibility of the loans and investments of the companies subject to the NFRD (Non-Financial Reporting Directive, Chapter 3a of the Accounting Act). These calculations are based either on estimates or on information provided by a third party, as companies do not yet extensively report this information to the market. For the determination of the share of business-related assets, the Savings Banks Group has used the NACE classification codes for the EU taxonomy. For the time being, this determination is based on data retrieved from the Savings Banks Group's systems concerning granted loans, as data provided by corporate customers subject to taxonomy reporting obligations will only be available from 2023 onwards.

The Savings Banks Group will not report this voluntary taxonomy eligibility figure for the year 2022. The reporting will become more detailed in the coming years when the taxonomy data reported by the companies that Group finances and invests in can be utilised better.

DEVELOPMENT OF TAXONOMY REPORTING

We consider the proportion of assets that are in accordance with the taxonomy to be positive. However, so far no objectives have been set for taxonomy regulation-compliant financing and investing activities in the Savings Banks Group's business strategy.

In the future, we aim to take taxonomy compliance into account through the development of responsible products and the criteria for responsible borrowing, to support customers and counterparties in achieving green goals and to develop our annual monitoring. We also actively influence the companies that our funds at Sp-Fund Management Company Ltd invest in. In addition, we strive to develop taxonomy-related interaction with loan customers.

Our EU taxonomy reporting will evolve and expand in the coming years in accordance with the schedule set out in regulation. The importance of taxonomy reporting will increase in the future as the reporting increases.

OPERATIONS AND PROFIT BY BUSINESS SEGMENT

BANKING SERVICES

Customer satisfaction and customer experience among the Savings Banks' private customers remained strong during the financial year. The average Net Promoter Score (NPS) of the Savings Banks' customer negotiations was 81.6 for the year. Online negotiations as well as digital signing of contracts have become mainstream in customer encounters. During the year, the Savings Banks' joint range of services expanded in financial products when the Savings Bank unsecured consumer credit was launched to customers. Demand for this financial product, granted on a basis of a responsible credit policy, has been good and customers have applied for the product especially through the Savings Bank's mobile and online banking services. An example of successful digital services is the Savings Bank's mobile application, which has received some of the best application store ratings in the sector. As a whole, the increase in the use of digital services supports the transformation of the Savings Banks Group, to achieve the goal of providing customers with the best combination of in-person and digital services. During the financial year, the structure of the Savings Banks' private customer base developed favourably and the number of private customers using Savings Banks' services extensively and concentrating their banking in Savings Banks increased year-on-year. The Savings Banks' loan portfolio of private customers developed positively, despite changes in the interest rate and market environment especially in the second half of the financial year.

Customer satisfaction and customer experience among the Savings Banks' corporate customers remained very strong during the financial year. Among corporate customers, the Net Promoter Score (NPS) for the Savings Banks' customer negotiations was 82.2. The use of online negotiations and digital services by corporate and forestry and agriculture customers also increased substantially during the year. The number of corporate and forestry and agriculture customers using Savings Banks' services extensively grew significantly during the year, contributing to the implementation of the Savings Banks Group's strategic goals. The strong growth of corporate financing in line with the strategic goals was partly supported by the guarantee schemes of the European Investment Fund, the extensive utilisation of Finnvera's guarantee products and strong sales activity. As a whole, the Savings Banks Group's corporate financing grew clearly faster than the market, by more than 17 per cent.

THE SAVINGS BANKS GROUP'S MORTGAGE- AND CENTRAL BANK OPERATIONS

The objective of the Savings Banks Group's Sp Mortgage Bank is to strengthen the competitiveness of the Savings Banks Group through competitive funding and to promote the implementation of the strategy of the Savings Banks Group through its own operations. Sp Mortgage Bank is responsible for the residential mortgage loan funding of the Savings Banks Group by issuing covered bonds. The Savings Banks Group's mortgage banking operations progressed according to plan during the financial year and the credit portfolio amounted to EUR 1,993 million (EUR 2,246 million) by the end of the year.

The Central Bank of Savings Banks Finland Plc is a bank owned by Finnish savings banks with main purpose of providing savings banks and the Savings Banks Group with various central credit institution services. On 4 February 2022, S&P Global Ratings (S&P) confirmed the long-term credit rating of the Central Bank of Savings Banks Finland Plc, acting as the central credit institution of the Savings Banks Group, at A- and its short-term credit rating at A-2. The outlook remained negative.

FINANCIAL PERFORMANCE (COMPARATIVE FIGURES 1–12/2021)

Profit before tax of Banking operations stood at EUR 47.8 (49.6) million. Banking Operations data for the comparison year have not been adjusted with regard to withdrawing functions, and the data for the comparison year include both continuing functions and functions withdrawing from the Savings Banks Group. Net interest income was EUR 169.9 (166.4) million. Net fee and commission income totalled EUR 66.1 (74.8) million. Net investment income decreased to EUR -6.9 (17.2) million. Other operating revenue was EUR 45.1 (9.2) million. Other operating revenue were increased by one-off compensation EUR 33.9 million received from Cognizant in connection with the termination of the agreement related to the core banking system renewal project.

A total of EUR -15.9 (-1.3) million was recorded in impairments of financial assets. Personnel expenses amounted to EUR 58.3 (64.7) million. The number of personnel in the Banking operations segment was 873 (974) at the end of the financial year. Other operating expenses and depreciation amounted to EUR 152.3 (152.0) million. Expenses were increased by write down of EUR 7.6 million on intangible assets capitalised on the balance sheet in connection with the core banking system renewal project.

The balance sheet for Banking operations totalled EUR 11.2 (31.12.2021: 11.9) billion. Loans and advances to customers decreased to EUR 9.0 (31.12.2021: 9.6) billion. Deposits received from customers was EUR 7.0 (31.12:2021: 7.7) billion.

ASSET MANAGEMENT SERVICES

During the financial year, the Asset Management Services business was significantly affected by Russia's attack on Ukraine and the resulting weaker development of the investment markets. As concerns increased in the investment markets, the Savings Banks Group focused on customer support, high-quality service and customer communications especially using digital channels. As during the exceptional market situations in recent years, the customers acted calmly and there were no extensive fund unit redemptions or life insurance products surrenders. The Asset Management Services net sales remained positive throughout the year, with the exception of the two months.

The Savings Banks developed their services in all channels during the year. The Asset Management Services system reform, which started in late 2021, proceeded as planned. Especially the number of customers using the Savings Bank Private Banking Service, a service concept designed for more demanding investment customers, grew strongly during the year. The operations of Sb Life Insurance Ltd and Sp-Fund Management Company Ltd were undisrupted throughout the year and the customer experience remained good.

Despite the challenges of the operational environment, net subscriptions to investment funds managed by Sp-Fund Management Company were positive. Its market share among Finnish fund management companies increased by 0.2 percentage points to 3.1 per cent at the end of the year. The number of new continuous fund saving agreements signed decreased by 24.7 per cent year-on-year. All in all, 59.1 per cent of fund subscriptions and 18.6 per cent of continuous fund saving agreements were made electronically.

Due to exceptional simultaneous negative development in the fixed income and stock markets, fund capital managed by Sp-Fund Management Company Ltd decreased by 8.2 per cent year-on-year and totalled EUR 4.2 billion (EUR 4.5 billion) at the end of the year. Net subscriptions to Sp-Fund Management Company's funds totalled EUR 216.9 million (EUR 425.8 million). The number of fund unit holders grew by 2.1 per cent from the previous year. The funds had 283,556 unit holders. In terms of the number of unit holders, Sp-Fund Management Company Ltd is the fourth largest fund management company in Finland.

At the end of the financial year, Sp-Fund Management Company Ltd managed 33 investment funds, the largest of which was the Savings Bank Interest Plus investment fund with capital of EUR 0.7 billion. With 36,521 unit holders, Säästöpankki Ryhti was the largest investment fund in terms of the number of unit holders. Of the funds managed by Sp-Fund Management Company, the Säästöpankki Pitkäkorko investment fund accumulated the largest amount of new capital, with EUR 83.9 million in net subscriptions.

Sales of endowment insurance weakened from the comparison period but net sales for the full year were clearly positive. Taking into account the normal seasonal fluctuation, premium income from unit-linked insurance remained stable and full-year net sales was clearly positive. Premium income from endowment insurance decreased by 18.1 per cent from the comparison period. As a result of the negative development in the investment markets, unit-linked insurance savings declined, totalling EUR 855.4 million (EUR 989.7 million) at the end of the year.

FINANCIAL PERFORMANCE (COMPARISON FIGURES 1—12/2021)

Profit before tax for the Asset Management Services stood at EUR 36.3 (40.0) million. Net income from life insurance operations amounted to EUR 18.4 (18.5) million. Claims incurred totalled EUR 72.6 (68.8) million.

Net fee and commission income was EUR 36.6 (40.2) million.

Operating expenses were EUR 18.6 (18.5) million. Personnel expenses amounted to EUR 7.3 (7.6) million. Total other operating expenses and depreciation totalled EUR 11.3 (10.9) million. The number personnel in the segment at the end of the financial year was 63 (77).

Life insurance assets amounted to EUR 1,006.6 (31.12.2021: 1,160.7) million and life insurance liabilities were EUR 950.9 (31.12.2021: 1,084.7) million at the end of the financial year. Unit linked insurance savings totalled EUR 855.4 (31.12.2021: 989.7) million.

The balance sheet for Asset Management Services totalled to EUR 1,043.8 (31.12.2021: 1,171.1) million.

OTHER FUNCTIONS

Other functions include Savings Banks' Union Coop, Sp-Koti Ltd, Savings Banks Services Ltd and other companies consolidated within the Savings Banks Group. Other functions do not form a reportable segment.

Sp-Koti is a genuinely local real estate agent franchise group that is part of the Savings Banks Group. It serves customers in more than 80 offices across Finland and in 2 locations in Spain.

MATERIAL EVENTS AFTER THE CLOSING DATE

The Board of Directors of the Savings Banks' Union Coop is not aware of any factors that would materially influence the financial position of the Savings Banks Group after the completion of the financial statements.

OUTLOOK FOR 2023

OUTLOOK FOR THE OPERATIONAL ENVIRONMENT

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

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

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

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

BUSINESS OUTLOOK

Various uncertainties will pose challenges to financial performance in 2023. However, these will not jeopardise the performance or capital adequacy of the Savings Banks Group. The Savings Banks Group is solvent and the Group's business is relatively low in risk.

In 2023, the Savings Banks Group's business focus will again be on improving the competitiveness of the Group and implementing a customer-oriented strategy. Savings Banks are well placed to achieve this. In 2023, the Group aims to acquire more customers who will focus their banking services on a Savings Bank.

FURTHER INFORMATION:

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

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FORMULAS USED IN CALCULATING THE FINANCIAL HIGHLIGHTS

Revenue:	Interest income, fee income, net investment income, net life insurance income, other operating revenue
Total operating revenue:	Net interest income, net fee and commission income, net investment income, net life insurance income, other operating revenue
Total operating expenses:	Personnel expenses, other operating expenses, depreciation and impairment charges on tangible 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 %:	$\frac{\text{Equity (incl. non-controlling interests)}}{\text{Total assets}} * 100$

ALTERNATIVE PERFORMANCE MEASURES

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

Savings Bank Group is not using any alternative performance measures that are not directly calculated using the information presented in the Financial Statements, nor have any changes occurred in the financial highlights.

SAVINGS BANKS GROUP'S CONSOLIDATED IFRS FINANCIAL STATEMENTS

SAVINGS BANKS GROUP'S INCOME STATEMENT

(EUR 1,000)	Note	1–12/2022	1–12/2021*
Interest income		204,880	168,654
Interest expense		-35,270	-16,330
Net interest income	7	169,610	152,324
Net fee and commission income	8	103,261	101,085
Net investment income	9	-7,174	13,244
Net life insurance income	10	18,396	18,511
Other operating revenue	12	44,966	13,551
Total operating revenue		329,059	298,715
Personnel expenses	13	-92,371	-92,705
Other operating expenses	14	-116,217	-110,079
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	15	-20,452	-17,237
Total operating expenses		-229,040	-220,021
Net impairment loss on financial assets	16	-15,882	-941
Associate's share of profits	23	16	-198
Profit before tax		84,154	77,555
Income tax expense	17	-17,386	-14,722
Profit, continuing operations		66,768	62,833
Profit, Lieto Savings Bank's exit from the Savings Banks Group	35	11,251	9,930
Profit		78,019	72,762
Profit attributable to:			
Equity holders of the Group		78,039	72,781
Non-controlling interests		-20	-19
Total		78,019	72,762

* Comparatives have been adjusted due to the exit from the Savings Banks Group.

SAVINGS BANKS GROUP'S STATEMENT OF COMPREHENSIVE INCOME

(EUR 1,000)	1–12/2022	1–12/2021
Profit	78,019	72,762
Other comprehensive income		
Items that will never be reclassified to profit or loss		
Remeasurements of defined benefit obligation	1,443	-953
Deferred tax from remeasurements of defined benefit obligation	39	191
Capital gain of financial assets at fair value through other comprehensive income	51	2,486
Total	1,533	1,533
Items that are or may be reclassified to profit or loss		
Foreign currency translation differences		
Changes in fair value reserve		
Fair value measurements	-76,439	1,804
Deferred tax from fair value measurements	15,026	426
Cash flow hedges	-1,240	-1,074
Deferred tax from cash flow hedges	248	215
Total	-62,405	1,370
Total comprehensive income	17,147	75,665
Attributable to:		
Equity holders of the Group	17,166	75,684
Non-controlling interests	-20	-19
Total	17,147	75,665

SAVINGS BANKS GROUP'S STATEMENT OF FINANCIAL POSITION

(EUR 1,000)	Note	31.12.2022	31.12.2021
Assets			
Cash and cash equivalents*		1,207,448	1,017,904
Loans and advances to credit institutions	19	205,047	129,484
Loans and advances to customers	19	9,024,439	9,602,782
Derivatives	20	89	33,693
Investment assets	21	784,650	974,226
Life insurance assets	22	1,006,583	1,160,683
Investments in associates and joint ventures	23	119	102
Property, plant and equipment	24	39,093	46,222
Intangible assets	25	27,690	35,323
Tax assets	26	20,063	10,556
Other assets	27	94,362	68,120
Demerged assets from Savings Banks Group	35	1,369,986	
Total assets		13,779,568	13,079,096
Liabilities and equity			
Liabilities			
Financial liabilities at fair value through profit or loss	28	18,107	13,706
Liabilities to credit institutions	29	450,946	423,705
Liabilities to customers	29	6,994,366	7,682,351
Derivatives	20	263,422	15,511
Debt securities issued	30	2,756,666	2,500,165
Life insurance liabilities	31	950,931	1,084,728
Subordinated liabilities	32	2,142	13,427
Tax liabilities	26	66,454	65,760
Provisions and other liabilities	33	129,627	89,450
Demerged liabilities from Savings Banks Group	35	969,816	
Total liabilities		12,602,478	11,888,804
Equity			
Basic capital		25,224	25,235
Primary capital		31,452	32,452
Reserves		204,110	266,350
Retained earnings		914,940	864,871
Total equity attributable to equity holders of the Group		1,175,725	1,188,908
Non-controlling interests		1,365	1,384
Total equity	34	1,177,090	1,190,293
Total liabilities and equity		13,779,568	13,079,096

* Specification in the statement of cash flows.

SAVINGS BANKS GROUP'S STATEMENT OF CASH FLOWS

(EUR 1,000)	1–12/2022	1–12/2021
Cash flows from operating activities		
Profit	66,768	72,762
Adjustments for items without cash flow effect	34,757	66,419
Income taxes paid	2,775	-16,933
Cash flows from operating activities before changes in assets and liabilities	104,299	122,248
Increase (-) or decrease (+) in operating assets	-762,045	-372,347
Financial assets at fair value through profit or loss	4,653	258,995
Loans and advances to credit institutions	-107,461	-13,104
Loans and advances to customers	-667,697	-591,605
Investment assets, at fair value through other comprehensive income	7,589	-26,748
Investment assets, at amortized cost	7,777	-59,131
Life insurance assets	21,790	-35,963
Other assets	-28,697	95,208
Increase (-) or decrease (+) in operating liabilities	818,585	174,215
Liabilities to credit institutions	-31,561	106,353
Liabilities to customers	355,808	147,441
Debt securities issued	446,897	-96,522
Life insurance liabilities	-178	463
Other liabilities	47,618	16,480
Exit from Savings banks group	38,054	
Total cash flows from operating activities	198,893	-75,884
Cash flows from investing activities		
Other investments	-1,106	-9,056
Investments in investment property and in property, plant and equipment and intangible assets	-13,772	-13,961
Disposals of investment property and property, plant and equipment and intangible assets	3,797	3,555
Exit from Savings banks group	-2,348	
Total cash flows from investing activities	-13,430	-19,462

Cash flows from financing activities		
Increase in subordinated liabilities		6,764
Decrease in subordinated liabilities	-6,208	-22,557
Increase in basic capital	171	1,393
Distribution of profits	-3,743	-2,070
Other monetary decreases in equity items	-1,000	-944
Exit from Savings banks group	-5,127	-43,391*
Total cash flows from financing activities	-15,907	-60,805
Change in cash and cash equivalents	169,556	-156,150
Cash and cash equivalents at the beginning of the period	1,057,459	1,213,609
Cash and cash equivalents at the end of the period	1,227,015	1,057,459
Cash and cash equivalents comprise the following items:		
Cash	1,207,448	1,017,904
Receivables from central banks repayable on demand	19,566	39,555
Total cash and cash equivalents	1,227,015	1,057,459
Adjustments for items without cash flow effect		
Impairment losses on financial assets	15,882	1,306
Changes in fair value	1,444	-11,012
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	24,523	21,774
Effect of associates on profit	-16	198
Adjustments for life insurance operations	-1,588	33,828
Other adjustments	2,817	916
Gain or loss on sale of investment property and property, plant and equipment and intangible assets	-10,237	2,317
Income taxes	1,933	17,091
Total Adjustments for items without cash flow effect	34,757	66,419
Dividends received	192,365	187,115
Interest paid	18,026	24,302
Dividends received	6,585	2,988

* Eurajoen Säästöpankki exit from the Savings Banks Group on 1 December 2021. Further information in the financial statements 2021.

SAVINGS BANKS GROUP'S STATEMENT OF CHANGES IN EQUITY

(EUR 1,000)	Basic capital	Primary capital	Share premium	Fair value reserve	Reserve for hedging instru-ments	Re-serve fund	Other reserves	Total reserves	Re-tained earn-ings	Total equity attributable to equity holders of the Group	Non-con-trolling interests	Total equity
Equity 1 January 2021	25,236	32,452	127,672	17,862	1,801	48,586	74,136	307,406	826,526	1,127,540	1,438	1,155,709
Comprehensive income												
Profit									72,781	72,781	-19	72,762
Other comprehensive income				-814	-859			-1,674	4,576	2,902		2,902
Total comprehensive income				-814	-859			-1,674	77,357	75,683	-19	75,664
Transactions with owners												
Distribution of profits									-2,233	-2,233		-2,233
Tranfers between items						118		118	-2,905	-2,787		-2,787
Other changes			-776				339	-437		-437	-35	-472
Changes that did not result in loss of control									-723	-723		-723
Changes in Savings Bank Group's structure												
Exit from the Savings Banks Group*	-1			121		-1,683	-152	-1,714	-33,151	-34,866		-34,866
Total equity 31 December 2021	25,235	32,452	126,896	17,169	942	47,022	74,323	303,700	864,871	1,162,178	1,384	1,190,293

* Eurajoen Säästöpankki exit from the Savings Banks Group on 1 December 2021. Further information in the financial statements 2021, Appendix 1 Description of the Savings Banks Group and the scope of the financial statements.

(EUR 1,000)	Basic capital	Primary capital	Share premium	Fair value reserve	Reserve for hedging instru-ments	Re-serve fund	Other reserves	Total reserves	Re-tained earn-ings	Total equity attributable to equity holders of the Group	Non-con-trolling interests	Total equity
Equity 1 January 2022	25,235	32,452	126,896	17,169	942	47,022	74,323	303,700	864,871	1,162,178	1,384	1,190,293
Comprehensive income												
Profit									78,039	78,039	-20	78,019
Other comprehensive income				-61,413	-993		1,482	-60,923	51	-60,873		-60,873
Total comprehensive income				-61,413	-993		1,482	-60,923	78,090	17,166	-20	17,146
Transactions with owners												
Distribution of profits									-3,793	-3,793		-3,793
Tranfers between items	-1			4,692		-4,222	-29,026	-28,555	-128,497	-157,053		-157,053
Other changes			10,692			-2,843	-10,118	-2,268	-14,015	-16,284		-16,284
Changes that did not result in loss of control	-11	-1,000							-10,212	-11,223		-11,223
Changes in Savings Bank Group's structure												
Exit from the Savings Banks Group**	1			-4,692		5,134	29,026	29,467	128,497	157,965		157,965
Total equity 31 December 2022	25,224	31,452	137,588	-44,244	-51	45,091	65,726	239,488	914,940	1,148,996	1,364	1,177,090

* Eurajoen Säästöpankki exit from the Savings Banks Group on 1 December 2021. Further information in the financial statements 2021, Appendix 1 Description of the Savings Banks Group and the scope of the financial statements.

** Lieto Savings Bank exit from the Savings Banks Group on 28 February 2023. Further information in Appendix 1 Description of the Savings Banks Group and the scope of the financial statements.

BASIS OF PREPARATION

NOTE 1: DESCRIPTION OF THE SAVINGS BANKS GROUP AND THE SCOPE OF THE FINANCIAL STATEMENTS

The Savings Banks Group is the most longstanding 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 Savings Banks Group. The service and product companies within the Group support and promote the operations of the Savings Banks Group via producing centralised services or having responsibility for certain products. The most significant service and product companies of the Savings Banks Group are 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 Oy.

The member organisations of the Savings Banks 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 Savings Banks Amalgamation comprises the Savings Banks' Union Coop, which acts as the Central Institution of the Amalgamation, 15 Savings Banks, the Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc as well as the companies within the consolidation groups of the above-mentioned entities and Sp-Fund Management Company Ltd.

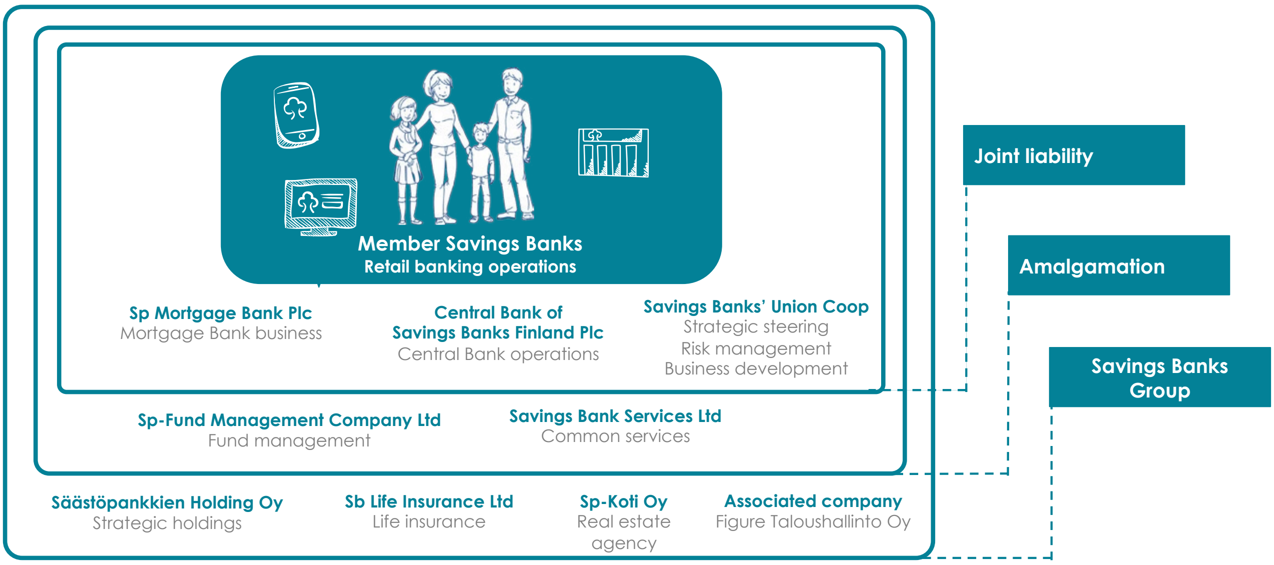
The structure of the Savings Banks Group differs from that of the Savings Banks Amalgamation so that the Savings Banks Group also includes organisations other than credit and financial institutions or service companies. The most significant of these are Sb Life Insurance Ltd and Sp-Koti Oy. The Savings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

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

The Trustees of Lieto Savings Bank approved the corporate restructuring arrangements related to the merger of Lieto Savings Bank and Oma Savings Bank at a meeting of the Trustees on 22 September 2022. Lieto Savings Bank's exit from the Savings Banks Group and the Savings Banks Amalgamation is expected to be completed approximately on 28 February 2023. The financial impact of Lieto Savings Bank's exit on the Savings Banks Group is described in more detail in Note 35 to the financial statements.

The structure of the Amalgamation and the Group are described in the chart below:

THE STRUCTURE OF THE AMALGAMATION AND THE GROUP



Savings Banks' Union Coop steers the operations of the Savings Banks Group and is responsible for the internal control framework. According to the Amalgamation Act Savings Banks' Union Coop acting as the Central Institution of the Amalgamation is obliged to prepare consolidated financial statements for the Savings Banks Group. The Board of Directors of Savings Banks' Union Coop is responsible for preparing the financial statements. The companies consolidated into the financial statements are listed in the note 42. The financial statements are prepared for the financial group formed by the Savings Banks Group. All figures presented hereafter are Savings Banks Group's figures unless otherwise stated.

Savings Banks' Union Coop's registered office is in Helsinki and its registered address is Teollisuuskatu 33, FI-00510 Helsinki.

The Savings Banks Group's financial statements and half-year report are available at www.saastopankki.fi/saastopankkiryhma.

The Board of directors of Savings Banks' Union Coop has in their meeting 14 February 2023 approved the Savings Banks Group's consolidated financial statements for the financial year ending 31 December 2022. The consolidated financial statements will be presented to the cooperative meeting of Savings Banks' Union Coop in the meeting scheduled for 10 March 2023.

NOTE 2: ACCOUNTING POLICIES

The "Accounting policies" note describes the Savings Banks Group's general accounting policies and consolidation principles. The key principles concerning financial instruments, life insurance liabilities, intangible assets, property, plant and equipment and operating revenue are presented in this note and more detailed information is provided in the notes focusing on each of these items. The accounting policies for other income and balance sheet items are presented in their respective notes (Notes 6–43).

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

1. GENERAL

The consolidated financial statements of the Savings Banks Group are 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 Act on the Amalgamation of Deposit Banks as well as IAS 8 concerning accounting policies, changes in accounting estimates and errors, the Board of Directors of the Savings Banks' Union Coop confirms any accounting policy for which no guidance is available in the international financial reporting standards. The consolidation principles of the Savings Banks Group are discussed in more detail in the section "2 Consolidation principles".

The Savings Banks Group's consolidated financial statements are prepared in euros, which is the presentation and functional currency of the Savings Banks Group.

Transactions denominated in foreign currencies outside the euro zone are translated into euros using the exchange rate at the date of the transaction. Assets and liabilities denominated in foreign currencies outstanding on the closing date are translated into euros using the European Central Bank's average rate on the closing date. The exchange rate differences arising from valuation are recognised as Net income from foreign exchange operations under Net investment income in the income statement. Exchange rate differences arising from life insurance operations are included in Net life insurance income.

The Savings Banks Group's consolidated financial statements are prepared under the historical cost convention, except for financial assets and liabilities measured at fair value through other comprehensive income, financial assets or liabilities 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 with the net amount presented in the consolidated balance sheet only if the Savings Banks Group holds a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis or to realize an asset and settle the liability simultaneously.

2.CONSOLIDATION PRINCIPLES

Technical parent company

According to the Act on the Amalgamation of Deposit Banks, the Savings Banks Group's consolidated financial statements must be prepared as a combination of the financial statements or group financial statements of the Savings Banks' Union Coop and its member credit institutions. In addition, the consolidated financial statements include organisations over which the above-mentioned organisations exercise joint control.

The Savings Banks' Union Coop and its member Savings Banks do not exercise control over each other. It is therefore not possible to define a parent company for the Savings Banks Group. The so-called technical parent

The accounting policies for other income and balance sheet items are presented in their respective notes (Notes 6–43) company referred to in the Savings Banks Group's IFRS financial statements is formed out of 15 member Savings Banks, which jointly exercise control over the other organisations consolidated in the Savings Banks Group's IFRS financial statements. The technical parent company's mutual ownership, intercompany business transactions, mutual receivables and liabilities, internal distribution of profits and intercompany margins are eliminated.

The Savings Banks Group's basic capital consists of the Savings Banks' basic capital and share capital of the Savings Banks in the form of a limited liability company, excluding Nooa Savings Bank Ltd, which is a subsidiary jointly owned by the other member Savings Banks. According to Section 11 of the Savings Banks Act the basic capital is not repaid. The share capital is treated in accordance with the Act of Limited Liability Companies.

Subsidiaries

The Savings Banks Group's subsidiaries are entities over which the Savings Banks Group has control.

The Savings Banks Group has control in an entity if the Savings Banks Group has power over the entity and is exposed to the entity's variable returns or is entitled to its variable returns and the Savings Banks Group is able to use its power over the entity and thereby affect the amount of returns received.

The Savings Banks Group's mutual ownership is eliminated using the acquisition method. An asset used in the acquisition, the assets of the acquired entity and the assumed liabilities are valued at fair value at the time of acquisition. The part of the acquisition cost that exceeds the Savings Banks Group's share of the fair value of the net assets of the acquired company at the time of acquisition is recognised as goodwill. Negative goodwill is fully recognised as income at the time of acquisition.

All intra-group transactions, receivables, liabilities and unrealised profits as well as internal distribution of profits are eliminated when preparing the Savings Banks Group's consolidated financial statements.

The subsidiaries, associated companies and joint ventures acquired during the financial year are consolidated starting on the date when the Savings Banks Group acquired control or joint control. Similarly, the subsidiaries, associated companies and joint ventures which are sold during the financial year are consolidated until the control, joint control or significant influence ceases.

The Savings Banks Group has applied the exemption for first-time adopters in IFRS 1 First-time Adoption of International Financial Reporting Standards not to apply IFRS 3 Business Combinations retrospectively to prior business combinations that occurred before 1 January 2013. Subsidiaries acquired since 1 January 2013 are treated in accordance with IFRS 3 Business Combinations.

Other consolidated entities and companies

Structured entities are entities which have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Structured entities are characterised by having a narrow and well-defined objective and often insufficient equity to finance their activities without subordinated financial support. Within the Savings Banks Group, the entities identified as structured entities consist of mutual funds which are managed by Sp-Fund Management Company Ltd, a member of the Savings Banks Group, and over which the Savings Banks Group is considered to have the type of control as specified above. Accounting policies are described in more detail in Note 41.

Associated companies are entities over which the Savings Banks Group has significant influence but no control. Significant influence emerges, in principle, when the Savings Banks Group holds 20–50 per cent of the company's voting rights or when the Savings Banks Group otherwise has significant influence over the company. An associated company is consolidated in the Savings Banks Group's financial statements using the equity method, meaning that the associated company's income statement and balance sheet are not included in the Savings Banks Group's income statement and balance sheet in full.

Joint arrangements are arrangements where two or more parties have joint control. Joint arrangements are divided into joint ventures and joint operations. The accounting policies of associated companies and joint ventures are described in more detail in Note 23.

Non-controlling interests

Non-controlling interests in equity, profit for the year and other items within the comprehensive income statement are presented separately in the Savings Banks Group's income statement, comprehensive income statement and balance sheet. Loss for the year is also allocated to non-controlling interests even if doing so would result in a negative non-controlling interest.

At the acquisition date, the share of non-controlling interests in subsidiaries is valued either at fair value or at proportionate share of the subsidiary's net assets. The valuation principle is defined separately for each acquisition.

3. FINANCIAL INSTRUMENTS

Financial assets and liabilities

The Savings Banks Group applies IFRS 9 Financial instruments standard on recognition and measurement of financial instruments. For fair value hedges of the interest rate risk of a portfolio of financial assets or financial liabilities ("macro hedges") the Savings Banks Group continues application of IAS 39 Financial instruments: recognition and measurement standard.

Classification in the Savings Banks Group's balance sheet is independent of the IFRS 9 categories. Different valuation bases can therefore be applied to assets and liabilities recognised on the same line in the balance sheet. The classification of financial assets and liabilities recognised in the balance sheet into valuation categories is set out in Note 18.

Overlay approach

The equity instruments and fund investments associated with Sb Life Insurance's investment activities are classified as financial assets measured at fair value through profit or loss. For a significant portion of these instruments, the Savings Banks Group applies a temporary exemption permitted by IFRS 4, which restores the earnings effect of the instruments to be in accordance with IAS 39. This temporary exemption is referred to as the overlay approach.

The financial assets within the scope of the overlay approach are measured in the balance sheet at fair value and changes in their value are reported in the fair value reserve belonging to other comprehensive income. Changes in the fair value are recognised in the income statement when the asset is derecognised or when there is objective evidence of impairment. For equity instruments, a significant or long-term decrease of its fair value below its acquisition cost is considered objective evidence. If the fair value of an impaired equity instrument later increases, this increase is recognised in other comprehensive income.

The overlay approach aims to reconcile temporary earnings volatility resulting from the different dates of entry into effect of IFRS 9 and IFRS 17 when investments are measured at fair value through profit or loss in accordance with IFRS 9 but the related insurance liability cannot yet be measured at fair value through profit or loss in accordance with IFRS 17. The application of the overlay approach will end on 1 January 2023 when the IFRS 17 Insurance Contracts standard enters into effect.

Initial recognition

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

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

Subsequent measurement

For the purposes of subsequent measurement, the Savings Banks Group classifies financial assets into following measurement categories:

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

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

The classification principles and breakdown of financial assets and liabilities by measurement category are described in more detail in Note 18.

Debt instruments are measured at fair value and changes in value, less deferred taxes and expected credit loss, are recognised in the statement of comprehensive income. For debt instruments, the gain or loss on the transfer or sale of a financial asset measured at fair value through other comprehensive income is recognized through profit or loss.

On initial recognition the Savings Banks Group may make an irrevocable choice to present the subsequent fair value changes of an equity instrument in other comprehensive income. This election is made on instrument basis. These financial assets are measured at fair value and the change in value is recognised, less deferred taxes, in the statement of other comprehensive income. Such a decision has been made in significant investments in partners or companies with a business relationship, for example. Dividends from equity instruments are recognised in profit or loss when the right to receive payment is established. Capital repayments from the share are recognised in the statement of other comprehensive income. For equity instruments, unrealised gains or losses accrued in the fair value reserve are not transferred to be recognised through profit or loss at any stage. Instead, the recognition is made through retained earnings within equity.

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

Derecognition of financial assets and liabilities

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

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

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

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

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

Impairment

Expected credit losses

The Savings Banks Group 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 amortised cost or financial assets measured at fair value through other comprehensive income, guarantees and loan commitments.

The methods and parameters used to calculate expected credit losses are described in more detail in Note 16.

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

Incurred credit losses

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

Hedging and derivatives

For hedging relationships under general hedge accounting (cash flow hedging and fair value hedging), the Savings Banks Group has adopted IFRS 9, while for macro hedging, the Savings Banks Group will continue to apply IAS 39 "carve out"-regulation until the macro hedging supplement enters into effect.

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

The effective portion of the fair value changes of derivatives hedging cash flow is recognised in the fair value reserve in equity, adjusted with deferred taxes. The ineffective portion of fair value change is recognised in the income statement under "Net investment income". The cumulative change in the fair value reserve resulting from valuation of a hedging derivative is recognised in profit or loss as an adjustment of the hedged cash flow simultaneously with recognising the hedged cash flow. 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.

4. LIFE INSURANCE LIABILITIES

Life insurance policies granted by the Savings Banks Group are classified as either insurance contracts or investment contracts. Insurance policies classified as insurance contracts include those with a significant insurance risk or where the policyholder has the right or the opportunity to amend the agreement in such a way that he becomes entitled to a discretionary share of the company's surplus. Purely unit-linked insurance policies which do not have a significant insurance risk are classified as investment contracts.

The Savings Banks Group's insurance contracts are treated in the Savings Banks Group's financial statements in accordance with IFRS 4 Insurance Contracts. Policies classified as investment contracts (asset management policy), on the other hand, are treated in accordance with IAS 39. Reinsurance contracts are treated in accordance with IFRS 4 as insurance contracts. Insurance liabilities are recognised in accordance with the Finnish Accounting. The actuarial basis of calculation used when determining insurance contract liability complies with the requirements of national regulations. The basis includes assumptions about biometric factors, operating costs and the interest rate. Liability arising from investment contracts is measured in accordance with the market value of the assets related to the investment contracts. The accounting policies of life insurance liabilities are described in more detail in Note 31.

As of 1 January 2023, the IFRS 17 Insurance Contracts standard will be applied to insurance contracts and the application of the overlay approach will end. The basis of preparation pursuant to IFRS 17 is presented in section 8 below. New and amended standards to be applied in future financial years.

5. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The Savings Banks Group's property, plant and equipment include e.g. owner-occupied property as well as machinery and equipment. In addition, the Savings Banks Group has investment properties which produce rental income. The Savings Banks Group's properties are divided according to the purpose of use into owner-occupied properties and investment properties.

An intangible asset is an identifiable asset that has no physical substance. The intangible assets of the Savings Banks Group include e.g. computer softwares and software licenses. An intangible asset is recognised in the balance sheet only if it is probable that the expected future economic benefits that are attributable to the asset will flow to the Savings Banks Group and the acquisition cost of the asset can be measured reliably.

Property, plant and equipment and intangible asset are recognised at its cost less accumulated amortisation and impairment. The basis of preparation of property, plant and equipment is presented in its entirety in Note 24 and intangible assets in Note 25.

6. NET OPERATING INCOME

The most significant income items of the Savings Banks Group are net interest income and net fee and commission income and fee expenses. Interest on balance sheet items included in financial assets and liabilities is recognised in net interest income, regardless of the measurement category. Interest income and expense are accrued over maturity using the effective interest rate method. The basis of preparation of net interest income is presented in more detail in Note 7.

Net fee and commission income consists of the income and expenses associated with services provided to customers, measured at the amount to which the Savings Banks Group considers itself to be entitled against the services provided. Fees and commissions are, as a rule, recognised once the service has been provided and control has passed to the customer. The basis of preparation of the Net fee and commission income and fee expenses item is presented in its entirety in Note 8.

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

7. ADOPTION OF NEW IFRS STANDARDS AND INTERPRETATIONS

New and amended standards applied in financial year ended

Savings Banks Group has applied, as from 1 January 2022, the following new and amended standards that have entered into effect:

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (effective for financial years beginning on or after 1 January 2022)

When an onerous contract is accounted for based on the costs of fulfilling the contract, the amendments clarify that these costs comprise both the incremental costs and an allocation of other direct costs. The change in the standard did not have an impact on Savings Banks Group's consolidated financial statements.

Annual Improvements to IFRS Standards 2018–2020 (effective for financial years beginning on or after 1 January 2022).

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

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

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

The changes in the standards did not have an impact on Savings Banks Group's consolidated financial statements.

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

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

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

The amendments update a reference in IFRS 3 and makes further reference related amendments. The change in the standard did not have an impact on Savings Banks Group's consolidated financial statements.

8. ADOPTION OF NEW AND AMENDED STANDARDS IN FUTURE FINANCIAL YEARS

Savings Banks Group 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 2022.

IFRS 17 *Insurance Contracts*, including Amendments *Initial Application of IFRS 17* and *IFRS 9* – Comparative Information (effective for financial years beginning on or after 1 January 2023, early application permitted for companies that also apply IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*)

General

The new standard applies to insurance contracts and will help investors and others better understand insurers' risk exposure, profitability and financial position. This standard replaces the IFRS 4 standard.

The amendments alleviate mismatches in comparative information arising from the different transition requirements of IFRS 9 and IFRS 17. The amendments also make it possible to present comparative information on financial assets in a manner that is more consistent with the requirements of IFRS 9 Financial Instruments.

The Savings Banks Group will apply the IFRS 17 Insurance Contracts standard starting from 1 January 2023. The application of the new standard will have a significant impact on the accounting of insurance contracts. In the Savings Banks Group, the insurance contracts of Sb Life Insurance Ltd are within the scope of IFRS 17. The IFRS 17 standard is applied only to the IFRS financial statements of the Savings Banks Group, in other words, the financial statements of Sb Life Insurance will continue to be prepared in accordance with national accounting and financial statements preparation regulations.

IFRS 17 sets out principles for the recognition, measurement and presentation of insurance and reinsurance contracts as well as certain investment contracts with discretionary participation features, and the notes to financial statements concerning such contracts. The purpose of the IFRS 17 standard is to harmonise the principles concerning the measurement of insurance contract liabilities. Under the earlier IFRS 4 Insurance Contracts standard, the measurement of insurance contract liabilities was based on national measurement whereas under IFRS 17, it is based on up-to-date estimates.

Changes to classification and measurement

Life insurance policies granted by the Savings Banks Group are classified as either insurance contracts or investment contracts. Insurance policies classified as insurance contracts include those with a significant insurance risk or where the policyholder has the right or the opportunity to amend the contract in such a way that the policyholder becomes entitled to a discretionary share of the company's surplus. Purely unit-linked insurance policies which do not have a significant insurance risk are classified as investment contracts.

The Savings Banks Group's insurance contracts are treated in the Savings Banks Group's financial statements in accordance with the IFRS 17 Insurance Contracts standard. The IFRS 9 Financial Instruments standard is applied to contracts classified as investment contracts. Reinsurance policies are treated in accordance with IFRS 17 as insurance contracts.

At the end of the financial year 2022, life insurance liabilities totalled EUR 947 million, of which insurance contract liabilities classified according to IFRS 17 account for EUR 575 million and investment contracts classified according to IFRS 9 account for EUR 373 million.

In accordance with IFRS 17, insurance contracts are divided into portfolios that are subject to similar risks and are managed together. The portfolios are further divided into loss-making, profitable and other insurance contracts on the basis of the revenue expectations on the date of initial recognition of the contracts. These insurance contract groups are further divided into annual cohorts, which form IFRS 17-compliant insurance contract groups that are subject to recognition and measurement requirements.

The IFRS 17 standard identifies three different measurement models for insurance contracts: the general measurement model, the variable fee approach and the premium allocation approach.

The Savings Banks Group uses the general model in the measurement of contracts related to loan security. According to the general model, a group of insurance contracts is measured on the basis of the Savings Banks Group's estimates of the future cash flows arising from the performance of the contract, a separate risk adjustment for non-financial risks, and a service margin.

According to the IFRS 17 standard, the variable fee approach is applied to insurance contracts with a direct entitlement to the contract surplus. In the Savings Banks Group, such contracts are pension and savings insurance products that have entered into force before 1 January 2018 and that include a direct entitlement to the contract surplus. In the variable fee approach, the service margin change on the reporting date includes a share of the change in the fair value of the underlying investments.

The simplified premium allocation approach may be applied to insurance contracts with an insurance period of less than one year or where the measurement of insurance contract liabilities on the basis of premium allocation does not significantly differ from the value of insurance contract liabilities calculated on the basis of the general model. The Savings Banks Group applies the premium allocation approach to reinsurance contracts in its possession.

Changes to presentation and recognition

The IFRS 17 standard will change the presentation of the income statement and balance sheet. The current income statement presentation method based on expense types will change because, with the adoption of IFRS 17, part of personnel expenses and other operating expenses are included in the calculation of IFRS 17 insurance contract liabilities and presented under insurance service expenses.

Insurance contract group revenue is presented as a separate line item in the income statement under insurance premium revenue, on the basis of the measurement of future cash flows, the contractual service margin and the separate risk adjustment for non-financial risks. Insurance contract group expense items are presented under insurance premium expenses. The change in the carrying amount resulting from financial risk and the discounting of insurance contract liabilities is presented in the income statement on the line item for the finance income and expenses of the insurance contracts. In future, net investment income from life insurance will be presented in the Savings Banks Group's income statement under net investment income. The rights and obligations of insurance contracts will be netted and presented on the balance sheet as either assets or liabilities at the portfolio level.

Information about the transition

The Savings Banks Group has applied the retrospective approach in adopting the IFRS 17 standard as far as practically possible. When applying the IFRS 17 standard retrospectively, the Savings Banks Group has, on the transition date of 1 January 2022, determined, recognised and measured the insurance contract groups and the cash flows associated with insurance contract acquisition as if the standard had always been applied. The net effect of the retrospective transition has been recognised in equity on the balance sheet on the transition date. The Savings Banks Group has applied the retrospective approach when adopting IFRS 17 with regard to insurance contracts that concern loan security and were initially recognised after 31 December 2018.

The Savings Banks Group has applied the fair value approach to insurance contracts that were in effect prior to 31 December 2018. On the transition date, the Savings Banks Group determined the contractual service margin or the loss component as the difference between the fair value of the contracts and the future cash flows arising from the performance of the contract.

The Savings Banks Group has applied the temporary exemption permitted by IFRS 4 to a significant proportion of the equity instruments and fund investments related to life insurance investment operations, which has aligned the instruments' effects on profit or loss with IAS 39. The financial assets within the scope of the temporary exemption have been recognised on the balance sheet at fair value and changes in their value have been reported in equity, in the fair value reserve belonging to other comprehensive income. The application of the temporary exemption has ended when the IFRS 17 standard entered into force and the measurement result recognised in the fair value reserve has been recognised in retained earnings on the transition date.

As a result of the IFRS 17 transition, the Savings Banks Group's equity before taxes on 1 January 2022 increased by a total of EUR 7 million. Ending the temporary exemption had the following effect between the fair value reserve in equity and retained earnings: EUR 11 million.

Accounting policies as of 1 January 2023:

Insurance contracts

Classifying insurance policies into insurance and investment contracts

Life insurance policies granted by the Savings Banks Group are classified as either insurance contracts or investment contracts. Insurance policies classified as insurance contracts include those with a significant insurance risk or where the policyholder has the right or the opportunity to amend the contract in such a way that the policyholder becomes entitled to a discretionary share of the company's surplus. Purely unit-linked insurance policies which do not have a significant insurance risk are classified as investment contracts.

Insurance policies concerning loan security always entail a significant insurance risk. Savings and pension insurance policies have a significant insurance risk when, according to the Savings Banks Group's estimate, the benefit payable in the event of death exceeds 105% of the value of the insurance savings (significant mortality risk) or is less than 95% of the value of the insurance savings (significant longevity risk).

The Savings Banks Group's insurance contracts are treated in the Savings Banks Group's financial statements in accordance with the IFRS 17 Insurance Contracts standard. The IFRS 9 Financial Instruments standard is applied to contracts classified as investment contracts. Reinsurance policies are treated in accordance with IFRS 17 as insurance contracts.

Recognition of insurance contracts

Insurance contracts are divided into portfolios that are subject to similar risks and are managed together. The portfolios are further divided into loss-making, profitable and other insurance contracts on the basis of the revenue expectations on the date of initial recognition of the contracts. The Savings Banks Group determines the loss component of insurance contracts at the contract level on the basis of the estimated future cash flows arising from the performance of the contract.

The above-mentioned insurance contract groups are divided into annual cohorts; a cohort may not contain contracts with start dates more than one year apart from each other. A single cohort forms an IFRS 17-compliant insurance contract group that is subject to recognition and measurement requirements.

The insurance contract group is recognised when the first of the following criteria is met:

- the insurance period of the insurance contract group begins;
- the first premium due from the policyholder is due; or
- the insurance contract group becomes loss-making.

The Savings Banks Group derecognises the contract when the contract is no longer in force and the Savings Banks Group no longer has any contract-related financial risks.

Measurement of insurance contracts

The IFRS 17 standard identifies three different measurement models for insurance contracts: the general measurement model, the variable fee approach and the simplified premium allocation approach.

The general model is the default model for all contracts that do not include any direct entitlement to a share of profit or loss on pre-identified items. According to the general model, at initial recognition, the future cash flows of the insurance contract are discounted, and a risk adjustment is determined to reflect uncertainty about the timing or amount of cash flows. If the present net value of the future cash flows and the risk adjustment is positive, a contractual service margin is formed and recognised as income over the validity period of the insurance contract. The loss component of a loss-making contract is recognised as an expense in the income statement at the time of the contract recognition.

At the end of the reporting period, the measurement of each insurance contract group is carried out using up-to-date estimates of future cash flows and the contractual service margin. The carrying amount of the insurance contract group at the end of the reporting period is the sum of the liabilities of the remaining insurance period and the liabilities arising from actual insurance events. The liabilities of the remaining insurance period is the present value of the cash flows related to future service at the time of reporting plus the contractual service margin and the risk adjustment. The liabilities arising from actual insurance events includes the cash flows of outstanding insurance compensation related to the actual insurance events.

The Savings Banks Group uses the general model in the measurement of insurance contracts related to loan security that do not include a direct entitlement to the contract surplus. The Savings Banks Group's loan security contracts include death cover, and some of the contracts also cover for serious illness, but no entitlement to the contract surplus.

The application of the variable fee approach is obligatory if the insurance contract includes any direct entitlement to a share of profit or loss on pre-defined items. The variable fee approach differs from the general model when it comes to the measurement of the service margin of insurance contracts. In the variable fee approach, the service margin change on the reporting date includes a share of the change in the fair value of the underlying investments. In the Savings Banks Group, the variable fee approach is applied to pension and savings insurance products that entered into force before 1 January 2018 and that include a direct entitlement to the contract surplus. The Savings Banks Group's pension and savings insurance contracts that have entered into force after that date are, by nature, unit-linked contracts that do not have any insurance risk. These contracts are measured and recognised as investment contracts in accordance with the IFRS 9 Financial Instruments standard.

The premium allocation approach may be used if the insurance period of a contract in the insurance contract group does not exceed one year or if insurance contract liabilities measured according to the premium allocation approach do not materially differ from insurance contract liabilities calculated on the basis of the general model. The premium allocation approach does not include a separate contractual service margin component like the other measurement models. The Savings Banks Group applies the premium allocation approach to reinsurance contracts in its possession.

Determination of cash flows

The measurement of the insurance contract group takes into account all future cash flows arising from the performance of the insurance contract, provided that they are within the limits of the contract. In the determination of cash flows, all information concerning the amount, timing and uncertainty of cash flows that is available without unreasonable costs is taken into account. In addition, the estimates of cash flows must be up to date, in other words, must reflect the conditions prevailing at the time of reporting.

Cash flows within the limits of the insurance contract are cash flows directly related to the performance of the contract, including cash flows for which the Savings Banks Group has discretion as to the amount or timing. Cash flows arising from the performance of the contract include premiums received from the policyholder, insurance compensation payable to the policyholder and insurance acquisition expenses. Furthermore, cash flows include other operating expenses that can be allocated directly to insurance contracts.

When it comes to expenses other than those allocated directly to insurance contracts, the management assesses separately whether the cash flow of the expense item is related to the fulfilment of the insurance contract obligations. The management's assessment is based on various calculations made by the company and an analysis of these calculations.

Determination of the discount rate

The Savings Banks Group has defined the discount rate for insurance contract liabilities as the risk-free interest rate plus a liquidity premium. The liquidity premium is calculated separately for each product group. At the moment, all of the Savings Banks Group's insurance product groups are liquid by nature and therefore the risk-free yield curve is not adjusted with a liquidity premium. For new products, the Savings Banks Group assesses their liquidity characteristics and the need to adjust the risk-free yield curve with a liquidity premium.

Presentation of insurance contracts

The income statement presents insurance premium revenue and insurance service expenses and the insurance service result, comprising of these two, as separate items. In addition, the finance income and expenses of the insurance contracts are presented as a separate line item.

Insurance contract group revenue is presented under insurance premium revenue, on the basis of the measurement of future cash flows, the contractual service margin and the separate risk adjustment for non-financial risks. Insurance premium revenue is recorded for the reduction of the liabilities of the remaining insurance period as a result of services provided during the reporting period.

Items recognised in insurance service expenses include actual compensation and other expenses, the change in the liabilities arising from actual insurance events, insurance contract acquisition costs and the change of the loss component in the change in the liabilities of the remaining insurance period.

The finance income and expenses of the insurance contracts are items arising from financial risk and the discounting of insurance contract liabilities and the resulting change in the carrying amount of insurance contract liabilities. According to the IFRS 17 standard, the finance income and expenses of the insurance contracts can be recognised either entirely in the income statement or divided into the income statement and other comprehensive income. The Savings Banks Group presents the finance income and expenses of the insurance contracts entirely in the income statement.

The rights and obligations of insurance contracts will be netted and presented on the balance sheet as either assets or liabilities at the portfolio level.

The life insurance business' equity principle

The objective of the Savings Banks Group's life insurance business is to provide, in the long term, the insurance savings with discretionary benefits a total benefit (before charges and taxes) equivalent to the level of return on the Finnish government's long-term bond yields. For savings insurance policies, the target is to achieve a level of return equivalent to that of 5-year bonds, whereas for pension insurance policies the target level for return equals 10-year bonds. The total benefit of an insurance policy refers to the technical or annual interest of the insurance contract and to the additional interest credited to the contract.

Impact of other standard changes

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

The amendments clarify the application of materiality to disclosure of accounting policies. The change in the standard will have no significant impact on Savings Banks Group's consolidated financial statement.

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

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

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

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

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

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

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

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

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

The amendments address the conflict between the existing guidance on consolidation and equity accounting and require the full gain to be recognised when the assets transferred meet the definition of a 'business' under IFRS 3 Business Combinations. The change in the standard will have no significant impact on Savings Banks Group's consolidated financial statement.

NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The key estimates of the Savings Banks Group are related to the determination of impairment and fair value of financial assets, the determination of the liability for life insurance contracts and the determination of the present value of pension obligations. Management judgement has been required for Lieto Savings Bank's exit from the Savings Banks Group. The key uncertainties in estimates made in these financial statements are particularly related to future economic development.

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

3.1 Determination of expected credit losses

The Savings Banks Group's expected credit loss calculation models contain several factors that require the management's judgment.

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

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

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

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

The member banks of the Savings Banks Group have assessed the financial impacts of the war in Ukraine and the economic sanctions against Russia on their customers' credit risk. Savings Banks do not have significant direct liabilities to Russia, Ukraine or Belarus. Nevertheless, the changed market conditions have indirect impacts on certain industries or individual customer relationships. Savings Banks have enhanced their monitoring of identified risks that have potentially been elevated by the crisis.

Savings Banks Group updated the economic forecasts used in the calculation of expected credit losses for the end of 2022. Further details on the key macroeconomic variables and the weights assigned to the scenarios in the economic forecasts are presented in Note 16, "Impairment losses on financial assets".

3.2 Determining fair value

When determining fair values, the management must consider whether there is price information available in the market that can be considered a reliable indication of the financial instrument's fair value. The assessments are based on a view of the functioning of the market and the trading activity for the financial instrument in question.

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

The management's judgement is required in circumstances where fair value price information is not available in the market and the fair value of a financial instrument needs to be determined using a valuation technique. In such circumstances, the valuation techniques and inputs used to measure fair values are based on the management's assessment of the market practices used to measure the value of the instruments in question. The Savings Banks Group only has a small number of financial instruments whose fair value is measured using valuation techniques, and there were no substantial changes in their amount during the past financial year.

3.3 Impairment of non-financial assets

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

3.4 Actuarial calculations

Liabilities arising from insurance contracts involve several discretionary factors and estimates, such as assumptions about future interest rates, mortality, and probability of disability and future cost levels. The principles used to calculate life insurance liabilities are described in more detail in section "Life insurance liabilities" in the accounting policies.

3.5 Present value of pension obligation

The present value of pension obligation is based on actuarial calculations, which include a number of discretionary assumptions related to e.g. discount rate, future increases in salaries, wages and pension, as well as inflation. Changes in actuarial assumptions affect the carrying amount of pension obli-gations.

3.6 Lieto Savings Bank's exit from the Savings Banks Group

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

In accordance with the principles of the Act on the Amalgamation of Deposit Banks and the IAS 8 standard concerning accounting policies, adjustments and errors in accounting estimates, the Board of the Savings Banks' Union Coop confirms any accounting policy for which no guidance is available in the IFRSs. In accordance with the accounting policy confirmed by the Savings Banks' Union Coop, the IFRS 5 Non-current Assets Held for Sale and Discontinued Operations standard is applied to Lieto Savings Bank's exit in the Savings Banks Group's financial statements for 2022.

Lieto Savings Bank's operating result is presented in the Savings Banks Group's income statement separately from the revenue and expenses of continuing operations and the comparative information has been adjusted accordingly. Lieto Savings Bank's assets and liabilities are presented in the Savings Banks Group's balance sheet as a separate line item under assets and liabilities and, in accordance with the IFRS 5 standard, the comparative information is not adjusted. Balance sheet items are reported at the lower of the carrying amount or the fair value less costs arising from the sales transaction. Depreciation and amortisation of intangible assets and property, plant and equipment classified under discontinued operations have been discontinued as of the beginning of October 2022.

The financial impact of Lieto Savings Bank's exit on the Savings Banks Group is described in more detail in Note 35.

RISK MANAGEMENT AND CAPITAL ADEQUACY MANAGEMENT POLICIES OF THE GROUP

NOTE 4: CORPORATE GOVERNANCE POLICIES

Savings Banks' Union Coop General Meeting

The highest decision-making authority in the Savings Banks' Union Coop (hereinafter the "Central Institution") belongs to the members participating in the general meeting. The general meeting confirms the service and extra fees collected from the members.

Supervisory Board

The general meeting elects the members of the Supervisory Board and their personal deputies for the term extending until the next ordinary general meeting. The Supervisory Board consists of 9–35 members.

The Supervisory Board had 15 members, each with a personal deputy. The chairman of the Supervisory Board was Antero Savolainen (chairman of the Board of Directors of Säästöpankki Optia). The deputy chairmen were Arto Seppänen (chairman of the Board of Directors of Someron Säästöpankki) and Björn West (chairman of the Board of Directors of Kvevlax Sparbank). The members of the Supervisory Board are primarily chairmen of the Boards of Directors of Savings Banks and their deputies are deputy chairmen of the Boards of Directors of Savings Banks.

The Supervisory Board is responsible for monitoring the governance of the Central Institution by the Board of Directors and the Managing Director making sure that the operations are managed with sound and professional manners, pursuant to the Cooperatives Act, and in the interest of the Central Institution and the Savings Banks Group. The Supervisory Board confirms, based on the proposal of the Board of Directors, the principles of the Savings Banks Group, the strategy, the principles for capital adequacy management and other common objectives and policies.

The Supervisory Board has confirmed its rules of procedure, which define the duties and meeting practices of the Supervisory Board.

Board of Directors

The general meeting elects the members of the Board of Directors for the term extending until the next ordinary general meeting.

According to the Central Institution rules, the Board of Directors consists of six to nine members. The annual general meeting selects the members for the term of one year. The Chairman and the deputy Chairman are appointed in the organising meeting of the Board of Directors.

The Board of Directors consists largely of the savings banks' professional directors or members of the board of directors of savings banks. The assembly of the members secures the presentation of the Swedish speaking banks and different sizes of the banks in The Board of Directors. It also reflects the amount of member banks' liability in the amalgamation and the members' will and capability to improve single banks as the whole amalgamation's competitiveness.

The Board of Directors must comply with the regulation set by the Act of the Credit institution, ECB Banking Supervision and Finnish Financial Supervisory Authority regarding the competence and independence requirements for the Central Institution. Each member of the Board of Directors must present sufficient information, so that his or her suitability and independence can be justified and notify of possible changes in this information. Both female and male must be represented on the Board of Directors.

A board member is expected to work on the board of other entities only to the extent that, in the view of the board, the work does not prevent the member from spending enough time and putting enough effort into the affairs of the Central Institution. The memberships of Board of Directors within the Saving Banks Group are considered to be as one membership.

The Board of Directors has approved the principles of diversity, the aim of which is to ensure that the Board of Directors has sufficient and versatile expertise and experience in the credit institution's business and operational risks in terms of its tasks. In order to achieve the goals, set in the law and the directive, the composition of the board and the acquisition of new member candidates are planned long-term, and that the necessary expertise is represented in the board. The nomination committee assess regularly the composition of the Board of Directors and give recommendation for the possible changes. The Board of Directors assess regularly and at least annually through the self-assessment the Board members' and entire Board of Directors' knowledge, skills and experience. The share of female board members in 2022 was 33 per cent until 10 march 2022, and 22 per cent thereafter.

The members of the board during 2022 have been Mrs. Pirkko Ahonen (chairman), Mr. Jari Oivo (vice-chairman), Mrs. Tuula Heikkinen, Mr. Eero Laesterä, Mr. Jaakko Ossa until 10 March 2022, Mr. Heikki Paasonen, Mrs. Katarina Segerståhl until 10 March 2022, Mr. Jouni Niuro until 19 May 2022, Mr. Ulf Sjöblom, Mr. Hannu Syvänen, Mr. Simo Leisti from 13 June 2022 and Mr. Veli-Pekka Mattila from 13 June 2022.

The Directors are CEOs or members of the board of directors of the Savings Banks, except Mrs. Tuula Heikkinen, Mr. Eero Laesterä, Mrs. Katarina Segerståhl and Mr. Simo Leisti, who are the independent members of the Board of Directors.

The Board of Directors is responsible for leading the operations of the Central Institution in accordance with the provisions of the Cooperatives Act, the Act on the Amalgamation of Deposit Banks as well as the rules of the Central Institution. The Board of Directors is also responsible for guiding the operations of the Amalgamation, formulating a strategy for the Savings Banks Group and developing intra-group collaboration.

The Board of Directors has confirmed its rules of procedure, which define the duties and meeting practices of the Board of Directors.

Committees

The Central Institution has Nomination Committee, Remuneration Committee, Audit Committee and Risk Committee. The Board of Directors have approved the rules of procedure for the committees.

The task of the Nomination Committee is to prepare a recommendation regarding the members of the governing bodies of the Central Institution and the Savings Banks' service companies, along with their remuneration.

The Remuneration Committee prepares a document on the amalgamation-level remuneration principles and remuneration guidelines for approval by the Board of Directors of savings banks and other entities. The Remuneration Committee also prepares recommendations concerning the remuneration policies of the Managing Directors in member credit institutions of the Savings Banks Amalgamation and other entities.

The task of the Audit Committee is to assist the Board of Directors of the Central Institution in ensuring that the Central Institution and the Savings Banks Group apply a comprehensive and appropriately organised accounting, accounting practices and financial reporting. The Committee also supports the Board of Directors in ensuring that the Savings Banks Group, to the extent necessary, possess adequate and appropriately organised internal controls, internal audit systems and audit procedures. It furthermore makes sure that the operations and internal controls of the member organisations are organised as required by law, regulations and good management and governance practices; it also supervises the internal control operations.

The task of the Risk Committee is to assist the Board of Directors of the Central Institution in matters concerning risk strategies and risk-taking and to monitor that the Savings Banks Group complies with the risk strategies as approved by the Board of Directors of the Central Institution. The Risk Committee monitors and ensures the efficiency and adequacy of the capital adequacy management process within the Savings Banks Group and evaluates the adequacy of the policies, controls and processes related to these risks. The Committee assists the Remuneration Committee in creating adequate compensation systems.

In addition, the Board of Directors of the Central Institution has appointed an Asset and Liability committee to assist the Risk Committee in its area of responsibilities and to plan and co-ordinate the funding of the Amalgamation together with the Central Bank of Savings Bank Finland's Treasury.

Managing Director

The Board of Directors elects the Central Institution's Managing Director and his/her deputy. The Managing Director's tasks include the day-to-day management of the Central Institution according to the provisions of the Cooperatives Act, implementing the Savings Banks Group's strategy in line with the Board's guidelines and provisions, preparing issues for presentation to the Board of Directors and assisting the Board of Directors in the preparation of issues to be taken up by the Supervisory Board and the general meeting.

Mr. Tomi Närhinen was the CEO of the Central Institution Until 27 June 2022 and from 15 August 2022 Mr. Karri Alameri. Mr. Karri Alameri acted as the deputy CEO until 15 August 2022, and Mr. Kai Koskela from 30 August 2022.

Audit

The Central Institution has one auditor, which must be an audit firm approved by the Finnish Central Chamber of Commerce. This auditor also audits the combined financial statements as defined in the Amalgamation Act.

The auditor is appointed by the general meeting. The auditor's term of office ends at the conclusion of the regular cooperative meeting following the appointment.

The auditor responsible for the Savings Banks Group's Central Institution is the audit firm KPMG Oy Ab. The firm has appointed Mr. Mikko Kylliäinen, APA, as the auditor in charge.

LEGAL STRUCTURE OF THE SAVINGS BANKS AMALGAMATION AND SAVINGS BANKS GROUP

The Savings Banks Amalgamation and Savings Banks Group have been described in more detail in note 1 to the financial statements.

Members of the Savings Banks' Union Coop

As of 31 December 2022, the Savings Banks' Union Coop members were:

Aito Säästöpankki Oy

Avain Säästöpankki

Ekenäs Sparbank Ab

Helmi Säästöpankki Oy

Kvevlax Sparbank

Lammin Säästöpankki

Liedon Säästöpankki

Länsi-Uudenmaan Säästöpankki

Myrskylän Säästöpankki

Nooa Säästöpankki Oy

Närpes Sparbank Ab

Someron Säästöpankki

Säästöpankki Kalanti-Pyhäranta

Säästöpankki Optia

Säästöpankki Sinetti

Central Bank of Savings Bank Finland Plc

Sp Mortgage Bank Plc

Risk management and internal control framework of the Savings Banks Amalgamation

In accordance with the Amalgamation Act, the Central Institution of the Amalgamation is supervised by the Finnish Financial Supervisory Authority. Its member credit institutions are supervised by the Finnish Financial Supervisory Authority and the Central Institution. The Financial Supervisory Authority ensures that the Central Institution monitors and guides the operations of the member credit institutions in accordance with the provisions of the Amalgamation Act and that the member organizations comply with their legal obligations.

The Central Institution ensures that the Amalgamation members conduct their business according to the laws, decrees and regulations concerning financial markets as well as in line with their own rules and Articles of Central Institution and the guidelines issued by the Central Institution by virtue of Section 17 of the Amalgamation Act. The Central Institution also monitors the financial standing of the member organisations.

The Central Institution must have reliable governance that makes efficient risk management possible along with internal controls commensurate with Amalgamation operations and sound risk-management systems. The principles to be followed in the risk management of the Savings Banks Amalgamation are included in the risk and solvency management principles approved by the Central Institution's Board of Directors, described in the notes to risk management.

Pursuant to the Amalgamation Act, the aggregate amount and liquidity of the Amalgamation`s own funds are monitored at the amalgamation level on a consolidated basis. The Central Institution is responsible for monitoring the operations of the member credit institutions and giving them guidance in risk management, reliable governance and internal control needed to secure their liquidity and solvency. It also guides the members in the preparation of consolidated financial statements based on uniform accounting principles. The Central Institution may also establish general operating principles for the member credit institutions to observe in operations that are considered important for the Amalgamation.

Each member credit institution operates independently relying on its own resources. A member institution may not take risks that could put the Amalgamation in danger in terms of the members' combined solvency or liquidity.

The Amalgamation must comply with the requirements regarding minimum consolidated own funds, laid down in the Act on Credit Institutions. As a minimum, the member institutions of the Amalgamation must maintain aggregate own funds that are sufficient to cover the combined risks, specified in the Act on Credit Institutions, of the member institutions. The consolidated own funds of the member institutions must also be sufficient considering the consolidated customer risks and significant ownerships of the member institution of the Amalgamation.

The internal control system comprises financial and other controls. Internal control is the part of management and operations intended to ensure:

- The achievement of goals and objectives
- Economical and efficient processes
- Management of risks related to operations

- The reliability and validity of financial and other management information
- Compliance management
- Adequate security of operations, data as well as company and customer assets, and
- Appropriate and adequate manual and automated information systems in support of business operations.

Internal control, for which all functions and organisational levels take responsibility, is part of the operational activities; it is an integral part of daily operations. Crucial for a working and effective control system is that an appropriate internal control structure and control measures have been defined for all business levels, including adequate guidelines, control measures, follow-up and reporting.

The Board of Directors of the central institution approves the principles pertaining to corporate governance and internal control. The Central Institutions Board of Directors is primarily responsible for organising, implementing and securing the functioning of the internal control system.

The following functions, which are independent of business operations, have been established within the Central Institution to ensure effective and comprehensive internal control in all the member companies within the Amalgamation and the Savings Banks Group:

- Risk control
- Compliance
- Internal audit

The Central Institution's Risk control function maintains and develops methods for managing risks within the Savings Banks Group. This ensures that all, even new, fundamental but previously unidentified risks are covered by the risk management of Savings Banks Group's business lines.

The Board of Directors monitors the business performance and associated risks of the Amalgamation regularly and decides on reporting, procedures as well as qualitative and quantitative indicators used to assess the efficiency and performance of the operations. The Central Institution is tasked with the Amalgamation-level risk control, compliance- and financial reporting.

To carry out this responsibility, the Central Institution's Supervisory Board and Board of Directors appoint the committees laid down in the Act on Credit Institutions and any other committees they consider necessary to support their work. They also confirm the organisation of the Central Institution's management and describe the main areas of responsibility.

The Board of Directors of the member credit institutions are responsible for arranging internal controls for their own organisations in accordance with legislation, government regulations and the internal guidelines of their own Board of Directors and the Board of Directors of the Central Institution. The member credit institutions of the Savings Banks Amalgamation must make appropriately organised internal control a part of their daily business operations.

The Central Institution's executive management has a functional responsibility for the operations of the Amalgamation's Central Institution under authorisation of the Savings Banks' Union Coop's Board of Directors.

At the Amalgamation level, the Central Institution's executive management is responsible for:

- Developing and maintaining measures, guidelines and instructions leading to reliable governance that enables efficient risk management, internal controls commensurate with Amalgamation operations and secure functioning of the controls
- Reporting on and controlling the quality and development of various risk areas
- Ensuring efficient and all-around functioning of the practical measures of internal controls
- Ensuring that any shortcomings and development needs of internal control are documented and reported for corrective actions to the members of the management responsible for internal control in each entity, and
- Ensuring that the Central Institution's Board of Directors and Supervisory Board are aware of the functioning of the internal controls and can verify their own responsibilities in an efficient and comprehensive manner.

Tasks and control measures have been defined for the management of the entities belonging to the Amalgamation, with which internal control is implemented. Internal control is supported by appropriate reporting, which is used to monitor the quality, scale and diversity of operations, and by descriptive reporting to monitor operations, performance and risks associated with operations. Reporting shall be reliable, clear and up to date. Reporting on financial, risk management and compliance activities is prepared centrally and separately from business activities.

Member credit institutions' solvency and its control

The minimum own funds of a member credit institution may, with the consent of the Central Institution, be lower than what is required by the Act on Credit Institutions. The member institution must secure its solvency by having own funds in the amount of at least 80% of the amount required by the Act on Credit Institutions.

The Central Institution may also allow a member institution to exceed the customer risk limits laid down in the Act on Credit Institutions. The Central Institution may allow, for the maximum period of three years at a time, that an individual customer risk of a member credit institution is up to 40% of the institution's own funds, while the relevant limit set in the Act on Credit Institutions is 25%. Customer risks of credit institutions and investment service companies are regulated separately in the Amalgamation Act. Similarly, the maximum percentages regarding ownership in business associations may, with the Central Institutions consent, be raised to 25% and 75%, respectively, of own funds, while the Act on Credit Institutions has set the limits at 15% and 60%.

Moreover, the Central Institution may decide that its member credit institutions are not subject to the solvency requirements set for credit institutions in Part 6 of the EU Capital Requirements Regulation and other EU regulations based on it.

The Central Institution may also decide that the provisions of Chapter 9 of the Act on Credit Institutions and the EU Capital Requirements Regulation regarding qualitative risk management of credit institutions and their consolidation groups do not apply, partly or fully, to its member credit institutions and companies in their consolidation groups.

The Central Institution may grant the above waivers provided it meets the requirements laid down in Section 17 of the Amalgamation Act and the Finnish Financial Supervisory Authority's regulations based on the Act along with other legal requirements, and that the Financial Supervisory Authority, based on the above, has granted to the Central Institution the authority to make such decisions. The Central Institution may not grant such waiver to a member credit institution which has significantly and repeatedly failed to comply with the Central Institution's guidelines referred to in Section 17, obligations provided for in section 23 or under the authorization of the Financial Supervision Authority. The exemption shall be valid for a maximum of three years at a time and may be revoked by the Central Institution if, during its term, the member credit institution fails to comply with its obligations set out above.

Joining the Savings Banks Amalgamation; withdrawal from membership

Members of the Central Institution may include credit institutions whose rules or Articles of Association are in line with the provisions of the Amalgamation Act and whose rules or Articles of Association the Central Institution has approved. Admission of new members is decided upon by the General Meeting.

A member credit institution has a right to withdraw its Central Institution membership. Regardless of withdrawal, the aggregate amount of the member companies` own funds must remain at the level required by the Amalgamation Act.

A member credit institution may also be removed from the Central Institution membership in accordance with the Cooperatives Act. A member may also be expelled if it has failed to comply with the Central Institution's guidelines issued by virtue of Section 17 of the Amalgamation Act in a manner that puts the liquidity or solvency management or the application of uniform accounting principles or their monitoring in the Amalgamation at a significant risk. Expulsion is also possible if a member institution acts materially in breach of the Amalgamation's general operating principles confirmed by the Central Institution.

The provisions of the Amalgamation Act governing the payment liability of a member credit institution also apply to a former member institution if less than five years have passed from the end of the calendar year of the member credit institution's withdrawal or expulsion when a demand regarding payment liability is made on the member credit institution.

Financial statements and audit of the Savings Banks Group

The Savings Banks Group's financial statements combine the financial statements of all its significant member organisations. Pursuant to the Amalgamation Act, the Savings Banks Group's financial statements must be prepared in accordance with the international accounting standards referred to in the Accounting Act. As per these standards, the financial statements must include all other significant organisations belonging to the Savings Banks Group. The Finnish Financial Supervisory Authority has issued detailed instructions regarding the preparation of the Savings Banks Group's financial statements. The principles followed in preparing the financial statements are described in the Note 2 of the financial statements. Member credit institutions have no obligation to publish an interim report as referred to in Section 12 of Chapter 12 of the Act on Credit Institutions.

The Central Institution is obliged to advise its member credit institutions in applying uniform accounting principles. The member credit institutions must give the Central Institution the information needed for the consolidation. Furthermore, the Central Institution and its auditor have a right to request a copy of a member Credit Institution's audit documentation for auditing the consolidated financial statements.

The financial statements are presented to the ordinary general meeting of the Savings Banks' Union Coop.

Payment liability of the central institution and mutual responsibility of member credit institutions

According to the Amalgamation Act, the Central Institution must, as a supporting measure, pay to a member credit institution an amount needed to prevent its liquidation. The Central Institution is also liable for a debt a member credit institution cannot pay from its own funds.

The member credit institutions must pay to the Central Institution their share of the amount the Central Institution has paid either to another member credit institution as a supporting measure or to the creditor of another member credit institution as payment for a debt for which the creditor has not been able to obtain payment from the member credit institution. In the event of the Central Institution's insolvency, member credit institutions also have an obligation to pay unlimited additional amounts towards the Central Institution's debt, as provided in the Cooperatives Act.

Each member institution's liability of the amount of the Central Institutions payment is divided between the member credit institutions in proportion to their latest confirmed balance sheet totals. In each financial year, the combined annual payments collected from a member credit institution as a supporting measure to prevent another member's liquidation may not exceed, in total, five thousandths of its latest confirmed balance sheet total.

Deposit Guarantee Fund and Investors' Compensation Fund

According to the legislation concerning the Deposit Guarantee Fund, the deposit banks of the Savings Banks Amalgamation are considered to constitute a single bank in respect of deposit protection. The Deposit Guarantee Fund reimburses a maximum of EUR 100,000 to an individual account holder who has receivables from deposit banks belonging to the Savings Banks Amalgamation.

Under the legislation concerning the Investors' Compensation Fund, the Savings Banks Amalgamation is also regarded as a single bank for the purposes of compensation protection. The Investors' Compensation Fund's assets may be used to compensate an investor's receivables from organizations belonging to the Savings Banks Amalgamation to a maximum of EUR 20,000.

Remuneration

The Savings Banks Amalgamation'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.

The member credit institutions of the Savings Banks Amalgamation adhere to the provisions of Chapter 8 of the Act on Credit Institutions (610/2014) and the Savings Banks Amalgamation's remuneration principles. Remuneration also complies with EU and Finnish legislation and the orders and guidelines issued by the authorities.

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 the Amalgamation's competitiveness, good economic growth, inventiveness, commitment and availability of new competent persons. The Savings Banks Amalgamation 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 is adapted to the interests of the customers and includes measures to avoid conflicts of interest. Remuneration system and all related conditions are gender-neutral.

The remuneration system is consistent with the good and efficient risk management of the member credit institutions and member companies of the Amalgamation and is always implemented within the framework of the Amalgamation'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 of the member credit institutions or the Savings Banks' Union Coop.

The remuneration system ensures that it is consistent with the consideration of sustainability risks. Sustainability risk refers to an event or situation related to environment, social responsibility or governance, which, if realized, may cause a material, negative effect on the value of the investment. Consideration of sustainability risks in remuneration means, among other things, that remuneration cannot be inconsistent with responsible investment, or investment and insurance advice.

The Central Institution's Board of Directors decides on the proposal of the Remuneration Committee, on the remuneration principles of the Savings Banks Amalgamation. The Central Institution's Remuneration Committee monitors and controls the functioning and competitiveness of the remuneration systems of the member credit institutions and companies ensuring their ability to support short and long-term goals of the Amalgamation and prepares proposals to the Board of Directors for the development of the remuneration system. The remuneration principles are reviewed and, if necessary, amended annually to ensure that they are up to date. They are also reviewed and amended whenever there are changes in the operating environment, the regulatory environment or the requirements imposed by the authorities.

The Remuneration Committee consists of minimum four members. Three members chosen by the Central Institution's Supervisory Board plus one independent member of the Savings Banks form the Committee. The Committee may also use various experts who may be invited to participate in committee meetings. The make-up and work of the Committee have been organised in such a way as to allow the committee to assess independently the incentives and other impacts of the remuneration systems on the risk, capital and liquidity management.

The Savings Banks Amalgamation's Risk Committee evaluates, and reports to the Remuneration Committee on, whether the remuneration systems and practices take into account factors such as risks as well as requirements concerning capital and liquidity.

Compliance Officers are required to participate in the planning of remuneration practices and, for their part, ensure that the remuneration policies and practices of each bank and company comply with the current regulations and the Amalgamation's guidelines. The Compliance function monitors the remuneration system and practices in accordance with its annual plan. Observations concerning the remuneration system are reported to the executive management of the member credit institution/company, the Board of Directors and the central institution's Compliance function. The central institution's Compliance function reports summaries of its observations to the Supervisory Board's Remuneration Committee and the Board of Directors of the central institution as part of its regular reporting activities.

The internal audit of the Amalgamation's Central Institution issues an annual assessment on compliance with the remuneration to the Board of Directors of the member organisation or company. The internal audit of the Amalgamation's Central Institution also issues an Amalgamation-level assessment to the Central Institution's Supervisory Board on compliance with the remuneration system based on the company-level assessments. Key observations are also reported to the Central Institution's Remuneration Committee.

The Boards of Directors of the Amalgamation's member organisations and companies decide, for their part, on their entity's remuneration system as well as the targets of remuneration in a manner that supports the business objectives and management of the individual member organisation or company. The Boards of Directors of the Amalgamation's member organisations and companies also decide, for their part, on the payment of remuneration based on the achievement of targets while observing the risk adaptation process.

The remuneration of functions independent of business operations is controlled by the board of the member credit institution, member company or the Central Institution. Such variable part of remuneration may not depend on the outcome of the business unit which they control but must be based on the achievement of the goals set for the control. In this way, the objectivity or independence of the function is not jeopardized, or a conflict-of-interest situation is created.

The Savings Banks Group has identified significant risk-takers who can impact a bank's risk profile or through their actions cause considerable financial risk to a bank. The persons affecting the risk profile of the Amalgamation include the Managing Directors and other people participating in the management and decision-making in the member credit institutions, Central Institution or other member organisations along with other people with a major impact on the company's risk exposure, including people associated with functions independent of business operations. The Central Institution gathers up-to-date information about significant risk-takers. Each member institution is responsible for the accuracy and timeliness of its own information.

By limiting the maximum amount of variable remuneration for an individual, on an annual basis, up to EUR 50,000, and that the person's variable remuneration form no more than a one third of the total amount of annual remuneration, it is possible to pay a variable fee in full as a cash payment.

The salaries, wages and remuneration of the financial year are shown in the note 13 of the financial statements titled "Personnel expenses".

NOTE 5. RISK MANAGEMENT AND CAPITAL ADEQUACY MANAGEMENT

General principles and objectives for risk management

The Savings Banks Group is a financial group comprising 15 Savings Banks and their central institution, the Savings Banks' Union Coop, as well as their subsidiaries and associated companies. The Savings Banks Group does not form a financial and insurance conglomerate as defined in the Act on the Supervision of Financial and Insurance Conglomerates.

The member organizations of the Savings Banks Amalgamation form a financial entity as defined in the Amalgamations Act, in which the Savings Banks' Union Coop and its member credit institutions are jointly liable for each other's liabilities and commitments. The Savings Banks Amalgamation comprises the Savings Banks' Union Coop, which acts as the central institution of the Amalgamation, 15 independent, local and regional Savings Banks, the Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc, Sp-Fund Management Company Ltd, along with Savings Bank Services Ltd, which is 100% owned by the Savings Banks' Union Coop.

The Savings Banks' Union Coop acts as the Central Institution of the Savings Banks Amalgamation. According to the Amalgamation Act the Central Institution has the right to steer and the obligation to monitor the operations of the member credit institutions. The Central Institution conducts its tasks of steering and monitoring on both the Savings Banks Amalgamation and the member credit institution levels. The Board of Directors of the Central Institution has approved the most significant risk strategies and other operating principles. It also decides on the use of necessary means of control according to the Amalgamation Act and the Savings Banks Group's operating principles.

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 has complemented with the other financial services and products provided in cooperation with the service and product companies within the Group. The most significant service and product companies of the Savings Banks Group are Central Bank of Savings Banks, Sp Mortgage Bank Plc, Sp Life Insurance, Sp Fund Management Company, Savings Bank Services Ltd and Sp Koti.

The risk and capital adequacy management processes are regulated by the Act on Credit Institutions, the Act on Insurance Companies, the Amalgamations Act, directly binding EU regulations together with the regulations and guidelines of the FIN FSA. According to the Amalgamations Act the minimum consolidated capital adequacy and liquidity of the companies within the Savings Banks Amalgamation shall be controlled on a consolidated basis at the Savings Banks Amalgamation level.

The membership of the Savings Banks Amalgamation includes the responsibility for the operations of the Savings Banks Amalgamation and its member institutions. The responsibility means that each of the member institution in their decision-making takes into account the effect on the operations of their own organization as well as on the operations of the other member institutions within the Savings Banks Amalgamation. Each Savings Bank takes risks within its own funds, capital adequacy and liquidity and operates within its own risk-bearing capacity.

The objective for the Savings Banks Amalgamation's risk management is to recognize the threats and possibilities affecting the implementation of the Savings Banks Amalgamation's strategy.

The objective of the capital adequacy management is to ensure the risk-bearing capacity of the Savings Banks Amalgamation and its member organizations as well as the continuity of their operations. The Savings Banks Amalgamation's strategy defines the objectives for risk-bearing capacity and risk appetite together with other risk management objectives in relation the business objectives.

The Savings Banks Amalgamation has efficient corporate governance ensuring adequate risk management as well as adequate internal control and risk management framework. The corporate governance, internal control and risk management framework must comply with legislation and the regulations and guidelines issued by the authorities. The principles of the corporate governance are described in more detail in Note 4 Corporate governance policies.

The Savings Banks Group conducts retail banking, central credit institution services, mortgage credit banking, investment and asset management, life insurance and real estate brokerage. The most significant risks affecting the banking segment are credit, interest rate and liquidity risks. The life insurance business is affected by the market, insurance and counterparty risks. Business and operational risks including legal and compliance risks arise within all business areas.

Risk management principles and governance

Risk management framework includes identifying, assessing, measuring, mitigating and monitoring risks arising from the Savings Banks Amalgamation's business operations. The purpose of risk management is to minimize the likelihood of unforeseeable losses or reputational risk in order to ensure the implementation of the Savings Banks Group's strategy.

Risk and capital adequacy management enables the identification, assessment and measurement of risks, limiting them to a level of the Savings Banks Amalgamation'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.

The Central Institution is responsible for the risk and capital adequacy management and the adequacy and maintenance of the risk management framework at the Savings Banks Amalgamation level. The Central Institution gives the member organizations guidelines in risk management, corporate governance and internal control in order to ensure their liquidity and capital adequacy. The Central Institution also gives guidelines to the member organizations regarding the accounting principles for preparation of Savings Banks Group's consolidated financial statements. The Central Institution monitors that the member institutions within the Savings Banks Amalgamation comply with internal operating principles and follow the rules of good banking practices in their customer relationship. The Central Institution's Board of Directors approves the principles for the internal control framework. The risk management strategy is based on the objectives and business strategy, risk management instructions and guidelines and authorization structure approved by the Board of Directors together with the risk and follow-up reporting related to the most significant business lines.

The member institutions are responsible for the risk management framework and the risk and capital adequacy management within their own organizations in relation to the nature, scale and complexity of their business. The basis for risk management within the Savings Banks Amalgamation is that a member institution does not take such significant risks in its operations that it would jeopardise the liquidity and/or the capital adequacy of the member institution. When each member institution operates within its risk-bearing capacity and ensures its' liquidity and capital adequacy even during less favourable economic conditions, also the liquidity and the capital adequacy of the Savings Banks Amalgamation are ensured. The Board of Directors of the member institution defines the risk appetite by approving the risk area specific risk strategies, risk limits and other thresholds. The monitoring follows the implementation of the risk strategies and reporting of the risk limits and other thresholds conducted independently from the business operations.

In order to ensure the adequacy of the risk management within the Savings Banks Amalgamation the Board of Directors of the Central Institution has set a Risk Committee. The task of the Risk Committee is to assist the Board of Directors of the Central Institution in matters concerning risk strategies and risk-taking and to monitor that the Savings Banks Amalgamation complies with the risk strategies as approved by the Board of Directors of the Central Institution. The Risk Committee monitors and ensures the efficiency and adequacy of the capital adequacy management process within the Savings Banks Amalgamation and evaluates the adequacy of the policies, controls and processes related to these risks. Risk Committee congregates monthly.

The task of the Asset and Liability Committee is to assist the Board of Directors and Risk Committee in their areas of responsibilities and ensure that the structural liquidity and market risk including interest rate and investment risk of the Savings Banks Amalgamation remain at the level that ensures the continuity of the Savings Banks Amalgamation's operations. In addition, the Asset and Liability Committee plans and co-ordinates the funding and liquidity management of the Savings Banks Amalgamation together with the Central Bank of Savings Bank's Treasury.

The Central Institution has established the following functions, independent of business operations, to ensure an efficient and comprehensive internal control system for all member organizations of the Savings Banks Amalgamation:

- Independent Risk Control
- Function responsible for ensuring compliance with regulations (Compliance)
- Internal Audit

The task of the independent Risk Control unit is to ensure and monitor that the risk management framework of the Savings Banks Amalgamation is adequate in relation to the nature, scale, complexity and risk level of the Savings Banks Amalgamation's business operations. The Risk Control unit assists the Board of Directors and senior management of the Savings Banks Amalgamation 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 the Savings Banks Amalgamation complies with the legislation and authorities' regulation and guidelines. The Compliance unit is responsible for monitoring that the Savings Banks Amalgamation complies with the internal guidelines, ethical guidelines given to the personnel and other guidelines applied within the financial markets.

The internal audit of the Central Institution verifies through its independent activity that the Board of Directors of the Central Institution and its Audit Committee have access to a correct and comprehensive view of the profitability, efficiency, state of internal control and diverse operational risks of the Savings Bank Group and Savings Banks Amalgamation.

Chart: Risk management governance of the Central Institution

The Boards of Directors of the Savings Banks Amalgamation's member organizations are responsible for arranging the internal control framework within their own organizations in accordance with legislation, government regulations and the guidelines of the Board of Directors of the Central Institution. The CEOs together with the other senior management of the member organizations are responsible for arranging internal controls for their own organizations in accordance with legislation, government regulations and the internal guidelines of their own Board of Directors and the Board of Directors of the Central Institution.

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

All significant 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 made decisions is monitored through approval and verification process, controls and reconciliations together with adequate monitoring and reporting.

Risk strategies and limit structure for each risk area have been established at the Savings Banks Amalgamation. The risk strategies are complemented by the operational guidelines of the Board of Directors of the Central Institution. The risk strategies include the identification, measurement and assessment of risks and the description of limits, monitoring and reporting of the risks.

The risk positions are regularly reported to the Board of Directors of the Central Institution. The Board also approves the framework for risk appetite by setting risk limits and other thresholds for different risk areas at the Savings Banks Amalgamation level.

Pillar III disclosure principles

The Savings Banks Amalgamation's Pillar III disclosure principles have been established in accordance with the effective legislation and authorities' regulations and also taking into account the Savings Banks Amalgamation's long-term strategy and business plan. The objective of the Pillar III disclosure principles is to ensure that the amount and quality of the published information is adequate in relation to the nature, scale, complexity and risk level of the Savings Banks Amalgamation's business operations and taking into account the specific features of the Savings Banks Amalgamation's business operations. To achieve this objective, the Savings Banks Amalgamation assesses the materiality of the information from the stakeholder point of view and evaluates what can be classified as proprietary or confidential information. The Savings Banks Amalgamation publishes all relevant information of the business and various risk areas, which are based on a selected business strategy.

The Savings Banks Amalgamation's Board of Directors approves the Pillar III disclosure principles and the Central Institution's management prepares the disclosure principles. The principles are updated at least annually or whenever the Savings Banks Amalgamation's operating environment, business model, regulatory and/or regulatory framework change materially. The broad Pillar III report in accordance with part eight of the Capital Regulation is published once a year and the narrower Pillar III report every six months. However, the Savings Banks Amalgamation assesses the need for more frequent publication if the market conditions, financial performance or change in the risk position would require that.

Capital adequacy management

The objective of the capital adequacy management process is to ensure that the quantity and quality of capital are adequate and in proportion with the nature, scale and complexity of the Savings Banks Amalgamation's operations and with all the risks resulting from its business operations and operating environment. To achieve this objective, the Savings Banks Amalgamation identifies and 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 Savings Banks Amalgamation's capital adequacy management is based on the capital adequacy requirements and internal assessment process of capital adequacy defined in the Capital Requirements Directive (CRD IV) and Regulation (CRR) Pillar I of the European Parliament and of the Council. In the internal assessment process, the Savings Banks Amalgamation estimates the amount of capital need to cover any unforeseen losses resulting from risks outside of Pillar I. The internal capital requirement has been called Pillar I+, which is the minimum capital requirement (Pillar I) plus risks outside of Pillar I, such as the interest rate risk associated with the banking book, market risk associated with the investment portfolio and business risk.

The Board of Directors of the Central Institution has the responsibility for the management of the Savings Banks Amalgamation's capital adequacy. The Board of Directors of the Central Institution approves the basis, objectives and principles for the Savings Banks Amalgamation's capital adequacy management. The Board of Directors also confirms the overall requirements for the measurement and assessment of capital adequacy and the overall principles for the management process of capital adequacy. 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 Savings Banks Amalgamation's business operations and changes in the operating environment. The capital adequacy, liquidity and customer risks of the entities belonging to the Savings Banks Amalgamation are monitored on a consolidated basis at the Amalgamation level.

The Board of Directors of the Central Institution has set a quarterly followed threshold for the capital ratio. The long-term minimum requirement for the CET1 capital is 18%.

Stress test

The Savings Banks Amalgamation uses stress tests to assess its own risk position and the adequacy of its capital. The purpose of stress tests is to estimate how different exceptionally serious but possible situations may affect the profitability, capital adequacy and adequacy of own funds. Stress tests have designed to identify the key risks to the Savings Banks Amalgamation and to assess how vulnerable its structure is to the occurrence of those risks. The objective of the capital adequacy management is also to maintain and develop the quality of the risk management framework.

Capital contingency plan

The Savings Banks Amalgamation's capital contingency plan has been done in order to be prepared for unforeseeable events that may threaten its capital adequacy.

The capital contingency plan includes target and follow up levels set by the Board of Directors for the quantity and quality of the capital, that are to be monitored and controlled quarterly by the Risk Control unit of the Central Institution. The capital continuity plan describes the measures that the executive management and the board can take if the threshold set for the solvency ratio is breached.

Pillar I – capital requirement

The standard method is used to calculate the capital requirement to the credit and counterparty risk of the Savings Banks Amalgamation and the capital requirement to the operational risk is calculated by the basic method. The capital requirement relating to market risk is calculated by the basic method for the foreign exchange exposure if the total net foreign exchange position is over two per cent of the aggregate amount of the own funds. The Savings Banks Amalgamation does not have a trading book and the amalgamation's business does not involve taking commodity risk. The biggest capital requirements for the credit and counterparty risk are coming from the exposures secured by mortgages on immovable properties, corporate and retail exposures.

Pillar 1 capital requirement (EUR 1,000)	31.12.2022	31.12.2021
Exposures to central governments or central banks		
Exposures to regional governments or local authorities	62	60
Exposures to public sector entities	14	24
Exposures to multilateral development banks		
Exposures to international organisations		
Exposures to institutions	4 136	4 101
Exposures to corporates	108 585	100 190
Retail exposures	72 110	69 806
Exposures secured by mortages on immovable propert	193 413	186 293
Exposures in default	9 507	7 827
Exposures associated with particularly high risk		
Exposures in the form of covered bonds	186	196
Items representing securatisation positions		
Exposures to institutions and corporates with a short-term credit assesment		
Exposures in the form of units of shares in collective investment undertakings (CIUs)	10 788	10 610
Equity exposures	9 464	9 664
Other items	10 768	9 136
Capital requirements for credit and counterparty credit	419 032	397 906
Capital requirements for credit value adjustment (CVA)	1 849	6 678
Capital requirements for market risk		
Capital requirements for operational risk	46 099	45 549
Total capital requirement	466 980	450 133

Own funds and capital ratio

At the end of 2022, the Savings Banks Amalgamation had a strong capital adequacy, and own funds consisted almost entirely of CET1 capital. Total own funds were EUR 1,090.5 (1,098.3) million, of which CET1 capital accounted for EUR 1,090.5 (1,096.6) million. Compared to the situation at the end of the year 2021, the decrease in CET1 capital was primarily due to the negative impact of changes in the interest rate environment on the market value of the investment portfolio. The growth in own funds was due to the profit for the financial year. Savings Banks Amalgamation does not have additional Tier 1 capital. Tier 2 (T2) capital accounted for EUR 0.03 (1.7) million, which consisted of debentures in the financial year. Risk-weighted assets amounted to EUR 5,837.3 (5,626.7) million, i.e., they were 3.7% higher than at the end of the previous year. The increase in risk-weighted exposure amounts was primarily driven by the increase in the risk-weighted exposures of credit and counterparty risk, and the biggest growth was seen in the exposure classes of corporate receivables, receivables with real estate collateral and retail receivables. The impact on the withdrawal of Lieto Savings Bank on the Amalgamation's capital ratio is estimated to be approximately 0.8%-units. The capital ratio of the Savings Banks Amalgamation was 18.7 (19.5) % and the CET1 capital ratio was 18.7 (19.5) %.

The capital requirement of Savings Banks Amalgamation was EUR 702.0 (661.5) million that equals to 12.0% of risk-weighted assets. The composition of the capital requirement is shown in the table below. The capital requirement of the Savings Banks Amalgamation consists of the 8% minimum capital requirement laid down in the Capital Requirements Regulation, a discretionary additional Pillar II-capital requirement imposed by the Financial Supervisory Authority, a fixed additional capital requirement pursuant to the Act on Credit Institutions and the country-specific countercyclical capital requirements of foreign exposures.

COMBINED CAPITAL REQUIREMENT, %

31.12.2022	Minimum requirement	Pillar 2 (SREP)-requirement	Capital conservation buffer	Counter-cyclical capital buffer	Combined capital requirement
CET1	4,50	0,84	2,50	0,03	7,87
AT1	1,50	0,28			1,78
T2	2,00	0,38			2,38
Total	8,00	1,50	2,50	0,03	12,03

The Pillar II capital requirement imposed by the Financial Supervisory Authority on the Savings Banks Amalgamation is 1.5 (1.25) %. At least three quarters of the Pillar II capital requirement must be Tier 1 capital, of which at least three quarters must be CET1 capital.

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

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

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

The Financial Supervisory Authority has granted permission to the Central Institution of the Amalgamation to waive fully the application of the requirements regarding liquidity set out in part six of Regulation (EU) No 575/2013 and its amending and supplementing acts to the Amalgamation's member credit institutions. The authorisation granted to the Central Institution also covers the NSFR claim that entered into force on 28 June 2021.

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

CAPITAL ADEQUACY'S MAIN ITEMS

(EUR 1,000)	31.12.2022	31.12.2021
Common Equity Tier 1 (CET1) capital before regulatory adjustments	1,138,741	1,137,326
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-48,237	-40,722
Common Equity Tier 1 (CET1) capital	1,090,504	1,096,604
Tier 1 capital (T1 = CET1 + AT1)	1,090,504	1,096,604
Tier 2 (T2) capital before regulatory adjustments	28	1,673
Total regulatory adjustments to Tier 2 (T2) capital		
Tier 2 (T2) capital	28	1,673
Total capital (TC = T1 + T2)	1,090,533	1,098,277
Risk weighted assets	5,837,252	5,626,667
of which: credit and counterparty risk	5,237,903	4,973,830
of which: credit valuation adjustment (CVA)	23,115	83,472
of which: market risk		
of which: operational risk	576,235	569,365
Common Equity Tier 1 (as a percentage of total risk exposure amount)	18,7%	19,5%
Tier 1 (as a percentage of total risk exposure amount)	18,7%	19,5%
Total capital (as a percentage of total risk exposure amount)	18,7%	19,5%
Capital requirement		
Total capital	1,090,533	1,098,277
Capital requirement total*	702,048	661,465
of which: Pillar 2 additional capital requirement	87,559	70,333
Capital buffer	388,485	436,812

* 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, the 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 the Savings Banks Amalgamation was 8.3 (8.9) % exceeding the 3% minimum requirement. The leverage ratio describes the level of indebtedness of a credit institution and is calculated by dividing the original own funds by the total of liabilities. The Savings Banks Amalgamation monitors excessive indebtedness as part of the ICAAP process.

LEVERAGE RATIO

(EUR 1,000)	31.12.2022	31.12.2021
Tier 1 capital	1,090,504	1,096,604
Total leverage ratio exposures	13,194,516	12,283,341
Leverage ratio	8,3%	8,9%

Pillar III note includes the information in accordance with the EU's Capital Requirements Regulation (575/2013) regarding the capital adequacy of the Savings Banks Amalgamation.

Resolution plan

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

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

The MREL requirement is by nature a Pillar II type minimum requirement that must be met continuously. According to the decision of the Financial Stability Authority, the MREL requirement applied to the Savings Banks Amalgamation is 19.49% of the total risk exposure amount or 5.91% of the total exposures, whichever is higher, until 31 December 2023, and as of 1 January 2024, the MREL requirement is 19.77% of the total risk exposure amount or 7.85% of the total exposures, whichever is higher.

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

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

BANKING SEGMENT

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 a counterparty may not meet its contractual obligations. The largest source of credit risk is lending, but credit risk (counterparty risk) may also occur from other types of receivables, such as bonds, short-term debt securities and derivative instruments, as well as off-balance sheet commitments, such as unused credit limits, and guarantees.

The key customer groups for Banking segment are retail customers, corporate (small to medium) customers, forestry and agricultural customers. The major part of Banking segment funds is granted as loans to the customers.

Management and measurement of credit risk

The Board of Directors of the Central Institution steers the Banking segment's credit risk management, the methods used, as well as their monitoring and reporting by approving the credit risk strategy, other guidelines and by setting the risk limits and other thresholds. The Central Institution's Risk Control function regularly monitors the development of credit risks in relation to limits as well as monitoring and control boundaries and monitors that the member credit institutions adhere to these principles.

The Risk Control unit of the Central Institution is responsible for the maintenance and updating of the approved credit risk strategy in cooperation with the Risk Committee set by the Central Institution's Board of Directors. The strategy is updated at least annually or whenever the Savings Banks Amalgamation's operating environment, business model, regulatory and/or regulatory framework change materially.

The credit risk strategy is supported by operational level instructions and guidelines issued by the Central Institution's Board of Directors. The most important instructions are credit underwriting policy, guidelines for the recognition and management of problem customers, collection guidelines, guidelines for collateral price follow up for real- and commercial estates and general credit guidelines that also covering mortgage credit banking.

The objective for the credit risk management is to restrict the effect of the risks arising from the exposure on the profitability and capital adequacy at the acceptable level. The Board of Directors of the Central Institution defines and confirms the risk limits and thresholds used for monitoring and controlling the lending portfolio by customer and industry group as well as the quality of portfolio at the Savings Banks Amalgamation level.

The business strategies and the credit-underwriting policies approved by the Boards of Directors of the Savings Banks Amalgamation's member institutions define the maximum exposure limits to the member credit institution specific risk concentrations and steer the lending by customer groups, industries and credit ratings. The member institutions mainly grant credits within their operational areas ensuring one of the essentials features for the lending of the Savings Banks: local and comprehensive knowledge of their customers.

In the Savings banks, the Boards of Directors of the banks have delegated credit authorisations to the bank's management/management team/credit committee and other designated employees. The credit decisions are made according to the credit-underwriting policy as approved by the Board of Directors. The main principle is decision making by two persons having lending authorization. The credit decisions are based on the customers' credit worthiness, ability to pay and other criteria, for example regarding acceptable collaterals, applied to credit decision making. The loans are mainly granted with acceptable collaterals. The collaterals are valued at fair value conservatively and their fair values are regularly monitored using both statistical information and bank's comprehensive knowledge about its operating area. The Board of Directors approves the instructions and guidelines for the valuation of the different collateral types and their collateral value applied in lending. The collateral values are conservatively defined maximum amount for each collateral type and the evaluation of the fair value of the collateral is always done on a case-by-case basis.

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

CREDIT AND COUNTERPARTY RISK*

(EUR 1,000)	31.12.2022			
Exposure group	**Total exposure**	**Guarantees**	**Fnancial guarantees**	**Other guarantees**
Exposures secured by mortgages on immovable propert	7,167,399			7,167,399
Retail exposures	2,370,819	715,200	51,330	973
Exposures to corporates	1,848,839	162,599	15,113	
Exposures to institutions	247,961			
Exposures to central governments or central banks	1,479,641			
Exposures in the form of units or shares collective investment undertakings (CIUs)	112,525			
Exposures in default	157,067	8,194	1,112	7
Other exposure groups in total	281,212		9	
Total	13,665,463	885,993	67,564	7,168,379

* The figures includes both ongoing operations and demerged operations from Savings Banks Group.

CREDIT AND COUNTERPARTY RISK*

(EUR 1,000)	31.12.2021			
Exposure group	**Total exposure**	**Guarantees**	**Fnancial guarantees**	**Other guarantees**
Exposures secured by mortgages on immovable propert	6,899,632			6,899,632
Retail exposures	2,298,465	678,334	53,469	1,872
Exposures to corporates	1,640,205	114,906	17,832	
Exposures to institutions	239,090			
Exposures to central governments or central banks	1,291,796			
Exposures in the form of units or shares collective investment undertakings (CIUs)	108,099			
Exposures in default	124,355	3,509	1,219	16
Other exposure groups in total	257,744		11	
Total	12,859,385	796,749	72,531	6,901,520

* The figures includes both ongoing operations and demerged operations from Savings Banks Group.

Doubtful exposures

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

Delayed payment refers to the customer's receivables being overdue for 30–89 days and the customer being a potential problem customer. The Savings Banks Amalgamation's delayed receivables remained at a moderate level of 0.5 per cent (0.6) of the credit portfolio in 2022.

A loan that meets at least one of the following criteria is classified as a non-performing receivable: the loan is classified as in default, the loan is in ECL stage 3 or the lifecycle of the forborne exposure of the loan is one year. The Amalgamation's non-performing receivables amounted to 2.1 (2.0) per cent of the credit portfolio at the end of the year. The number of non-performing receivables remained at a reasonable level in 2022. After 2021 and during the spring 2022, the number of instalment-free periods had returned to the level before the COVID-19 pandemic. Receivables whose terms have been renegotiated due to the customer's deteriorated ability to pay are reported as forborne exposures. In certain circumstances, when a debtor experiences financial difficulty, the customer is granted a concession on the terms of the loan in the form of an instalment-free period or restructuring the liability. The aim is to ensure the customer's ability to pay and avoid potential credit losses. Granting forbearance is conditional on the customer's financial difficulties being short-term and temporary. Impairment and expected credit losses are described in the accounting policies section of the financial statements and in the note 16 impairments.

*Payment delays and non-performing loans (EUR 1,000)	31.12.2022	Share (%)	31.12.2021	Share (%)
Payment delays, over 30 days	142,577	1,4%	127,019	1,3%
of which: 30–89 days	52,655	0,5%	54,994	0,6%
of which: 90 days or over	89,922	0,9%	72,025	0,8%
Non-performing receivables	213,441	2,1%	192,286	2,0%
Forberance in total	136,302	1,3%	194,360	2,0%

* The figures includes both ongoing operations and demerged operations from Savings Banks Group. Overdue receivables, more than 30 days, have been retrospectively corrected for the year 2021 in the table above.

Credit portfolio

The loan portfolio of the Banking segment was EUR 10,356 (9,649) million at the end of 2022 and increased with 7,3% compared to previous year-end.

The lending to retail customers was 67.7 (70.3) %, to corporate customers 24.4 (21.8) % and to agricultural and other customers 7.8 (7.9) %.

BREAKDOWN OF LOANS BY CUSTOMER GROUPS*

(EUR 1,000) Customer group	31.12.2022	31.12.2021	change %
Retail customers	7,013,333	6,782,012	3,4%
SME corporate customers	2,527,861	2,103,859	20,2%
Agricultural and other customers	814,936	763,583	6,7%
Total	10,356,130	9,649,454	7,3%

* The figures includes both ongoing operations and demerged operations from Savings Banks Group.

The mortgage lending was EUR 6,117.6 (5,891.7) million at the end of 2022 with growth of 3.8 (0.9) % during the year.

The lending to the retail customers is mainly granted against residential collateral and, where necessary other collateral types are used.

The lending to the retail customers is operated via the balance sheets of the Savings Banks and the Sp Mortgage Bank excluding the credit cards and unsecured consumer credits operated by the Central Bank of Savings Banks.

The credit portfolio has mainly well-guaranteed contracts and the large part of portfolio has excess guarantees. The lending to the retail customers is mainly granted against residential collateral and, where necessary other collateral types are used.

The table below shows the exposures of customer groups divided into the stages 1, 2 and 3 according to the IFRS 9 -standard.

	Stage 1		Stage 2		Stage 3		Total	
Customergroup* (EUR 1,000)	**Exposure**	**Collateral shortfall, %**	**Exposure**	**Collateral shortfall, %**	**Exposure**	**Collateral shortfall, %**	**Exposure**	**Collateral shortfall, %**
Retail customers	6,222,584	6,71%	689,995	3,18%	100,754	18,39%	7,013,333	6,53%
Corporate customers	2,026,017	6,94%	459,908	3,67%	41,936	21,49%	2,527,861	6,59%
Other	696,925	23,80%	87,804	18,75%	30,207	41,07%	814,936	23,90%
Total	8,945,526	8,10%	1,237,707	4,47%	172,897	23,11%	10,356,130	7,91%

* The figures includes both ongoing operations and demerged operations from Savings Banks Group.

Retail portfolio

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

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

RETAIL EXPOSURES BY RATING DISTRIBUTION*

(EUR 1,000)	31.12.2022				% of portfolio	
Description	Stage 1	Stage 2	Stage 3	Total	31.12.2022	31.12.2021
1 Excellent	855,666	2,804	0	858,469	12,2%	12,0%
2 Good	1,792,686	3,113	0	1,795,799	25,6%	24,5%
3 Good	2,120,223	26,962	0	2,147,184	30,6%	30,4%
4 Average	732,599	42,308	0	774,907	11,0%	11,5%
5 Average	294,044	34,151	0	328,195	4,7%	5,1%
6 Weak	222,023	96,715	0	318,738	4,5%	4,5%
7 Past due but not impaired	90,009	86,975	0	176,984	2,5%	2,7%
8 Past due but not impaired	58,965	131,769	44	190,779	2,7%	2,8%
9 Past due but not impaired	56,370	265,198	22	321,590	4,6%	5,1%
D Non-performing	0	0	100,687	100,687	1,4%	1,3%
Total	6,222,584	689,995	100,754	7,013,333	100,00%	100,00%

* The figures includes both ongoing operations and demerged operations from Savings Banks Group.

Credit ratings of the retail customers are mainly good. The majority of exposures still belong to better risk categories.

Corporate portfolio

In corporate lending the Savings Banks targets at the micro and small businesses, self-employed entrepreneurs, forestry and agricultural customers that are mainly located within the operating area of Savings Banks.

The credit risk management for these corporate, forestry, and agricultural customers are based on the customer adviser's customer analysis and internal credit rating.

For corporate customers the credit decisions and risk-based pricing of the credit are based on the analysis of customers' financial statements, customers' financial position, ability to pay, competitive positioning, credit scoring of the application and the loan-to-value ratio of the application. Additionally, the impact of intended investment on the customers' financial position is evaluated.

Self-employed entrepreneurs and sole traders are mainly classified as part of the retail exposures. Corporate customers include limited liability companies, joint-stock companies and limited partnerships, associations and public entities.

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

CORPORATE EXPOSURES BY RATING DISTRIBUTION*

(EUR 1,000)	31.12.2022				% of portfolio	
Description	Stage 1	Stage 2	Stage 3	Total	31.12.2022	31.12.2021
1 Excellent	163,180	262	0	163,442	4,9%	3,8%
2 Good	170,961	4,914	0	175,875	5,3%	4,8%
3 Good	290,497	10,058	0	300,555	9,0%	9,6%
4 Average	879,285	39,848	0	919,133	27,5%	28,9%
5 Average	620,586	44,666	0	665,252	19,9%	20,5%
6 Weak	408,534	145,310	0	553,844	16,6%	16,1%
7 Past due but not impaired	167,072	222,039	112	389,223	11,6%	10,7%
8 Past due but not impaired	19,058	67,577	0	86,635	2,6%	2,8%
9 Past due but not impaired	3,769	13,038	0	16,808	0,5%	0,6%
D Non-performing	0	0	72,031	72,031	2,2%	2,2%
Total	2,722,942	547,712	72,143	3,342,797	100,0%	100,0%

* The figures includes both ongoing operations and demerged operations from Savings Banks Group.

The distribution of exposures by risk categories has remained at the previous year's level. Number of housing cooperatives has significantly increased during the year 2022. It should be noted that the content of the corporate portfolio shown in the table differs from what it was in the modeling phase.

Concentration risks

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

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

The total amount of credit granted by the Savings Banks Amalgamation or an individual member credit institution to a single customer and/or customer group must not exceed the maximum amounts set in the Credit Institutions Act or other acts, or the regulations given by the Financial Supervisory Authority or other regulatory authority. The concentration risks caused by an individual counterparty are restricted with limits and guidelines related to the maximum customer exposure, both on the Savings Banks Amalgamation and the member credit institution levels. The Savings Banks Amalgamation does not have any large exposures, which would be exceed the limit of 10% of group's own assets set by EU capital adequacy regulation.

The largest counterparties of the Savings Banks Amalgamation are various government papers and derivate counterparties due to maintain the liquidity reserves. The 20 largest exposures are together 2.4 (1.3) % of the total lending portfolio. The largest industries in the corporate portfolio are real estate and construction, which are 16.4 (13.9) % of the total loan portfolio.

CORPORATE EXPOSURES BY INDUSTRY

Industry	31.12.2022	31.12.2021
Basic industries, fisheries and mining	5,20%	6,40%
Industry	5,20%	5,20%
Energy, water and waste disposal	0,65%	0,70%
Construction	8,68%	8,60%
Trade	6,62%	6,40%
Hotels and restaurants	3,09%	3,10%
Transport	2,30%	2,30%
Financing	2,23%	2,30%
Property	56,59%	54,90%
Research, consulting and other business service	5,45%	5,70%
Other services	3,99%	4,40%
Total	100,00%	100,00%

Certain concentration risks arise from the local and regional operative model of the Savings Banks. At the Savings Banks Amalgamation level single counterparty concentration risks are also managed with risk limits and thresholds set, monitored and reported for certain industries.

Market risk

Market risks in banking activities arise from the banking books of the member credit institutions consisting of lending and borrowing, wholesale market funding and investment and liquidity portfolios.

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

The member credit institutions of the Savings Banks Amalgamation do not, as a rule, engage in trading for own or customers' account. The use of derivatives is limited to hedging purposes. A member credit institution may have a so-called small trading book as defined in article 94 of the EU capital adequacy regulation. Savings Banks does not have a small trading book.

Investment and liquidity portfolios

The market risk in the investment and liquidity portfolios consists of the investments' price, interest rate and currency risks. Changes in stock prices, interest rates and exchange rates affect the value and yield of the investment portfolio. The market risk in the investment portfolio is measured and followed by investment class, counterparty and sector. The investment portfolio's development and largest counterparties are reported on a regular basis to the Board of Directors and the Risk Committee.

The risks in the investment and liquidity portfolios have managed by diversifying the investments by investment class, counterparty, sector and geography.

The dependence of Savings Banks' investment operations on the effects of the war in Ukraine has been very limited. However, the change in the interest rate environment has strongly affected the market values of the Savings Banks' investments.

The table below shows the diversity of investment portfolio by asset classes.

	31.12.2022		31.12.2021	
Investment portfolio (EUR 1,000) *	**Fair value**	**Share (%)**	**Fair value**	**Share (%)**
Debt securities	671,701	74,8%	783,481	77,0%
Shares	81,410	9,1%	83,961	8,3%
Structured investments	3,368	0,4%	3,394	0,3%
Other investments	84,762	9,4%	83,659	8,2%
Properties	56,298	6,3%	62,459	6,1%
Total	897,539	100%	1,016,954	100%

Table below shows investment portfolio risk sensitivity to different risk factors and their effect on the market values of investments, Amalgamation's profit and own funds.

Risk factor (EUR 1,000)	Chg %	31.12.2022	31.12.2021	Income*	Own funds*
Interest rates	+1%	-17,143	-24,710	-60	-16,545
Share prices	-10%	-8,141	-8,396	-8,141	-8,141
Property values	-10%	-5,630	-6,246	-	-
Structured investment value	-10%	-337	-339	-337	-337
Other investment value	-10%	-8,476	-8,366	-8,476	-8,476

* Risk factor effect on income and own funds.

Equity risk refers to the effect of changes in stock prices. Equity risk arises primarily from the liquidity and investment portfolios of member credit institutions.

Unlisted equity holdings consist mainly (78%) of intra group holdings that are not part of the Savings Banks Amalgamation.

Equity portfolio (EUR 1,000)	31.12.2022	31.12.2021
Listed shares	43,857	51,080
Unlisted shares	37,553	32,881
Total	81,410	83,961

Currency risk refers to the impact of changes in foreign exchange rates on the bank's result or own funds. Minor foreign exchange risk may arise from instruments of the investment portfolio. Open currency risk is not allowed in deposits from the customers or in the liquidity buffer of the member credit institutions. The currency position of a member credit institution is monitored with capital adequacy calculation method (capital need is calculated if the total net currency position is more than 2% of credit institutions total own funds).

Commodity risk refers to the impact of changes in commodity prices. The business, including investment activities, of the member credit institutions of the Savings Banks Amalgamation does not involve commodity risk taking.

Market risk management

Limits and thresholds have been set for market risk applicable to both individual member banks and the Amalgamation.

The capital adequacy management process (ICAAP) at the member credit institution and Amalgamation level, which allocates capital to cover market risks of the banking book in normal and stress scenarios, is also an important tool in measuring and monitoring market risks included in the banking book.

Interest rate risk in the banking book

The business of the Savings Banks Amalgamation is retail banking, which includes interest rate risk as an integral part, meaning the adverse impact of changes in interest rates on the market value of the banking balance sheet and off-balance-sheet items (current value risk) or on the net interest income (income risk). Interest rate risks arise from the banking books of member credit institutions, consisting of lending and deposits, wholesale market funding and investment portfolio. The Amalgamation does not have a trading book.

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

It is possible to manage interest rate risk by modifying the product and balance sheet structure, by planning the interest rate structure and maturities for investments and issued funding and by hedging with interest rate derivatives. Member Savings Banks of the Savings Banks Amalgamation use interest rate derivatives such as options and swaps actively in hedging their balance sheets.

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

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

NET INTEREST INCOME SENSITIVITY TO A 1% -POINT PARALLEL SHIFT IN THE INTEREST RATE CURVE

(EUR 1,000)	Change in net interest income			
	31.12.2022		31.12.2021	
Period	Down	Up	Down	Up
Change in the coming 12 months	-20,940	19,776	-290	21,312
Change in 12–24 months	-46,538	46,140	2,608	57,968

On 20 October 2022, the European Banking Authority announced a regulatory package on interest rate risk, with a guideline on the management of the interest rate risk of the financial account and two new draft regulatory standards concerning the standard method for interest rate risk calculation and outlier tests. The guideline will enter into force on 30 June 2023 and the regulations 20 days after they have been published in the Official Journal of the European Union. The impact of the regulatory package on the management of the Amalgamation's interest rate risk management will ultimately only be found out once the European Commission has approved the final versions of the regulations.

Liquidity risk

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

The Savings Banks Amalgamation's business is retail banking, the key part of which is the financial risk due to maturity transformation. The business is based on deposits received by member savings banks, which are used to fund loans to customers.

On 31 December 2022 the Savings Banks Amalgamation held EUR 1,586 (1,438) million (before haircuts) of LCR eligible liquid assets of which 77 (71) % were notes and coins and reserves held in the Bank of Finland, 13 (14) % were level 1 assets issued by governments and multinational organizations and 10 (15) % were other liquid assets. The Savings Banks Amalgamation's LCR was 144 (161) % on 31 December 2022.

The table below presents the maturity profiles of the Savings Banks Amalgamation's assets and liabilities. Demand deposits are assumed to mature overnight.

Assets 2022 (EUR 1,000)	Total	< 3 mon	3–12 mon	1–5 years	> 5 years
Cash and central bank reserves	1,207,448	1,207,448			
Central bank eligible debt securities	464,611	12,777	118,568	240,286	92,980
Receivables from financial institutions	205,014	205,014			
Receivables from customers and public entities	9,024,855	481,272	584,927	2,608,813	5,349,843
Other debt securities	170,578	3,701	28,258	125,143	13,476
Equity and shares	135,697				135,697
Other assets	1,576,179	89	1,490,044		86,046
Assets total	12,784,382	1,910,301	2,221,797	2,974,242	5,678,042
Liabilities 2022 (EUR 1,000)	**Total**	**< 3 mon**	**3–12 mon**	**1–5 years**	**> 5 years**
Due to credit institutions and central banks	450,945	112,655	150,000	168,000	20,290
Amounts owed to customers and public entities	6,999,896	6,276,298	583,801	139,797	
Debt securities in issue	2,756,667	88,726	185,151	1,832,794	649,996
Subordinated liabilities	2,058	2,058			
Other liabilities	1,427,039	1,163,954	850	102,545	159,690
Liabilities total	11,636,605	7,643,691	919,802	2,243,136	829,976
Derivatives, net cash flows	-304,895	-5	-23,081	-220,601	-61,208

Derivatives settled on a gross basis have no relevant liquidity effect due to their small position.

Assets 2021 (EUR 1,000)	Total	< 3 mon	3–12 mon	1–5 years	> 5 years
Cash and central bank reserves	1,017,904	1,017,904	0	0	0
Central bank eligible debt securities	525,889	63,645	15,732	300,366	146,146
Receivables from financial institutions	129,550	129,550	0	0	0
Receivables from customers and public entities	9,603,198	131,863	936,955	2,947,624	5,586,757
Other debt securities	261,074	5,221	26,891	190,566	38,396
Equity and shares	167,521	0	0	0	167,521
Other assets	228,286	323	88,421	15,666	123,876
Assets total	11,933,422	1,348,506	1,067,997	3,454,223	6,062,696

Liabilities 2021 (EUR 1,000)	Total	< 3 mon	3–12 mon	1–5 years	> 5 years
Due to credit institutions and central banks	423,705	139,505	149,359	127,338	7,503
Amounts owed to customers and public entities	7,687,766	7,223,148	337,043	127,547	28
Debt securities in issue	2,500,165	115,724	688,208	1,007,146	689,087
Subordinated liabilities	13,343	3,634	7,651	2,058	0
Other liabilities	165,997	150,486	43	646	14,822
Liabilities total	10,790,976	7,632,497	1,182,304	1,264,736	711,439
Derivatives, net cash flows	26,607	6,616	13,839	17,466	-11,314

Derivatives settled on a gross basis have no relevant liquidity effect due to their small position.

Liquidity risk management

The Board of Directors of the Savings Banks Amalgamation's Central Institution has the overall responsibility for Savings Banks Amalgamation's liquidity strategy, setting risk appetite and management procedures related to the identification, measurement, mitigation, monitoring and control of liquidity risk. The Board of Directors of the Central Institution approves the liquidity risk strategy, the funding plan and the contingency funding plan.

The Central Bank of Savings Banks is responsible for the operational implementation of the Savings Banks Amalgamation level liquidity strategy, which includes drafting and maintaining the operational level guidelines. Treasury is also responsible for the operational maintenance and testing of the amalgamation level liquidity recovery plan and is responsible for the adequacy and management of the amalgamation level liquidity reserve. An agreement has been signed between the member Savings Banks and the Central Bank of Savings Banks that gives the Central Bank of Savings Banks the right to use all liquid assets in the Savings Banks Amalgamation to support the Savings Banks Amalgamation's liquidity.

Treasury monitors the structural financial risk of banking operations on a monthly basis. Risk is measured by the net stable funding ratio (NSFR), the lending/borrowing ratio and a 10-year horizon gap analysis to measure the suitability of the banking operations financing structure for the long-term financing of balance sheet assets.

The Savings Banks Amalgamation's Asset and Liability Committee prepares and plans the liquidity strategy for the Board of Directors of the Central Institution and monitors the strategy's implementation at the Savings Banks Amalgamation level.

The Risk Control unit of the Central Institution is responsible for the independent monitoring of the Savings Banks Amalgamation level limits and thresholds set in the liquidity strategy and their reporting to the Central Institution's management, Asset and Liability Committee, Risk Committee and the Board of Directors.

The main methods of measuring and monitoring liquidity risk at the amalgamation level are the cash position, the adequacy of the liquidity reserve as measured by stress tests, the liquidity coverage ratio and net stable funding ratio.

The Finnish Financial Supervisory Authority has granted the Central Institution permission pursuant to the Act on the Amalgamation of Deposit Banks to decide that its member credit institutions will not be subject to the requirements stipulated by Section 6 of the EU Capital Requirements Regulation (EU 575/2013) and other EU statutes issued on the basis of the Regulation regarding the liquidity of credit institutions and net stable funding ratio (LCR and NSFR).

Real estate risk

Real estate risk refers to the risk of depreciation, income risk and damage risk to real estate assets. Real estate investments are not core business in banking segment. Real estate investments are not part of the core business of banking. Banks' real estate investments are mainly secured with full value insurance. Property, plant, equipment, and investment property have measured at cost less depreciation and impairment. The book values and measurement at cost are described more detail in the note investments assets.

Operational risk

Operational risk refers to the risk of loss arising from inadequate or failed internal processes, personnel, systems or external factors. Legal and compliance risks are also included in the operational risks. In addition, reputational risk is managed as part of 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 at the Group and Amalgamation level. Strategic risks have here excluded from operational risks.

The Savings Banks Group'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 Savings Banks Groups.

The Board of Directors of the Savings Banks Amalgamation's Central Institution has the overall responsibility for operational risks of banking and for defining risk levels and operational risk management procedures related to their identification, measurement, mitigation, monitoring and control. The Board of Directors of the Central Institution approves the principles and key operational guidelines of the operational risk management. The risk management organization monitors that the operational risk management framework is applied in all companies and units belonging to the Savings Banks Group.

The operational risks associated with the most important products, services, operations, processes and systems are identified. Identifying operational risks helps determine their monitoring and controls. Some of the losses caused by operational risks are covered by insurance. The continuity plans of member banks and product and service companies help prepare for significant interruptions in operations.

Within the Savings Banks Amalgamation, operational risks, realised losses and near misses are regularly reported to the management.

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. The Savings Banks Group comply with standard terms worked out jointly by the banking, asset management 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 Savings Banks Amalgamation comply with regulations and internal guidelines. Compliance function's responsibility is to ensure that the Savings Banks Amalgamation comply with laws, regulations and guidelines. Compliance function also ensures that the Savings Banks Amalgamation comply with its own internal guidelines, ethical principles for personnel and other instructions. The ultimate goal is to avoid compliance risk in the operations of the Savings Banks Group.

Business risk

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

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

ASSET MANAGEMENT AND LIFE INSURANCE

Asset Management

In the Savings Banks Group, Sp-Fund Management Company Ltd engages in the management of fund products and the production of asset management services in terms of both the management of Savings Banks' own portfolios and for the customers of Savings Banks.

Fund capital managed by Sp-Fund Management Company totaled EUR 4.2 (4.5) billion. The total number of investment funds managed at the end of 2022 was 24 investment funds and 9 special investment funds.

Life insurance

The most significant risks in life insurance concern insurance contracts and investment operations. The risks related to insurance contracts are the insurance risk, the interest rate risk and the expense risk. The technical bases applied to life insurance products in accordance with the Insurance Companies Act are prudent which means that, under normal conditions, the pricing in accordance with the technical bases produces surplus for the company.

PROFITABILITY OF LIFE INSURANCE

(EUR 1,000)	31.12.2022			31.12.2021
	Risk premiums	Claims incurred	Claims ratio	Claims ratio
Risk insurance	4,642	1,676	36%	23%
Savings and pension insurance	24,054	23,206	96%	96%
Total	28,696	24,883	87%	83%

Insurance risk

The most significant insurance risks have linked to pure risk products. These products include loan insurance, which covers death, permanent disability and accidental permanent disability. Such risks have managed by the insurance terms and conditions, careful selection of risks, correct pricing and reinsurance. In permanent disability and in accidental permanent disability insurance, it is possible to increase the contributions for the existing insurance portfolio when the claims ratio weakens. In terms of the selection of risks, we have determined clear grounds for taking insurance risks. The company follows in the risk selection process instructions prepared by the reinsurer.

The sum insured exceeding certain level have reinsured and the existence of the reinsurance cover is dependent on continuous compliance with the existing instructions. The Board of Directors confirms the principles of reinsurance and the excess annually. In the same context, the credit risk related to the reinsurer is assessed.

Interest rate risk

The interest rate risks of life insurance are related to either the interest rate credited for contracts or then the interest rate credited for technical provisions. In savings products, the company uses a combination of annual interest and additional interest confirmed annually. This enables adaptation to current market situations by annually adjusting the interest rate credited to customers on market terms. This significantly reduces the interest rate risk incurred from insurance contracts. According to the principle of reasonableness, the company shall seek balanced income for contracts with guaranteed interest. The company has prepared for this by interest supplements.

Expense risk

The company's products have priced in terms of the expense loadings received from the products to cover the expenses incurred. The expense loadings have dimensioned based on product lifecycle thinking, whereby the expense loadings received from the contracts have allocated over the entire lifetime of the contract. With regard to life insurance, company analyses the profitability of insurance products at least once a year, based on which the premiums and loading of the insurance policies granted is assessed. The analysis indicates the sufficiency of the risk premiums received to cover the claims incurred, the sufficiency of the expense loadings to cover the expenses and the compatibility of the interest paid with the investment income received. By means of the analysis, company annually monitors the sufficiency of the pricing by insurance product and takes the necessary corrective steps.

Sensitivity analysis of technical provisions

The insurance portfolio includes risk insurances and savings insurances. Risk insurance policies are life insurance policies linked to loans granted by sales channels, the related cover of which may include permanent disability or accidental permanent disability insurance policies. Savings insurance policies include endowment policies, pension and group pension insurance policies and capitalization agreements. The company does not have the possibility to affect the premiums for, or other terms and conditions of, already granted insurance policies materially.

Risk insurance policies have related to mortality and disability risks. This risk is managed by the appropriate selection of risks, profitability of business-related underwriting risk and reinsurance. The company has reinsured every insured in the event of death or permanent disability to the extent that the risk sum (or sum insured) exceeds EUR 150,000 or EUR 300,000 in new contracts from 1 January 2023. In addition, the company has catastrophe cover, which restricts the maximum amount of damage incurred from one loss event to EUR 500,000.

The majority of the savings insurance base is unit-linked, but all insurance contracts include an option to transfer the savings between the unit-linked and the guaranteed interest savings part. Savings insurance policies include a surrender option, which is restricted by terms and conditions during the first three years of the contracts. In addition, any surrender is restricted by tax legislation with regard to pension insurance. The majority of endowment insurance policies end with surrender, and it is taken into account in the lifecycle of the contract. The third uncertainty factor related to savings insurance policies is the right of the policyholder to change the payment plan of the insurance. Changes to the payment plan have not been restricted in the terms and conditions.

The guaranteed interest savings insurance policies have discounted using a contract-specific interest rate, which is not a market rate. The contract-specific interest rate varies between 0% and 0.5%. In 2022, it was an average of 0.13%. EUR 8.9 million has been reserved for future discretionary bonuses included in technical provisions, which is estimated to cover 80 per cent of the future discretionary bonuses during the next ten years.

Risks of investment operations

The objective of the investment operations of life insurance is to achieve the best possible continuous income at an acceptable risk level, while at the same time securing the company's capital requirements and the compatibility of the structure of assets and liabilities. The most significant risks are the decline in the value of investments, an insufficient level of returns for the requirements set by technical provisions and the reinvestment risk of investment assets falling due. Risks have managed by efficient diversification, while at the same time taking into account the regulation related to assets covering technical provisions.

DISTRIBUTION OF INVESTMENT ASSETS

(EUR 1,000)

Type of investment		31.12.2022	31.12.2021
Bonds			
	Bonds		
	Fixed-income funds	108,368	102,162
Shares, Developed markets			
	Shares		3,200
	Equity funds	19,523	36,591
Structured investments			
Hedge funds		9,997	9,552
Real estate			
	Real estate		
	Real estate funds	10,903	11,514
Bank receivables in investments		8,403	4,366
Total		148,791	167,387

BOND AND FIXED INCOME FUND INVESTMENTS ACCORDING TO MODIFIED DURATION

(EUR,1,000)

Modified,duration	31.12.2022	Share	31.12.2021	Share
0–1	15,717	15%	24,849	24%
1–3	12,482	12%	18,047	18%
3–5	13,523	12%	21,117	21%
5–7	29,382	27%	13,388	13%
7–10	21,915	20%	11,683	11%
10–	15,349	14%	13,079	13%
Total	108,368	100%	102,162	100%

COUNTERPARTY RISK

Bonds and structured loans according to maturity and credit rating

(EUR 1,000)	Maturity						31.12.2022		31.12.2021	
Credit rating	0 – 1	1 – 3	3 – 5	5 – 7	7 – 10	10 –	Total	Share	Total	Share
AAA	1,401	657	2,919	4,245	2,332	3,499	15,054	8%	8,297	8%
AA	2,140	2,271	1,356	5,488	6,744	3,439	21,438	5%	4,824	5%
A	4,860	2,009	3,569	7,374	9,036	3,804	30,653	11%	11,747	11%
BBB	2,009	1,569	1,906	4,756	2,881	2,177	15,299	26%	26,343	26%
< BBB	2,123	2,858	2,245	4,924	453	1,172	13,775	36%	37,008	36%
Unclassified	3,184	3,117	1,526	2,595	469	1,258	12,149	14%	13,942	14%
Total	15,717	12,482	13,523	29,382	21,915	15,349	108,368	100%	102,162	100%

CURRENCY RISK

Investments by currency
(EUR 1,000)

Currency	31.12.2022	Share	31.12.2021	Share
EUR	126,918	85%	148,974	89%
USD	15,325	10%	11,048	7%
GBP	2,976	2%	4,687	3%
Others	3,571	2%	2,678	2%
Total	148,791	100%	167,387	100%

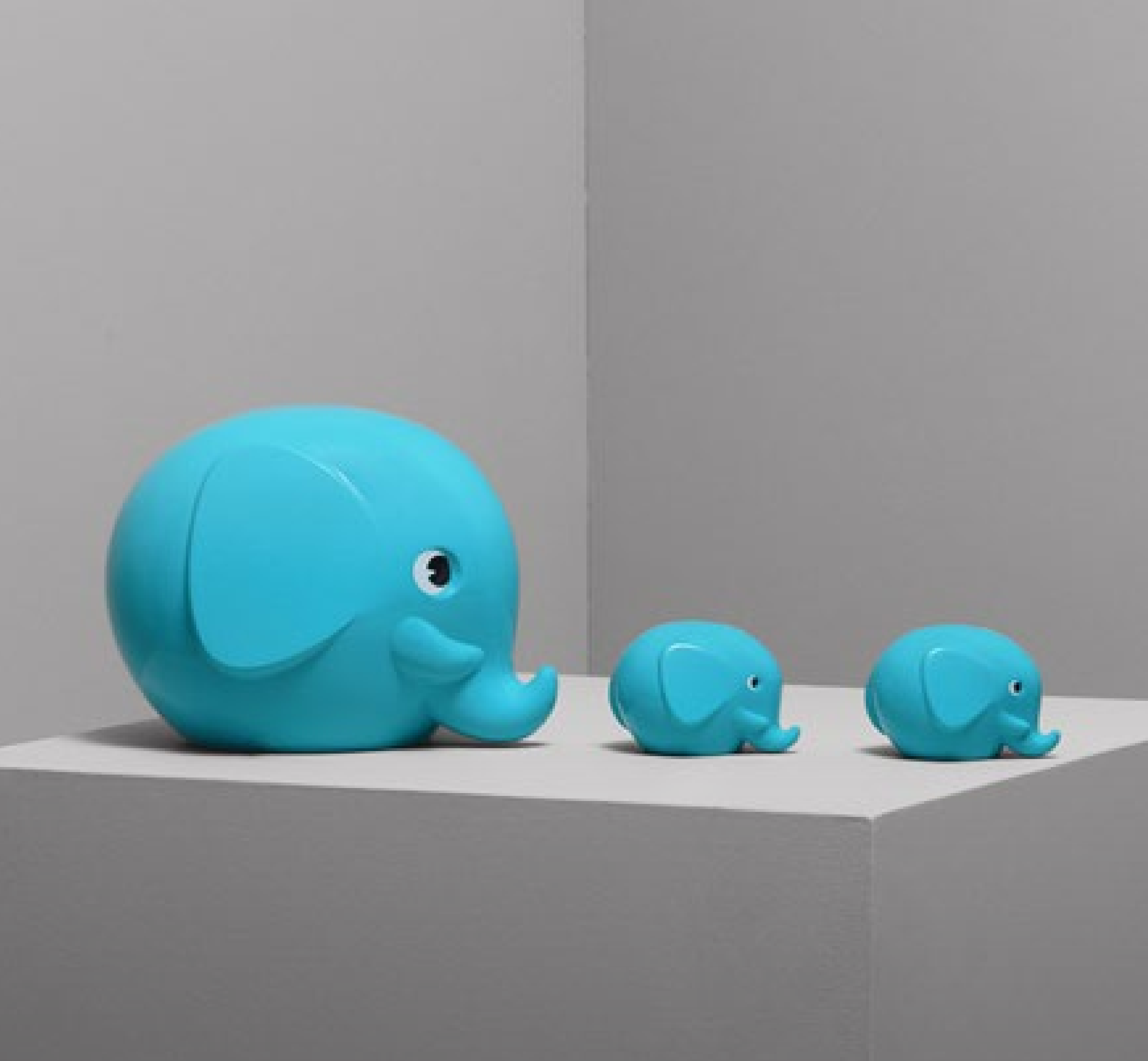
Fund investments in euro-hedged funds have classified to be euro-denominated. The currencies in other funds have based on the quotation currencies of the securities included in the fund.

To protect parts of investment assets, it is also possible to use derivatives for hedging purposes, as necessary. The investment risk is monitored through sensitivity analyses and through the value-at-risk technique. The table below shows the sensitivity analysis of the investment portfolio, which describes the effect of different market risk factors on investment assets

Issuer manages the credit risk of investment operations and counterparty limits.

SENSITIVITY ANALYSIS

(EUR 1,000)	Change in own funds		
Risk factor	**Change**	**31.12.2022**	**31.12.2021**
Interest	+1%-point	101	-1,021
	-1%-point	-322	2,621
Share	-10%	-2,052	-4,079
Real estate	-10%	-1,300	-1,151
Currency	Others/Euro -10%	-2,187	-1,791
Structured loans	-10%	0	0



PROFIT FOR THE PERIOD

NOTE 6: OPERATING SEGMENTS

The Savings Banks Group reports information about its operating segments in compliance with IFRS 8. According to IFRS 8, the financial information regularly provided to the chief operating decision maker forms the basis for segment reporting. Thus the segment division of the information presented in the Financial Statements is based on the same division as is applied in management reporting.

The chief operating decision maker of the Savings Banks Group is the Board of Directors of Savings Banks' Union Coop, which acts as the Central Institution of the Amalgamation of Savings Banks. According to the rules of Savings Banks' Union Coop, the Board of Directors of the Central Institution bears the primary responsibility for allocating the resources and evaluating the performance of the Savings Banks Group.

The reportable segments of the Savings Banks Group include Banking as well as Asset Management Services. Operations not included in the reportable segments are presented in the reconciliations.

The Banking segment comprises the member Savings Banks, the Central Bank of Savings Banks Finland Plc and Sp Mortgage Bank Plc. Savings Banks practice retail banking. The Central Bank of Savings Banks acts as the central bank of the Savings Banks. Sp Mortgage Bank Plc is engaged in mortgage banking. The most significant income items of Banking are net interest income, fee and commission income as well as investment income. The most significant expense items consist of personnel expenses and other operating expenses.

The Asset Management Services segment comprises Sp-Fund Management Company Ltd and Sb Life Insurance Ltd. Sp-Fund Management Company Ltd is engaged in administration of mutual funds and asset management, whereas Sb Life Insurance Ltd practices life insurance operations. The most significant income items of the Asset Management Services segment are fee and commission income, insurance premiums and investment income. The most significant expense items consist of fee and commission expenses, claims incurred, personnel expenses and other operating expenses.

Segment reporting is prepared in compliance with the accounting policies of the financial statements of the Savings Banks Group which is described in Note 2 .

Internal transactions of the reportable segments are eliminated within and between the segments. Acquisition cost eliminations, non-controlling interests and other intra-group arrangements are included in the eliminations presented in reconciliations.

Pricing between the segments is based on market prices.

In accordance with IFRS 8, Savings Banks Group is required to disclose business with a single external customer that generates 10% or more of the combined revenue. The Group has no such customers for which revenue would exceed 10%.

In the tables below, the income statement and balance sheet data for the past financial year are presented for continuing operations. The data for the comparison year have not been adjusted with regard to functions withdrawing from the Savings Banks Group, and they therefore include both continuing functions and functions withdrawing from the Savings Banks Group.

2022 (EUR 1,000)
INCOME STATEMENT

	Banking	Asset Management Services	Reportable segments in total
Net interest income	169,862	-159	169,703
Net fee and commission income	66,125	36,599	102,724
Net investment income	-6,862	3	-6,859
Net life insurance income	0	18,397	18,397
Other operating revenue	45,137	0	45,137
Total operating revenue	274,261	54,841	329,102
Personnel expenses	-58,284	-7,270	-65,553
Other operating expenses	-152,285	-11,282	-163,568
Total operating expenses	-210,569	-18,552	-229,121
Net impairment loss on financial assets	-15,882		-15,882
Profit before tax	47,810	36,289	84,099
Taxes	-9,877	-7,174	-17,051
Profit	37,933	29,115	67,048
Statement of financial position 2022			
Cash and cash equivalents	1,207,448		1,207,448
Loans and advances to credit institutions	54,443	13,948	68,390
Loans and advances to customers	9,024,439		9,024,439
Derivatives	89		89
Investment assets	766,103	13,948	780,051
Life insurance assets		1,006,582	1,006,582
Other assets	163,557	9,352	172,909
Total assets	11,216,080	1,043,829	12,259,909
Liabilities to credit institutions	291,865		291,865
Liabilities to customers	6,994,366		6,994,366
Derivatives	263,422		263,422
Debt securities issued	2,756,666		2,756,666
Life insurance liabilities		950,931	950,931
Subordinated liabilities	1,642		1,642
Other liabilities	159,033	26,019	185,053
Total liabilities	10,466,994	976,951	11,443,945
Number of emplyees at the end of the period	873	63	936

RECONCILIATIONS (EUR 1,000)

	1–12/2022	1–12/2021
Revenue		
Total revenue for reportable segments	329,102	326,091
Withdrawal from Savings Banks Group, other operations	37,947	1,475
Total revenue of the Group	367,049	327,566
Profit		
Total profit or loss for reportable segments	67,048	72,462
Non allocated amounts	-280	300
Withdrawal from Savings Banks Group	11,251	
Total profit of the Group	78,019	72,762

	31.12.2022	31.12.2021
Assets		
Total assets for reportable segments	12,259,909	13,096,242
Non allocated assets, other operations	20,898	-17,146
Withdrawal from Savings Banks Group	1,498,760	
Total assets of the Group	13,779,567	13,097,063
Liabilities		
Total liabilities for reportable segments	11,443,945	11,867,910
Non allocated liabilities, other operations	31,565	20,894
Withdrawal from Savings Banks Group	1,126,968	
Total liabilities of the Group	12,602,478	11,888,804

2021 (EUR 1,000)
INCOME STATEMENT

	Banking	Asset Management Services	Reportable segments in total
Net interest income	166,442	-301	166,141
Net fee and commission income	74,806	40,159	114,965
Net investment income	17,191	13	17,204
Net life insurance income		18,511	18,511
Other operating revenue	9,192	78	9,271
Total operating revenue	267,631	58,460	326,091
Personnel expenses	-64,727	-7,566	-72,292
Other operating expenses	-152,023	-10,921	-162,944
Total operating expenses	-216,750	-18,487	-235,237
Net impairment loss on financial assets	-1,297		-1,297
Profit before tax	49,584	39,973	89,557
Taxes	-9,093	-8,002	-17,095
Profit	40,491	31,971	72,462
Statement of financial position 2021			
Cash and cash equivalents	1,017,904		1,017,904
Loans and advances to credit institutions	129,484		129,484
Loans and advances to customers	9,603,223		9,603,223
Derivatives	33,693		33,693
Investment assets	992,799		992,799
Life insurance assets		1,160,683	1,160,683
Other assets	148,059	10,396	158,456
Total assets	11,925,162	1,171,080	13,096,242
Liabilities to credit institutions	424,431		424,431
Liabilities to customers	7,682,351		7,682,351
Derivatives	15,511		15,511
Debt securities issued	2,500,165		2,500,165
Life insurance liabilities		1,084,728	1,084,728
Subordinated liabilities	13,343		13,343
Other liabilities	124,737	22,644	147,381
Total liabilities	10,760,539	1,107,372	11,867,910
Number of emplyees at the end of the period	974	77	1,051

NOTE 7: NET INTEREST INCOME

Interest income and expense are accrued over maturity using the effective interest rate method. Using this method, the income and expenses arising from an instrument are accrued in relation to the residual receivable and liability in the balance sheet until maturity. Interest income and expense related to life insurance financial assets are recognised under "Net income from life insurance" in the income statement.

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

NET INTEREST INCOME

(EUR 1,000)	1–12/2022	1–12/2021
Interest income		
Debt securities eligible for refinancing with Central Bank	4,212	3,866
Loans and advances to credit institutions	4,779	371
Loans and advances to customers	162,294	131,984
Debt securities	5,616	6,755
Derivative contracts		
Hedging derivatives	23,649	22,580
Other	4,331	3,099
Total	204,880	168,654
Interest expense		
Liabilities to credit institutions	-3,220	-3,949
Liabilities to customers	-5,610	-4,120
Derivative contracts		
Hedging derivatives	-10,796	-648
Debt securities issued	-15,175	-6,860
Subordinated liabilities	-137	-264
Other	-331	-489
Total	-35,270	-16,330
Net interest income	169,610	152,324

NOTE 8: NET FEE AND COMMISSION INCOME

Net fee and commission income consists of the income and expenses associated with services provided to customers. As a rule, fees and commissions for performing an action or a service are recognised when the performance obligation towards the customer has been satisfied and control has been transferred. Income is recognised at the amount which the Savings Banks Group believes it is entitled to in exchange for the services performed.

Net income and commission income consists of commission income from lending and payment transactions. In addition, fees are charged for, among other things, legal tasks, guarantees, funds and brokerage of securities. The above-mentioned items consist of several different types of fees and commissions, the performance obligations of which are fulfilled, depending on the nature of the fee, either over time or at a single point in time.

The performance obligations for lending, guarantees and fund fees are mainly fulfilled over time, for other fees at a point in time. The amount of consideration in the services is mainly the list price or as agreed in the contract. Fees are charged to the customer on a monthly basis or after the performance of the service in accordance with the terms and conditions of the contract. The fund and asset management fees include performance-based fees that are tied to the performance of investment activities. Performance-based fees are recognised as income only when the criteria measuring the performance of investment activities are very likely to be met.

Fee expenses are recognised in net fee and commission income on a performance basis.

NET FEE AND COMMISSION INCOME

(EUR 1,000)	1–12/2022	1–12/2021
Fee and commission income		
Lending	18,229	17,720
Deposits	196	198
Payment transfers	46,801	43,304
Securities brokerage	580	749
Mutual fund brokerage	36,729	37,774
Asset management	1,049	688
Legal services	3,808	4,078
Custody fees	1,935	1,918
Insurance brokerage	546	565
Guarantees	2,247	1,943
Other	2,918	3,082
Total	115,039	112,019
Fee and commission expense		
Payment transfers	-3,130	-3,132
Securities	-614	-448
Mutual fund brokerage	-876	-762
Asset management	-1,066	-1,059
Other*	-6,093	-5,533
Total	-11,779	-10,934

* of which the most significant expenses are the shared ATM expenses amounting to EUR 2,616 (2,408) thousand.

Net fee and commission income	103,261	101,085

NOTE 9: NET INVESTMENT INCOME

Net investment income includes net income from financial assets measured at fair value through profit or loss (capital gains and losses, measurement gains and losses and dividend income), financial assets measured at fair value through other comprehensive income (capital gains and losses, expected credit losses and dividend income) and net income from investment property (rental and dividend income, capital gains and losses, maintenance charges and expenses, depreciation and amortization and rental expenses). In addition, this item includes net income from foreign exchange operations and net income from fair value hedge accounting.

(EUR 1,000)	1–12/2022	1–12/2021
Net income from financial assets at fair value through other comprehensive income		
Debt securities		
Capital gains and losses	-126	843
Transferred from fair value reserve during the financial year	-1,074	878
Total Debt securities	-1,200	1,721
Shares and participations		
Dividend income	-393	32
Total shares and participations	-393	32
Total	-1,593	1,753
Net income from financial asset at fair value through profit or loss		
Debt securities		
Capital gains and losses	52	-78
Fair value gains and losses	-1,741	-94
Shares and participations		
Dividend income	3,811	1,296
Capital gains and losses	-98	1,318
Fair value gains and losses	-6,498	11,345
Net income from foreign exchange operations	-7	25
Derivative contracts*)	2,147	-112
Net income from hedge accounting		
Change in hedging instruments' fair value	-280,240	-54,284
Change in hedged items' fair value	278,949	51,867
Total	-3,624	11,283

* Including EUR -166 thousand (2) of the ineffective part of cash flow hedges.

(EUR 1,000)	1–12/2022	1–12/2021
Net income from investment property		
Rental and dividend income	4,541	5,414
Capital gains and losses	1,519	2,317
Other income from investment property	-1	73
Maintenance charges and expenses	-3,970	-4,176
Depreciation and amortisation of investment property	-4,070	-2,838
Rental expenses arising from investment property	-25	-582
Total	-2,006	208
Other income	49	
Net investment income	-7,174	13,244

NOTE 10: NET LIFE INSURANCE INCOME

Net life insurance income includes premiums written, net investment income for life insurance, including e.g. interest income and expense, as well as dividend income. Furthermore, claims incurred and changes in insurance contract liabilities are recognised in this item.

NET LIFE INSURANCE INCOME

(EUR 1,000)	1–12/2022	1–12/2021
Premiums written		
Group's share	95,561	116,732
Insurance premiums ceded to reinsurers	-1,391	-1,131
Net investment income	-132,947	95,946
Claims incurred		
Claims paid	-73,874	-63,683
Change in provision for unpaid claims	1,281	-5,125
Change in insurance contract liabilities		
Change in life insurance provision	132,337	-121,971
Other	-2,571	-2,256
Net life insurance income	18,396	18,511

Premiums written	1–12/2022	1–12/2021
Premiums written from insurance contracts		
Premiums written from risk insurance contracts		
Risk insurance	14,724	13,789
Total	14,724	13,789
Premiums written from insurance contracts with entitlement to discretionary portion of surplus		
Savings insurance	865	987
Voluntary pension insurance	313	340
Voluntary group pension insurance	49	37
Total	1,226	1,364
Premiums written from unit-linked insurance contracts		
Savings insurance	36,439	52,062
Voluntary pension insurance	3,888	4,109
Voluntary group pension insurance	1,619	1,229
Total	41,946	57,400
Total	57,896	72,552
Premiums written from investment contract		
Premiums written from unit-linked investment contracts	37,664	44,181
Total	37,664	44,181
Total premiums written	95,561	116,733

Term insurances include regular premium endowment policies, where the payments are charged from customers annually. Other insurances comprise flexible premium endowment policies. The policyholder can make payment plans or abnormal payments to those insurances. The policyholder may change their payments freely.

NET INVESTMENT INCOME

(EUR 1,000)	1–12/2022	1–12/2021
Net interest	24	6
Dividend income	1,400	325
Realised capital gains and losses	178	161
Unrealised gains and losses	-132,488	93,052
Other investments	570	243
Net income from foreign exchange operation	72	368
Net income from unit-linked customer assets	-2,703	1,791
Total	-132,947	95,946

Benefits paid	1–12/2022	1–12/2021
Benefits paid from insurance contracts		
Benefits paid from risk insurance contracts	-1,357	-1,052
Benefits paid from insurance contracts entitling to discretionary portion of surplus		
Savings insurance		
Maturities	-319	-101
Death benefits	-4,036	-5,457
Surrenders	-1,558	-1,570
Total	-5,914	-7,128
Personal pension insurance		
Annuities	-722	-728
Death benefits		-27
Surrenders	-39	-23
Total	-761	-779
Group pension insurance		
Annuities	-182	-191
Surrenders	-1	
Total	-183	-191

Benefits paid from unit-linked insurance contracts	1–12/2022	1–12/2021
Savings insurance		
Maturities	-293	-774
Death benefits	-15,612	-11,645
Surrenders	-26,722	-23,051
Total	-42,627	-35,471
Voluntary pension insurance		
Annuities	-2,261	-1,856
Death benefits	-218	-187
Surrenders	-542	-736
Total	-3,022	-2,779
Voluntary group pension insurance		
Annuities	-69	-63
Death benefits	-16	
Surrenders	-6	-23
Total	-76	-87
Total benefits paid from insurance contracts	-53,938	-47,486
Benefits paid from investment contracts		
Death benefits	-3,301	-2,279
Surrenders	-16,634	-13,918
Total	-19,935	-16,197
Total benefits paid from investment contract	-19,935	-16,197
Total direct insurance	-73,874	-63,683
Total benefits paid	-73,874	-63,683

Change in insurance contract liabilities

Change in liabilities for insurance policies 2022 (EUR 1,000)	Provision 1 Jan 2022	Premiums	Claims, part of deposit	Claims, part of risk	Interest and changes in fair value	Other charges and credits	Other items	Provision 31 Dec 2022
Other than unit-linked contract liabilities								
Insurance liability discounted with interest rate guarantee	74,006	1,226	-6,860	13	1,262	-528	1,497	70,617
Bonus reserves	8,861				-741			8,120
Reserve for decreased discount rate	3,476						-164	3,312
Reserve for increased operating costs	3,137						998	4,135
Risk insurance liability	1,138	14,724		-1,335		-14,693	1,658	1,492
Unit-linked contract liabilities								
Liabilities for unit-linked insurance contracts	583,321	20,185	-34,101	9	-77,492	-3,461	-1,553	486,907
Liabilities for unit-linked investment contracts	407,170	59,426	-31,572		-58,981	-3,043	-92	372,907
Total	1,081,109	95,561	-72,533	-1,313	-135,952	-21,725	2,344	947,491

Change in insurance contract liabilities

Change in liabilities for insurance policies 2021 (EUR 1,000)	Provision 1 Jan 2021	Premiums	Claims, part of deposit	Claims, part of risk	Interest and changes in fair value	Other charges and credits	Other items	Provision 31 Dec 2021
Other than unit-linked contract liabilities								
Insurance liability discounted with interest rate guarantee	83,688	1,322	-8,158	17	1,123	-582	-3,403	74,006
Bonus reserves	9,440						-579	8,861
Reserve for decreased discount rate	3,723						-247	3,476
Reserve for increased operating costs	1,439						1,699	3,137
Risk insurance liability	957	13,755		-995	1	-13,766	1,187	1,138
Unit-linked contract liabilities								
Liabilities for unit-linked insurance contracts	526,079	36,232	-31,887	71	53,099	-3,693	3,419	583,321
Liabilities for unit-linked investment contracts	328,688	65,542	-22,730		39,073	-3,402		407,170
Total	954,013	116,850	-62,776	-907	93,296	-21,443	2,076	1,081,109

NOTE 11: INCOME AND EXPENSES FROM FINANCIAL INSTRUMENTS

INCOME AND EXPENSES FROM FINANCIAL INSTRUMENTS

Financial assets and liabilities at amortized cost (EUR 1,000)	**1–12/2022**	**1–12/2021**
Interest income	171,631	135,562
Interest expense	-24,474	-15,682
Impairment	-11,401	-3,912
Financial assets and liabilities at amortized cost	135,757	115,967
Financial assets at fair value through other comprehensive income		
Interest income	8,777	9,508
Interest expense		
Realised gains and losses	-126	843
Dividend income	-393	32
Reclassified from other comprehensive income	-1,074	878
Impairment	-4,482	2,972
Financial assets at fair value through other comprehensive income	2,702	14,233
Financial assets at fair value through profit or loss		
Interest income	24,472	23,585
Interest expense	-10,796	-648
Realised gains and losses	-46	1,240
Dividend income	3,811	1,296
Fair value change, net	-7,378	8,722
Cash flow hedges – ineffective portion of changes in fair value	-4	-1
Financial assets at fair value through profit or loss	10,059	34,195
Income from financial instruments		
Interest income	204,880	168,654
Net income from investment activities	-5,210	13,011
Income from financial instruments, total	199,669	181,665
Expenses from financial instruments		
Interest expense	-35,270	-16,330
Impairment	-15,882	-941
Expenses from financial instruments, total	-51,152	-17,271

NOTE 12: OTHER OPERATING REVENUE

Other operating revenue includes rental and dividend income as well as capital gains from owner-occupied property and other operating income

OTHER OPERATING REVENUE

(EUR 1,000)	1–12/2022	1–12/2021
Rental and dividend income from owner-occupied property	117	113
Capital gains from owner-occupied property	259	332
Other income from Banking*	42,098	6,418
Other	2,492	6,688
Other operating revenue	44,966	13,551

* The income includes the compensation received for the termination of the core banking system renewal project, amounting to EUR 33.9 million.

NOTE 13: PERSONNEL EXPENSES

Personnel expenses include wages and salaries, pension expenses for defined contribution and defined benefit pension plans and other personnel-related costs. The Savings Banks Group's employee benefits are described in more detail in Note 39 Employee benefits.

PERSONNEL EXPENSES

(EUR 1,000)	1–12/2022	1–12/2021
Wages and salaries	-75,948	-77,078
Pension expenses		
Defined contribution plans	-13,105	-12,472
Defined benefit plans	-551	-365
Other personnel related costs	-2,767	-2,790
Personnel expenses	-92,371	-92,705
Full-time	1,134	1,134
Part-time	134	134
Temporary	84	84
Total	1,352	1,352
Number of employees converted to FTEs*	1,149	1,299
Average number of FTEs during the financial year*	1,157	1,338

* Comparatives include the amounts of Lieto Savings Bank, which is withdrawing from the Savings Bank.

NOTE 14: OTHER OPERATING EXPENSES

OTHER OPERATING EXPENSES

(EUR 1,000)	1–12/2022	1–12/2021
Other administrative expenses		
Other personnel expenses	-4,897	-4,356
Office expenses	-8,802	-8,460
ICT expenses	-51,377	-49,507
Telecommunications	-4,597	-4,465
Information expenses	-1,323	-1,126
Representation expenses	-207	-199
Marketing	-6,897	-6,253
Other admin expenses	-376	-288
Payment card expenses	-10,739	-9,304
Total	-89,214	-83,958
Other operating expenses		
Rental expenses	-2,817	-2,481
Expenses arising from owner-occupied property	-4,387	-4,650
Other operating expenses	-19,798	-18,989
Total	-27,003	-26,121
Other operating expenses	-116,217	-110,079
***Audit fees**		
Statutory audit	-567	-508
Audit related services	-241	-92
Other services	-62	-44
Total	-870	-644

* The amount of other than audit services delivered by KPMG Oy Ab were EUR 348 (vat 0%) thousand.

NOTE 15: DEPRECIATION, AMORTISATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Property, plant and equipment and intangible assets are depreciated and amortised over the course of their useful lives. Depreciation and amortisation are recognised as expenses on a straight-line basis. The useful life of intangible assets is reviewed annually. If the future revenue of an asset is permanently lower than the undepreciated/unamortised acquisition cost, the difference is recognised as an impairment.

More information about depreciation and amortisation periods and accounting principles for property, plant and equipment and intangible assets is provided in Note 25 Property, plant and equipment and Note 24 Intangible assets. Information about the right-of-use assets according to the IFRS 16 Leases standard is presented in Note 40.

DEPRECIATION, AMORTISATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

(EUR 1,000)	1–12/2022	1–12/2021
Depreciation and amortisation of property, plant and equipment	-5,256	-5,867
Depreciation and amortisation of intangible assets	-7,240	-9,579
Total depreciation and amortisation	-12,496	-15,446
Impairment of property, plant and equipment	-345	-1,281
Impairment of intangible assets*	-7,611	-509
Total impairment	-7,956	-1,791
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-20,452	-17,237

* Impairment of EUR 7.6 million recognised in the financial year due to the termination of the core banking system renewal project.

NOTE 16: IMPAIRMENT LOSS ON FINANCIAL ASSETS

IMPAIRMENT LOSS ON FINANCIAL ASSETS

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

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

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

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

FINANCIAL ASSETS WITHIN THE SCOPE OF MEASUREMENT OF EXPECTED CREDIT LOSSES BY IMPAIRMENT STAGE FOR CONTINUING OPERATIONS

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Financial assets 31 December 2022				
Investment assets	640,989	39,027	500	680,516
Loans and advances	7,843,798	1,093,234	148,113	9,085,145
Off-balance sheet items	653,406	47,837	1,463	702,706
Total	9,138,193	1,141,071	150,076	10,468,367

	Stage 1	Stage 2	Stage 3	Total
Financial assets 31 December 2021				
Investment assets	749,114	3,194	3,200	755,508
Loans and advances	8,869,376	649,152	150,792	9,669,320
Off-balance sheet items	762,468	13,846	1,469	777,782
Total	10,380,957	666,191	155,461	11,202,610

In assessing the significance of change in credit risk, the Savings Banks Group takes into account the following qualitative and quantitative information, amongst others.

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

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

- Forbearance: the credit risk of a performing financial asset subject to forbearance is deemed to have increased significantly and the contract is migrated from stage 1 to stage 2. If the contract is forborne and non-performing or if a forbearance concession is made for a contract at the time of application, the contract is deemed to be impaired and is migrated to stage 3.

- Default: If the counterparty of a financial asset is in default, the contract is deemed to be impaired and is migrated to stage 3.

- PD% increase (investment assets): credit risk is deemed to have increased significantly when the relative or absolute threshold for PD% increases is exceeded.

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

The tables below present the development of the expected credit losses for continuing operations as of the beginning of the financial year.

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

	Stage 1	Stage 2	Stage 3	Total
(EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected credit losses 1 January 2022	2,992	2,356	30,473	35,821
Transfers to stage 1	416	-987	-42	-613
Transfers to stage 2	-670	4,243	-2,726	847
Transfers to stage 3	-105	-787	7,229	6,338
New assets originated or purchased	3,215	-118	2,007	5,104
Assets derecognised or repaid (excluding write offs)	-575	-820	-4,823	-6,218
Amounts written off			-3,353	-3,353
Amounts recovered			481	481
Change in credit risk	-1,234	-552	6,875	5,089
Change in model for calculation of ECL	-1,004	2,061	-1	1,056
Net change in ECL				8,729
Expected credit losses 31 December 2022	3,035	5,397	36,119	44,550

EXPECTED CREDIT LOSSES (ECL), INVESTMENT ASSETS

	Stage 1	Stage 2	Stage 3	Total
(EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected credit losses 1 January 2022	1,293	30	3,194	4,517
Transfers to stage 1				
Transfers to stage 2	-75	3,748		3,673
New assets originated or purchased	275	10		285
Assets derecognised or repaid (excluding write offs)	-257	-250		-507
Amounts written off			-2,696	-2,696
Change in credit risk	1,005		1	1,005
Net change in ECL				1,760
Expected credit losses 31 December 2022	2,240	3,538	499	6,277
Total expected credit losses 31 December 2022				50,827
Total change in expected credit losses 1 January 2022 – 31 December 2022				10,489

METHODS AND PARAMETERS USED IN CALCULATION OF EXPECTED CREDIT LOSSES

The Savings Banks Group's assessment of expected credit losses (loans and advances and off-balance sheet items) is based on the PD*LGD*EAD model. For low-risk counterparties – including the public sector, financial institutions and state-guaranteed student loans, the calculation is based on the Loss Rate model (Loss Rate*EAD). The calculations are carried out separately for each contract and based on the following parameters:

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

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

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

The calculation of expected credit loss for the credit portfolio (loans and advances to customers and off-balance sheet items) includes forward-looking information by incorporating three different economic scenarios based on macroeconomic forecasts prepared by the Savings Banks Groups' Chief Economist. The effect of the changes in macroeconomic forecasts is modelled in the PD parameter that is used in calculation of ECL. The scenarios used in the calculation and their weights are the following: optimistic 20%, base 60% and pessimistic 20%. The forecast horizon of the economic scenarios used in ECL calculation is three years and in the years after that, the values of the macroeconomic factors are assumed to remain stable and be equivalent to the third-year values of the forecast period. The key macroeconomic factors and their forecasted values for the next three years are presented below (the value variation range between different scenarios).

	2022	2023	2024
- Change in EuropeStoxx%	-10,0% / 10,0%	3,0% / 6,0%	6,0%
- Change in GDP	0,7% / 2,5%	0,0% / 1,5%	1,20%
- Investments	2,0% / 4,0%	0,0% / 3,0%	1,50%

Effect of changes in the ECL model

Change in the criteria of impairment stage 2

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

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

Following the amendment there were contracts that migrated to stage 2 triggering an ECL increase by EUR 1,0 million. The effect of the amendment is presented in the line change in model for calculation of ECL.

The war in Ukraine and impacts of the economic sanctions against Russia

The member banks of the Savings Banks Group have assessed the financial impacts of the war in Ukraine and the economic sanctions against Russia on their customers' credit risk. At the time of reporting, the Savings Banks Group does not have significant direct liabilities to Russia, Ukraine or Belarus. Nevertheless, the changed market conditions have indirect impacts on certain industries or individual customer relationships in sectors such as agriculture, logistics, construction or industries dependent on energy commodities. Savings Banks have enhanced their monitoring of identified risks that have potentially been elevated by the crisis. If necessary, an adjustment based on the management's assessment has been made to the amount of expected credit losses.

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

	Stage 1	Stage 2	Stage 3	Total
(EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected Credit Losses 1 January 2021	6 114	2 738	34 497	43 349
Transfers to stage 1	937	-2 558	-767	-2 387
Transfers to stage 2	-1 113	9 373	-3 967	4 293
Transfers to stage 3	-202	-806	7 533	6 525
New assets originated or purchased	3 805	143	901	4 849
Assets derecognised or repaid (excluding write offs)	-1 045	-1 119	-3 466	-5 630
Amounts written off			-5 426	-5 426
Amounts recovered			587	587
Change in credit risk	-4 175	-3 663	8 878	1 040
Change in model for calculation of ECL	-599	-1 647	-2 189	-4 435
Net change in ECL				-584
Expected Credit Losses 31 December 2021	3 722	2 461	36 582	42 765

EXPECTED CREDIT LOSSES (ECL), INVESTMENT ASSET

	Stage 1	Stage 2	Stage 3	Total
(EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected Credit Losses 1 January 2021	4 336	111	3 253	7 699
Transfers to stage 1				
Transfers to stage 2				
Transfers to stage 3				
Investments during the period	585			585
Investments expired	-828	-56	-144	-1 028
Change in credit risk	-2 618	5	86	-2 527
ECL net change				-2 970
Expected Credit Losses 31 December 2021	1 476	60	3 194	4 730
Total Expected Credit Losses 31 December 2021				47 495
Total change in Expected Credit Losses 1 January 2021 – 31 December 2021				-3 554

NOTE 17: INCOME TAXES

The Savings Banks Group's income taxes include the current tax of the member companies, adjustments to previous years' taxes and changes in deferred tax balances. Taxes are recognised in profit or loss, except when they are directly related to equity or other comprehensive income. In that case, also the tax is recognised in those items.

(EUR 1,000)	1–12/2022	1–12/2021
Current tax	-15,080	-14,566
Tax for prior years	-1	89
Change in deferred tax assets	-1,103	953
Change in deferred tax liabilities	-1,142	-1,166
Income taxes	-17,326	-14,690
Other direct taxes	-60	-33
Total income taxes	-17,386	-14,722

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

Reconciliation of effective tax rate		
Accounting profit before tax	84,154	77,555
Differences between accounting and taxable profit	-453	-1,796
Taxable profit	83,700	75,759
Tax using the domestic corporation tax rate	-16,831	-15,511
Tax-exempt income	677	67
Non-deductible expenses	-274	-173
Unrecognised deductible expenses	1,267	1,140
Unrecognised taxable income	-1,260	-814
Use of approved tax losses for prior years	561	479
Recognition of previously unrecognised tax losses	-1,525	
Tax for prior years	-1	89
Tax expense	-17,386	-14,722
Corporate income tax rate	20%	20%

More information on deferred taxes is presented in note 27.

ASSETS

NOTE 18: CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

CLASSFICATION AND MEASUREMENT OF FINANCIAL ASSETS

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

Business model assessment

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

Assesment of cash flow characteristics

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

Financial assets – measurement categories and principles for classification

Amortised cost

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

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

Measured at fair value through other comprehensive income

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

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

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

Financial assets measured at fair value through profit or loss

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

Debt instruments are also classified as measured at fair value through profit or loss, where the cash flow criteria cannot be considered fulfilled. The cash flow criteria are considered on an instrument-by-instrument basis to determine whether the item in question has at a point in time recurring contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Changes in the classification of financial assets Investments in debt instruments are reclassified only when the Savings Banks Group changes the business models applied in the management of financial assets. The Savings Banks Group expects such changes to be highly infrequent and it has not reclassified any financial assets during the review period.

Classification and measurement of financial liabilities

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

- amortised cost
- fair value through profit or loss.

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

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

(EUR 1,000)	Amortized cost	Fair value through other comprehensive income	Fair value through profit or loss	Non-financial assets/ liabilities	Total
31.12.2022					
Cash and cash equivalents	6,948		1,200,500		1,207,448
Loans and advances to credit institutions	205,047				205,047
Loans and advances to customers	9,024,296		143		9,024,439
Derivatives					
hedging derivatives					
fair value hedges			89		89
Investment assets	61,201	562,311	138,679	22,460	784,650
Life insurance assets*		139,269	858,372	8,942	1,006,583
Total assets	9,297,492	701,579	2,197,784	31,401	12,228,256
Financial liabilities at fair value through profit or loss			18,107		18,107
Liabilities to credit institutions	450,946				450,946
Liabilities to customers	6,994,366				6,994,366
Derivatives					
hedging derivatives					
cash flow			224		224
fair value hedges			263,085		263,085
other than hedging derivatives			113		113
Debt securities issued	2,756,666				2,756,666
Life insurance liabilities*	87,677		859,814	3,440	950,931
Subordinated liabilities	2,142				2,142
Total liabilities	10,291,796		1,141,344	3,440	11,434,438

* Items at fair value through profit or loss include investments covering unit-linked contracts and related liabilities.

Offsetting of financial assets and liabilities

The derivative contracts of the Savings Banks Group 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.

31.12.2022				Amounts which are not offset but are subject to enforceable master netting arrangements or similar agreements			
(EUR 1,000)	Recognised financial assets, gross	Recognised financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Financial instruments	Financial instruments held as collateral	Cash held as collateral	Net amount
Assets							
Derivative contracts				89	320		-231
Total				89	320		-231
Liabilities							
Derivative contracts				263,422		114,485	148,937
Total				263,422		114,485	148,937

(EUR 1,000)	Amortized cost	Fair value through other comprehen-sive income	Fair value through profit or loss	Non-fi-nancial assets/ liabilities	Total
31.12.2021					
Cash and cash equivalents	11,266		1,006,639		1,017,904
Loans and advances to credit institutions	129,484				129,484
Loans and advances to customers	9,602,512		271		9,602,782
Derivatives					
hedging derivatives					
cash flow hedges			1,527		1,527
fair value hedges			32,167		32,167
Investment assets	68,429	701,727	171,095	32,975	974,226
Life insurance assets*		163,084	992,787	4,813	1,160,683
Total assets	9,811,689	864,811	2,204,485	37,788	12,918,773
Financial liabilities at fair value through profit or loss			13,706		13,706
Liabilities to credit institutions	423,705				423,705
Liabilities to customers	7,682,351				7,682,351
Derivatives					
hedging derivatives					
fair value hedges			15,398		15,398
other than hedging derivatives			113		113
Debt securities issued	2,500,165				2,500,165
Life insurance liabilities*	90,619		990,491	3,618	1,084,728
Subordinated liabilities	13,427				13,427
Total liabilities	10,710,268		1,019,708	3,618	11,733,594

* Items at fair value through profit or loss include investments covering unit-linked contracts and related liabilities.

31.12.2021				Amounts which are not offset but are subject to enforceable master netting arrangements or similar agreements			
(EUR 1,000)	Recog-nised financial assets, gross	Recognised financial lia-bilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Financial instruments	Financial instruments held as collateral	Cash held as collateral	Net amount
Assets							
Derivative contracts				33,693	27,540		6,153
Total				33,693			6,153
Liabilities							
Derivative contracts				15,511		10,440	5,071
Total				15,511		10,440	5,071

NOTE 19: LOANS AND ADVANCES

Loans and advances to credit institutions and customers are, as a rule, classified as assets measured at amortised cost. Consequently, a loss allowance for expected credit losses is calculated for them. The table below shows the gross values, loss allowances for expected credit losses and balance sheet values for loans and advances by product type.

LOANS AND ADVANCES

31.12.2022

(EUR 1,000)	Not impaired (gross)	Expected credit losses (ECL)	Balance sheet value
Loans and advances to credit institutions			
Deposits	204,922	-8	204,915
Loans and other receivables	136	-3	132
Total	205,058	-11	205,047
Loans and advances to customers			
By products			
Loans	8,382,002	-38,630	8,343,372
Interest subsidized housing loans	465,873	-1,536	464,338
Credit cards	140,991	-2,435	138,556
Total	9,068,045	-43,606	9,024,439
Loans and advances total	9,273,103	-43,617	9,229,486

LOANS AND ADVANCES

31.12.2021

(EUR 1,000)	Not impaired (gross)	Expected credit losses (ECL)	Balance sheet value
Loans and advances to credit institutions			
Deposits	129,381	-13	129,368
Loans and other receivables	120	-4	116
Total	129,501	-17	129,484
Loans and advances to customers			
By products			
Loans	8,966,563	-37,664	8,928,898
Interest subsidized housing loans	499,304	-1,428	497,876
Credit cards	98,479	-1,743	96,737
Total	9,644,659	-41,877	9,602,782
Loans and advances total	9,774,160	-41,895	9,732,266

NOTE 20: DERIVATIVES AND HEDGE ACCOUNTING

The Savings Banks Group uses derivative contracts to hedge its interest rate risk from changes in fair value and cash flows and applies hedge accounting to hedging relationships. Fair value hedging is applied to hedges of fixed interest rate deposits. Cash flow hedging is applied when hedging the future interest cash flow from variable rate lending. The aim of hedging is to stabilise net interest income and to neutralise potential change in the fair value of assets and liabilities.

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

The effective portion of the fair value changes of derivatives hedging cash flow is recognised in the hedging instrument reserve in equity, adjusted with deferred taxes. The ineffective portion of fair value change is recognised directly in the income statement under "Net investment income". The cumulative change in the fair value reserve resulting from valuation of a hedging derivative is recognised in profit or loss as an adjustment of the hedged cash flow simultaneously with recognising the hedged cash flow. Interest on hedging derivatives is presented as interest income and expense depending on their nature.

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

Presented below are fair values of derivative contracts together with nominals divided into categories based on remaining maturity for continuing operations.

31.12.2022	less than 1 year				Fair value	
(EUR 1,000)	less than 1 year	1–5 years	more than 5 years	Total	Assets	Liabilities
Non-hedging derivative contracts	10,000			10,000	13	
Interest rate derivatives	10,000			10,000	13	
Hedging derivative contracts						
Fair value hedging*	40,000	2,224,000	908,000	3,172,000	76	263,199
Interest rate derivatives	40,000	2,224,000	908,000	3,172,000	76	263,199
Cash flow hedging**	20,000	10,000		30,000		224
Interest rate derivatives	20,000	10,000		30,000		224
Total	60,000	2,234,000	908,000	3,202,000	89	263,422

* Fixed rate deposits (Liabilities to customers) designated as hedged items in fair value hedging have total nominal value of EUR 914,000 thousand and total booking value of EUR 852,141 thousand.

Fixed rate issued bonds (Debt securitues issued) designated as hedged items in fair value hedging have total nominal value of EUR 2,248,000 thousand and total booking value of EUR 2,037,740 thousand.

Nominal values of hedging instruments equal to the nominal values of hedged items.

** Variable rate loans (Loans and advances to customer) designated as hedged items in cash flow hedging have total nominal value of EUR 30,000 thousand and total booking value of EUR 30,000 thousand. Nominal values of the hedging derivative contracts equal to the nominal values of the hedged items.

The effective part of the cash flow hedges amounting to EUR -51 thousand was recognised in other comprehensive income and the ineffective part amounting to EUR -166 thousand was recognised in profit or loss. The effective part of cash flow hedges transferred from other comprehensive income to profit or loss was EUR -922 thousand during the financial period 2022.

Hedged cash flows are expected to affect profit or loss during the following periods:

(EUR 1,000)	less than 1 year	1–5 years	more than 5 years	Total
Interest rate derivatives	-14	12		-2
Total	-14	12		-2

31.12.2021	Nominal value / remaining maturity				Fair value	
(EUR 1,000)	less than 1 year	1–5 years	more than 5 years	Total	Assets	Liabilities
Other than hedging derivatives						
Interest rate derivatives	10,000	10,000		20,000	-	113
Total	10,000	10,000		20,000	-	113
	less than 1 year	1–5 years	more than 5 years	Total	Assets	Liabilities
Hedging derivative contracts						
Fair value hedging	530,000	769,000	953,000	2,252,000	32,167	
Interest rate derivatives	530,000	769,000	953,000	2,252,000	32,167	
Cash flow hedging	10,000	30,000		40,000	1,527	15,398
Interest rate derivatives	10,000	30,000		40,000	1,527	15,398
Total	540,000	799,000	953,000	2,292,000	33,693	15,398
Derivatives total					33,693	15,511

In the financial year 2021, EUR -859 thousand of effective cash flow hedging was recognised in other comprehensive income.

The ineffective part of cash flow hedging totalled EUR 2 thousand in the financial year 2021 and was recognised in Net investment income.

Hedged cash flows are expected to affect profit during the following periods:

(EUR 1,000)	less than 1 year	1–5 years	more than 5 years	Total
Interest rate derivatives	884	808		1,691
Total	884	808		1,691

NOTE 21: INVESTMENTS ASSETS

(EUR 1,000)	31.12.2022	31.12.2021
At fair value through other comprehensive income		
Debt securities	561,610	700,771
Shares and participations	3,582	1,243
Total	565,192	702,014
Fair value through profit or loss		
Debt securities	13,805	18,573
Shares and participations	121,992	152,235
Total	135,798	170,808
Amortised cost investments		
Debt securities	61,247	68,482
Expected Credit Losses	-46	-53
Total	61,201	68,429
Investment property	22,460	32,975
Investment assets	784,650	974,226

BREAKDOWN BY ISSUER OF QUOTATION

31.12.2022

(EUR 1,000)	Measured at fair value through other comprehensive income	Measured at fair value through profit or loss	Measured at amortised cost	Total
Quoted				
From public entities	131,400	590	56,055	188,045
From others	425,188	120,463	2,600	548,251
Other				
From others	8,604	14,744	2,592	25,940
Total	565,192	135,798	61,247	762,237

31.12.2021

(EUR 1,000)	Measured at fair value through other comprehensive income	Measured at fair value through profit or loss	Measured at amortised cost	Total
Quoted				
From public entities	130,814	733	66,332	197,879
From others	561,615	156,573	100	718,288
Other				
From others	9,585	13,503	1,996	25,083
Total	702,014	170,808	68,429	941,251

NOTE 22: LIFE INSURANCE ASSETS

The Savings Banks Group applies a temporary exemption permitted by IFRS 4 and contracts classified as investment contracts are treated in accordance with IAS 39's.

(EUR 1,000)	31.12.2022	31.12.2021
Investments covering for unit-linked policies		
At fair value through profit or loss		
Investment funds	527,853	604,864
Asset management portfolio	117,998	146,445
Other unit-linked covering assets	209,576	238,370
Investments covering for unit-linked policies total	855,427	989,680
Other investments		
At fair value through profit or loss		
Debt securities	2,945	3,107
Total	2,945	3,107
Available-for-sale financial assets		
Debt securities	380	1,602
Shares and participations	138,889	161,481
Total	139,269	163,084
Other investments total	142,214	166,191
Total life insurance investments	997,641	1,155,871
Other assets		
Premium receivables	16	
Other receivables	8,666	4,544
Accrued income	260	269
Total	8,942	4,813
Total life insurance assets	1,006,583	1,160,683

Breakdown of Life Insurance debt securities recognised at fair value through profit or loss, shares and participations as well as derivatives by issuer of quotation.

	31.12.2022			31.12.2021		
(EUR 1,000)	Debt securities	Shares and participations	Derivative contracts	Debt securities	Shares and participations	Derivative contracts
Quoted						
From others		827,961			984,591	
Total		827,961			984,591	

NOTE 23: INVESTMENTS IN ASSOCIATES

Associated companies are entities over which the Savings Banks Group has significant influence but no control. Significant influence emerges, in principle, when the Savings Banks Group holds 20–50 per cent of the company's voting rights or when the Savings Banks Group otherwise has significant influence over the company.

An associated company is consolidated in the Savings Banks Group's financial statements using the equity method, meaning that the associated company's income statement and balance sheet are not included in the Savings Banks Group's income statement and balance sheet in full. The consolidated balance sheet presents the Savings Banks Group's share of the associated company's equity in the item Investments in associates, whereas the Savings Banks Group's share of the associated company's profits is presented in the consolidated income statement under Associate's share of profits. Under the equity method, on initial recognition the investment is recognised at cost, and the carrying amount is increased or decreased to recognise the Savings banks Group's share of the profit or loss of the investee after the date of acquisition.

INFORMATION ON THE MATERIAL ASSOCIATES OF THE GROUP

Name	Domicile	Sector	Ownership (%)	Share of votes (%)	Ownership (%)	Share of votes (%)
			31.12.2022	31.12.2022	31.12.2021	31.12.2021
Figure Taloushallinto Oy	Espoo	Account management and financial services	25,00	25,00	25,00	25,00

Figure Taloushallinto Oy's business sector is to provide services of financial management, payroll computation, risk management and accounting, including related training-, advisory and information services for fiancial sector organizations and their subsidiaries and center organizations. Figure Taloushallinto Oy is Savings Bank Group's associated company since 31 August 2018.

SUMMARISED FINANCIAL INFORMATION ABOUT MATERIAL ASSOCIATES BASED ON THE COMPANIES' OWN FINANCIAL STATEMENTS

	Figure Taloushallinto Oy
(EUR 1,000)	**2022**
Total assets	1,705
Total liabilities	1,105
Total operating revenue	7,252
Profit or loss	66
Total comprehensive income	66
Reconciliation of the summarised financial information of the associate to the carrying amount in the Group's statement of financial position:	
Net assets of the associate	600
Group ownership	150

Joint arrangements

Joint arrangements are arrangements where two or more parties have joint control. Joint arrangements are divided into joint ventures and joint operations. Joint ventures are consolidated in the Savings Banks Group's financial statements using the equity method.

The Savings Banks Group has no material joint arrangements.

Mutual real estate companies and housing companies are treated in the Group's financial statements as joint operations. These companies include both investment properties and owner-occupied properties.

Information about the material joint operations of the Savings Banks Group is presented below:

INFORMATION ABOUT THE MATERIAL JOINT OPERATIONS OF THE SAVINGS BANKS GROUP IS PRESENTED BELOW

Name	Domicile	Ownership	Ownership
		2022	2021
Kiinteistö Oy Ikaalisten Säästökeskus	Ikaalinen	90,80%	90,80%
Asunto Oy Salamankulma	Turku	37,01%	37,01%
Kiinteistö Oy Liedon Liikekeskus	Lieto	85,70%	85,70%
Kiinteistö Oy Lohjan Pankkitalo	Lohja	100,00%	100,00%
Kiinteistö Oy Iisalmen Pohjolankatu 6	Iisalmi	100,00%	100,00%

NOTE 24: PROPERTY, PLANT AND EQUIPMENT

The Savings Banks Group's property, plant and equipment include e.g. owner-occupied property as well as machinery and equipment. In addition, the Savings Banks Group has investment properties which produce rental income.

The Savings Banks Group's properties are divided according to the purpose of use into owner-occupied properties and investment properties. The purpose of investment property is to produce rental income or capital appreciation. Some of the properties are used partly as an investment and partly in own or personnel use. If these parts could be sold separately, the Savings Banks Group accounts for them separately according to the purpose of use. If the parts cannot be sold separately, the property is treated as an investment property only if an insignificant part of the property is used by the Savings Banks Group or the personnel. The division is done in proportion to the square meters used for different purposes.

Property, plant and equipment are recognised under the item Property, plant and equipment and investment property under the item Investment assets in the balance sheet.

In the income statement, income related to owner-occupied property is recognized under Other operating income and related cost under Operating expenses. Amortisation and impairment losses are recognised in the income statement under Depreciation, amortisation and impairment of property, plant and equipment and intangible assets.

Property, plant and equipment and investment property are measured at cost less depreciation and impairment. 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 the cause of their estimated useful lives. Land is not depreciated. Costs generated after the original acquisition are capitalised in the carrying amount of the asset only when it is probable that the asset will generate greater economic benefits than was initially estimated.

Estimated useful lives are in mainly as follows:

Buildings	10–50 years
Technical equipment in buildings	3–8 years
Renovations in rented premises	3–10 years
Machinery and equipment	3–10 years

The residual values and useful lives of the assets are reviewed at each reporting date and adjusted to reflect expected changes in economic benefit, if necessary.

Gains and losses resulting from decommissioning and disposal of Property, plant and equipment are presented under other operating income and expenses in profit or loss. Gains and losses generated by investment property are presented under net investment income. Capital gain or loss is determined by the difference between the selling price and the remaining acquisition cost.

(EUR 1,000)	31.12.2022	31.12.2021
Owner-occupied property		
Land and water	482	501
Buildings	25,364	32,190
Machinery and equipment	2,671	3,033
Other tangible assets	934	919
Advance payments and construction in progress	82	324
Property, plant and equipment	29,534	36,966

31.12.2022

Changes in property, plant and equipment	Owner-occupied property	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost 1 January	92,337	39,123	1,989	324	133,774
Increases	570	891	162	325	1,947
Decreases	-4,295	7,936	-88		-6,193
Transfers between items	434			-567	-133
Exit from the Savings Banks Group	-10,964	-54	-246		-11,263
Acquisition cost 31 December	78,082	32,023	1,817	82	118,132
Accumulated depreciation and impairments 1 January	-59,647	-36,090	-1,070		-96,807
Depreciation for the financial year	-2,038	-1,204			-3,243
Impairments for the financial year	-49				-49
Decreases	2,928	7,923	31		4,753
Transfers between items	-24				-24
Exit from the Savings Banks Group	6,595	20	156		6,771
Accumulated depreciation and impairments 31 December	-52,236	-29,352	-884		-88,599
Carrying amount 31 December	25,846	2,671	934	82	29,533

Right of use assets recognized under IFRS 16 Leases standard are presented in note 40.

31.12.2021

Changes in property, plant and equipment	Owner-occupied property	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost 1 January	93,135	40,673	1,859	428	136,095
Increases	262	908	156	541	1,868
Decreases	-453	-2,459	-26		-2,938
Transfers between items	-607	1		-645	-1,251
Acquisition cost 31 December	92,337	39,123	1,989	324	133,774
Accumulated depreciation and impairments 1 January	-57,712	-36,867	-1,043		-95,622
Depreciation for the financial year	-1,513	777	-27		-763
Impairments for the financial year	-422				-422
Accumulated depreciation and impairments 31 December	-59,647	-36,090	-1,070		-96,807
Carrying amount 31 December	32,690	3,033	919	324	36,966

NOTE 25: INTANGIBLE ASSETS

An intangible asset is an identifiable asset that has no physical substance. The intangible assets of the Savings Banks Group include e.g. computer softwares and software licenses.

An intangible asset is recognised in the balance sheet only if it is probable that the expected future economic benefits that are attributable to the asset will flow to the Savings Banks Group and the acquisition cost of the asset can be measured reliably. The future economic benefits may include sales revenue on services or goods, cost savings or other benefits resulting from the Savings Banks Group utilising the asset.

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

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

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

Estimated useful lives are mainly as follows:

Information systems purchased from a third party	3–5 years
Basic systems	5–10 years
Other intangible assets	2–5 years

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

Software as a Service (SaaS) projects

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

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

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

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

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

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

Expenses arising from the construction of interfaces between software that is recorded as intangible assets on the balance sheet and used through a cloud-based service that is controlled by the Savings Banks Group may meet the criteria of an intangible asset, when a third party independent of the cloud service provider, writes new software code over which the Savings Banks Group has control.

(EUR 1,000)	31.12.2022	31.12.2021
Intangible rights	11,966	15,470
Other intangible assets	44	44
Intangible assets under development	14,952	19,080
Goodwill	729	729
Intangible assets	27,690	35,323

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

31.12.2021

(EUR 1,000) Changes in intangible assets	Goodwill	Intangible rights	Other intangible assets	Intangible assets under development	Total
Acquisition cost 1 January	729	86,468	453	19,080	106,730
Increases		1,023		10,642	11,665
Decreases		-860	-1	-10,958	-11,820
Transfers between items		2,730		-3,812	-1,082
Exit from the Savings bank group		-3,843	-362		-4,205
Acquisition cost 31 December	729	85,518	89	14,952	101,288
Accumulated depreciation and impairments 1 January		-70,998	-409		-71,407
Depreciation for the financial year		-8,076			-8,076
Decreases		1,421	1		1,423
Other changes		295			295
Exit from the Savings bank group		3,807	362		4,169
Accumulated depreciation and impairments 31 December		-73,552	-45		-73,597
Carrying amount 31 December	729	11,967	44	14,952	27,691

During the financial year, a total of EUR 8,5 (1.3) million in impairment losses was recognised 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. The Savings Banks Group and Cognizant announced in February that they will terminate their agreement related to the core banking system renewal. In connection with the termination of the agreement, impairment of EUR 7.6 million was recognised on assets previously capitalised in relation to the core banking system renewal project.

Testing goodwill for impairment

The goodwill of EUR 729 thousand is allocated in full to the real estate management business acquired in the financial year 2021. Goodwill has been tested for impairment by comparing the carrying amount with the cash flows from the business in question, based on cash flow statements prepared on the basis of long-term plans approved by the management of the business. The forecast period used in the cash flow statements is 11 years and is based on the management's view of the period required until the cash flows from the launched business stabilise at the expected level. The discount rate for cash flows has been set at the 8% yield requirement and the long-term average growth rate has been set at 2%. On the basis of impairment testing, the present value of the cash flows generated by the goodwill exceeds the carrying amount on the balance sheet date, and there is no need to allocate an impairment charge to goodwill.

31.12.2021

(EUR 1,000) Changes in intangible assets	Goodwill	Intangible rights	Other intangible assets	Intangible assets under development	Total
Acquisition cost 1 January		84,110	453	14,867	99,429
Increases	729	359		7,636	8,724
Decreases		-987			-987
Transfers between items		2,986		-3,423	-436
Acquisition cost 31 December	729	86,468	453	19,080	106,730
Accumulated depreciation and impairments 1 January		-60,312	-409		-60,721
Depreciation for the financial year		-9,688			-9,688
Decreases		-998			-998
Accumulated depreciation and impairments 31 December		-70,998	-409		-71,407
Carrying amount 31 December	729	15,470	44	19,080	35,323

NOTE 26: DEFERRED TAXES

Deferred taxes are calculated based on taxable temporary differences between accounting and taxation. Deferred tax assets and liabilities are offset for each company. Deferred tax assets and liabilities arising from consolidation are not offset. Deferred tax is measured in accordance with IAS 12 based on the effective tax rates at the reporting date which are applicable or accepted when the deferred tax is expected to be converted to income tax. A change in deferred tax resulting from a change in tax rates is recognised in the income statement or in other comprehensive income if the tax was recognised there in previous financial periods.

Tax assets arising from confirmed unused tax losses are recognised if it is probable that future taxable profit will be available, and the assets can be utilised.

(EUR 1,000)	31.12.2022	31.12.2021
Deferred tax assets	18,390	7,784
Income tax receivables	1,673	2,772
Tax assets	20,063	10,556
Deferred tax liabilities	62,341	63,813
Income tax liability	4,113	1,948
Tax liability	66,454	65,760

(EUR 1,000)	31.12.2022	31.12.2021
Deferred tax assets		
Impairments	738	701
Financial assets	14,582	3,241
Cash flow hedges	13	9
Property, plant and equipment	4,759	5,384
Defined benefit pension plans	284	611
Approved tax losses		572
Other	206	156
Netting of deferred taxes	-2,193	-2,891
Total	18,390	7,784

(EUR 1,000)	31.12.2022	31.12.2021
Deferred tax liabilities		
Appropriations	55,191	55,191
Impairments	1,246	921
Financial assets	5,901	8,254
Cash flow hedges		235
Property, plant and equipment	2,196	2,102
Netting of deferred taxes	-2,193	-2,891
Total	62,341	63,813

2022 (EUR 1,000)	1.1.2022	Change recognised in profit or loss	Financial assets	Exit from the Savings bank group	Other	31.12.2022
Deferred tax assets						
Impairment	701	101		-65		738
Financial assets	3,241		11,413	-69	-3	14,582
Cash flow hedges	9		3			13
Property, plant and equipment	5,384	-571		-54		4,759
Defined benefit pension plans	611		327			284
Approved tax losses	572	-572				
Other	156	50				206
Netting of deffered taxes	-2,891				698	-2,193
Total	7,784	-992	11,743	-187	695	18,390

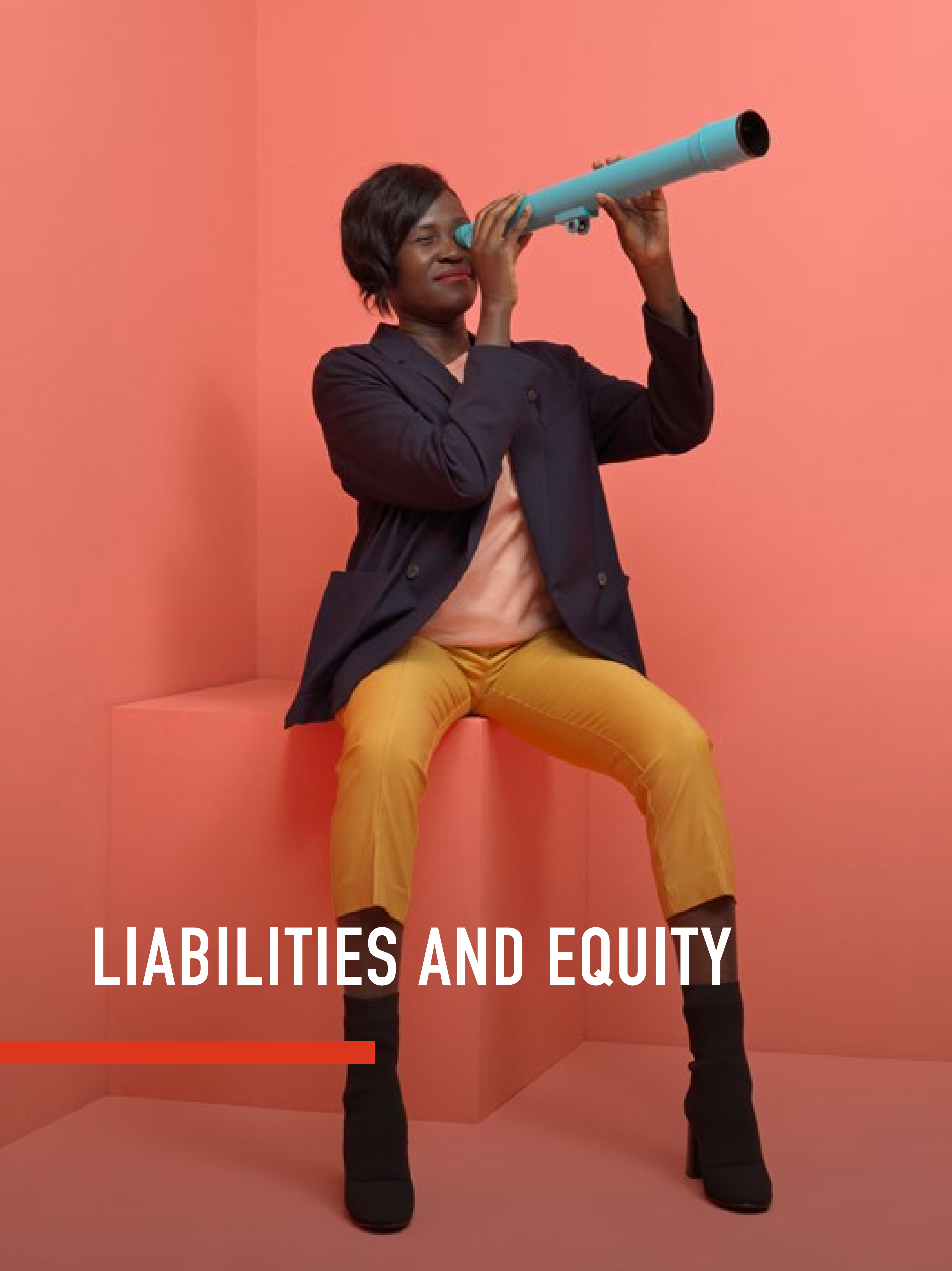
(EUR 1,000)	1.1.2022	Change recognised in profit or loss	Financial assets	Exit from the Savings bank group	Other	31.12.2022
Deferred tax liabilities						
Appropriations	55,191					55,191
Impairments	921		351	-24	-2	1,246
Financial assets	8,254		-2,259	-76	-18	5,901
Cash flow hedges	235		-235			
Property, plant and equipment	2,102	94				2,196
Other	-2,891				698	-2,193
Total	63,813	94	-2,142	-100	678	62,341

2021 (EUR 1,000)	1.1.2021	Change recognised in profit or loss	Financial assets	Exit from the Savings bank group	Other	31.12.2021
Deferred tax assets						
Impairment	512	190				701
Financial assets	3,571	-250	-80			3,241
Cash flow hedges			9			9
Property, plant and equipment	4,250	1,134				5,384
Defined benefit pension plans	583		28			611
Approved tax losses	711	-139				572
Other	110	137			-92	156
Netting of deffered taxes	-43				-2,847	-2,891
Total	9,694	1,072	-43		-2,939	7,784

(EUR 1,000)	1.1.2021	Change recognised in profit or loss	Financial assets	Exit from the Savings bank group	Other	31.12.2021
Deferred tax liabilities						
Appropriations	53,259	1,932				55,191
Impairments	1,492		-571			921
Financial assets	9,040	-746	-40			8,254
Cash flow hedges	450		-215			235
Property, plant and equipment	1,958	144				2,102
Other	-43				-2,847	-2,891
Total	66,156	1,330	-827		-2,847	63,813

NOTE 27: OTHER ASSETS

(EUR 1,000)	31.12.2022	31.12.2021
Payment transfer receivables	280	294
Interest	39,714	27,199
Other accrued income and prepaid expenses	21,536	12,517
Other	32,832	28,109
Other assets	94,362	68,120



LIABILITIES AND EQUITY

NOTE 28: FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(EUR 1,000)	31.12.2022	31.12.2021
Other financial liabilities at fair value through profit or loss*	18,107	13,706
Financial liabilities at fair value through profit or loss	18,107	13,706

* The item includes the other owners' interests in the consolidated mutual funds of which more information in presented in note 42 Entities consolidated in Savings Banks Group's financial statements.

NOTE 29: LIABILITIES TO CREDIT INSTITUTIONS AND CUSTOMERS

(EUR 1,000)	31.12.2022	31.12.2021
Liabilities to credit institutions		
Liabilities to central banks	68,000	68,000
Liabilities to credit institutions	382,946	355,705
Total	450,946	423,705
Liabilities to customers		
Deposits	7,055,706	7,652,061
Other financial liabilities	519	1,557
Change in the fair value of deposits	-61,859	28,733
Total	6,994,366	7,682,351
Liabilities to credit institutions and customers	7,445,312	8,106,057

NOTE 30: DEBT SECURITIES ISSUED

(EUR 1,000)	31.12.2022	31.12.2021
Measured at amortised cost		
Bonds	582,282	845,891
Covered bonds	2,045,010	1,500,137
Other		
Certificates of deposit	129,373	154,137
Debt securities issued	2,756,666	2,500,165
Of which		
Variable interest rate	350,885	444,180
Fixed interest rate	2,405,780	2,055,985
Total	2,756,666	2,500,165

COVERED BONDS ISSUED

(EUR 1,000)	Nominal value	Carrying amount	Maturity	Interest base	Coupon	Maturity date
Sp Mortgage Bank 2019	500,000	498,549	7 years	Fixed	0,05%	19.6.2026
Sp Mortgage Bank 2021	500,000	502,389	7 years	Fixed	0,01%	28.9.2028
Sp Mortgage Bank 2022	300,000	299,114	3 years	Fixed	1,00%	28.4.2025
Sp Mortgage Bank 2022	750,000	744,959	5 years	Fixed	3,13%	1.11.2027
Total	2,050,000	2,045,011				

The Group has not had delays or defaults in respect of its issued debt securities.

NOTE 31: LIFE INSURANCE LIABILITIES

Liabilities for insurance and investment contracts

Insurance contract liability for unearned premiums and the liability for outstanding pensions are defined based on insurance savings, which consist of premiums paid, credits, debits and value changes, supplementing it with future interest and operating expense. The discount rate for insurances entitling the policyholder to discretionary benefits is at maximum 0.5 per cent. The average discount rate is 0.1 per cent.

Outstanding claims provisions other than the liability for outstanding pensions are short-term liabilities which consist of reported but not settled claims and incurred but not reported claims. Liability for the reported but not settled claims is valued at nominal value, whereas liability for incurred but not reported claims is calculated on an actuarial basis.

Reinsurance-related receivables and liabilities are measured similarly to the cedant's liabilities and assets. Should the company have any due receivables, these receivables would incur impairment in profit or loss.

Adequacy test of liabilities for insurance policies

According to IFRS 4, an insurer shall assess at each reporting date whether the recognized insurance liabilities are adequate, using current estimate of future cash flows from insurance contracts. Liability adequacy test is performed on the insurance contracts of the Savings Banks Group, which are valued according to IFRS 4. In the liability adequacy test, the liability book value based on the national principles for insurance contracts is compared with the present value of all of the cash flows related to the insurance contracts including a risk margin. If the liability adequacy test shows that the liability calculated based on the Finnish accounting principles is, as a whole, less than the market value of liability, then an addon equal to the difference between the two liabilities is added to the liability of the Savings Banks Group.

The life insurance business' equity principle

The objective of the Savings Banks Group's life insurance business is in the long term to provide the insurance savings with discretionary benefits a total benefit (before charges and taxes) equivalent to the level of return on the Finnish government's long-term bond yields. For savings insurance policies, the target is to achieve a level of return equivalent to that of 5-year bonds, whereas for pension insurances the target level for return equals 10-year bonds. The total benefit of an investment policy refers to the technical or annual interest of the insurance contract and to the additional interest credited to the contract.

(EUR 1,000)	31.12.2022	31.12.2021
Other than unit-linked contract liabilities		
Guaranteed-interest insurance contracts	87,677	90,619
Unit-linked contract liabilities		
Liabilities for unit-linked insurance contracts	486,907	583,321
Liabilities for unit-linked investment contracts	372,907	407,170
Reserve arising from liability adequacy test		
Other liabilities		
Accrued expenses and deferred income	2,936	3,009
Other	505	609
Life insurance liabilities	950,931	1,084,728

LIABILITIES FOR INSURANCE POLICIES

	Liability	Number of contracts	Duration
(EUR 1,000)	2022	2022	2022
Other than unit-linked contracts			
Guaranteed-interest insurance contracts			
Savings insurance			
Rate of guaranteed interest 3,5%	3,034	32	10,1
Rate of guaranteed interest 2,5%	12,056	268	8,7
Rate of guaranteed interest 0,0%	54,121	1,221	7,5
Individual pension insurance			
Rate of guaranteed interest 3,5%	2,088	120,5	5,1
Rate of guaranteed interest 2,5%	5,656	484,5	8,9
Rate of guaranteed interest 0,0%	7,714	378	11,7
Group pension insurance (defined contribution, rate of guaranteed interest 0,0%)	1,515	99,5	52,3
Term insurance	1,492	41,831	5
Unit-linked contracts			
Unit-linked insurance contracts			
Savings insurance	374,801	11,212	10,6
Individual pension insurance	107,831	9,646	15,2
Group pension insurance	4,274	156,5	33,7
Unit-linked investment contracts	372,907	6,826	12,8
Total	947,491	72,274	

LIABILITIES FOR INSURANCE POLICIES

(EUR 1,000)	Liability 2021	Number of contracts 2021	Duration 2021
Other than unit-linked contracts			
Guaranteed-interest insurance contracts			
Savings insurance			
Rate of guaranteed interest 3,5%	3,139	35	10,4
Rate of guaranteed interest 2,5%	12,503	296	9,7
Rate of guaranteed interest 0,0%	57,662	1,350	7,8
Individual pension insurance			
Rate of guaranteed interest 3,5%	2,211	127	5,6
Rate of guaranteed interest 2,5%	5,622	502	9,6
Rate of guaranteed interest 0,0%	6,788	403	15,6
Group pension insurance (defined contribution, rate of guaranteed interest 0,0%)	1,556	95	3,9
Term insurance	1,138	41,831	2,5
Unit-linked contracts			
Unit-linked insurance contracts			
Savings insurance	449,292	14,716	10,9
Individual pension insurance	126,411	9,874	15,5
Group pension insurance	7,617	305	11,6
Capital redemption contracts		0	-
Unit-linked investment contracts	407,170	3,486	13
Total	1,081,109	73,020	

Liabilities related to insurance policies are measured in compliance with the Finnish Accounting Standards. The measurement principles are described in more detail in the accounting policies of the official financial statements (note 2).

In liability adequacy test, the adequacy of liabilities for insurance policies is compared to the liabilities derived from the internal model. The adequacy test is described in more detail in the accounting policies.

Duration is based on the cash flows of insurance contract liabilities derived from the internal model and on a risk-free interest rate curve.

NOTE 32: SUBORDINATED LIABILITIES

(EUR 1,000)	Average interest rate %	31.12.2022
Subordinated loans	4,00%	84
Other		
Debentures	2,48%	2,058
Subordinated liabilities		2,142

(EUR 1,000)	Average interest rate %	31.12.2021
Subordinated loans	4,00%	84
Other		
Debentures	2,00%	13,343
Subordinated liabilities		13,427

NOTE 33: PROVISIONS AND OTHER LIABILITIES

Provisions are recognised when the Savings Banks Group has a legal or constructive obligation as a result of a past event and it is probable that the obligation will be settled, and the management can reliably estimate the amount of the obligation. Where part of the obligation is expected to be reimbursed by another party, the reimbursement shall be recognised as a separate asset when it is virtually certain that reimbursement will be received. Provisions are reviewed at each reporting date and adjusted if necessary. Provisions are measured at the present value of the amount that is expected to meet the obligation.

If the above obligation exists but the requirements for recognition are not fulfilled, the obligation is a contingent liability. Contingent liabilities are not recognised in the balance sheet; instead, it is presented in the notes to the financial statements. A contingent liability shall also be assessed separately at each reporting date.

(EUR 1,000)	31.12.2022	31.12.2021
Other liabilities		
Payment transfer liabilities	27,076	21,675
Other liabilities	40,121	19,645
Total other liabilities	67,197	41,320
Accrued expenses		
Interest payable	24,209	6,965
Interest advances received	684	889
Other accrued expenses	24,999	26,318
Total accured expenses	49,892	34,171
Provisions		
Pension provisions	1,546	3,204
Other provisions	10,992	1,329
Total provisions	12,538	4,533
Provisions and other liabilities	129,627	80,024

Changes in provisions	2022	2021
1 January	4,533	4,371
Decrease in other provisions	9,808	-101
Increase in defined benefit plans	-1,657	263
Exit from the Savings bank group	-146	
31 December	12,538	4,533

NOTE 34: CAPITAL AND RESERVES

(EUR 1,000)	31.12.2022	31.12.2021
Basic capital	25,224	25,235
Reserves		
Primary capital	31,452	32,452
Reserve for invested non-restricted equity	137,588	126,896
Reserve fund	45,091	47,022
Fair value reserve	-44,244	17,169
Reserve for hedging instruments	-51	941
Other reserves	65,726	74,323
Retained earnings		
Profit (loss) for previous financial years	836,901	792,090
Profit (loss) for the financial year	78,039	72,781
Total equity attributable to equity holders of the Group	1,175,725	1,188,908
Non-controlling interests	1,365	1,384
Total equity	1,177,090	1,190,293

Basic capital

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

The basic capital of the Savings Banks Group consists of the Savings Banks' basic capital, which is not paid back according to the Savings Bank Act § 11.

In addition, the Savings Banks Group includes four Savings Banks in the form of a limited liability company, whose share capital is included in the basic capital in equity.

Primary capital

Primary capital includes the primary capital subject to the Savings Bank Act § 13.

Share premium

Share premium comprises restricted capital. E.g. capital gains on disposal of treasury shares are recognised in the share premium account.

Reserve for invested non-restricted equity

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

Reserve fund

Reserve fund comprises restricted capital. This item includes the amounts recognised in the reserve fund subject to the Savings Bank Act (1502/2001) § 10.

Fair value reserve

Fair value reserve includes items arising from fair value measurements.

Reserve for hedging instruments

Reserve for hedging instruments includes items arising from cash flow hedging. Such item is considered to be the portion of change in the fair value of a hedging instrument (derivative contract) which is found an effective hedge.

Other reserves

Other reserves include non-restricted reserves which are formed of prior period results based on the Articles of Association or rules or the decision of the General Meeting, which exercises general power of decision in the Savings Banks Group.

Retained earnings

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

Specification of changes in fair value reserve (EUR 1,000)	2022
Fair value reserve 1 January	17,169
Profit/loss from fair value measurements, shares and participations	-5,096
Profit/loss from fair value measurements, securities	-71,342
Deferred tax from fair value measurements	15,026
Fair value reserve 31 December	-44,244

Specification of changes in the reserve for hedging instruments	2022
Reserve for hedging instruments 1 January	941
Profit/loss from fair value measurements, derivatives hedging cash flow	-1,240
Deferred tax from cash flow hedging	248
Reserve for hedging instruments 31 December	-51

Specification of changes in fair value reserve	2021
Fair value reserve 1 January	17,862
Profit/loss from fair value measurements, shares and participations	1,506
Profit/loss from fair value measurements, securities	-2,755
Deferred tax from fair value measurements	-426
Reclassified to income statement	982
Fair value reserve 31 December	17,169

Specification of changes in the reserve for hedging instruments	2021
Reserve for hedging instruments 1 January	1,801
Profit/loss from fair value measurements, derivatives hedging cash flow	-1,077
Deferred tax from cash flow hedging	215
Reclassified to income statement	2
Reserve for hedging instruments 31 December	941

NOTE 35: LIETO SAVINGS BANK'S EXIT FROM THE SAVINGS BANKS GROUP

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

In accordance with the accounting policy confirmed by the Savings Banks' Union Coop, the IFRS 5 Non-current Assets Held for Sale and Discontinued Operations standard is applied to Lieto Savings Bank's exit in the Savings Banks Group's financial statements for 2022.

Lieto Savings Bank's operating result is presented in the Savings Banks Group's income statement separately from the revenue and expenses of continuing operations and the comparative information has been adjusted accordingly. Lieto Savings Bank's assets and liabilities are presented in the Savings Banks Group's balance sheet as a separate line item under assets and liabilities and, in accordance with the IFRS 5 standard, the comparative information is not adjusted.

PROFIT FOR THE FINANCIAL YEAR FROM WITHDRAWING OPERATIONS

(EUR 1,000)	1–12/2022	1–12/2021
Total operating revenue	37,990	28,851
Total operating expenses	-22,326	-16,196
Impairment losses on financial assets	-1,440	-356
Profit before taxes	14,224	12,298
Taxes	-2,972	-2,369
Profit for the financial year	11,251	9,930

THE KEY BALANCE SHEET ITEMS OF THE WITHDRAWING OPERATIONS

(EUR 1,000)	31.12.2022
Loans and advances to customers	1,016,646
Loans and advances to credit institutions	13,299
Investment assets	78,808
Other assets	15,807
Total assets	1,369,986
Liabilities to customers	942,741
Liabilities to credit institutions	13,488
Other liabilities	13,586
Total liabilities	969,815

THE KEY CASH FLOWS OF THE WITHDRAWING OPERATIONS

(EUR 1,000)	31.12.2022
Cash flows from operating activities	38,054
Cash flows from investing activities	-2,348
Cash flows from financing activities	-5,127
Change in cash and cash equivalents	30,578

OTHER NOTES

NOTE 36: COLLATERALS

(EUR 1,000)	31.12.2022	31.12.2021
Collateral given		
Given on behalf of Group's own liabilities and commitments		
Loans *	3,158,567	2,295,920
Other	208,580	57,924
Collateral given	3,367,147	2,353,844
Collateral received		
Real estate collateral	9,623,120	9,057,673
Securities	100,415	68,683
Other	215,704	142,654
Guarantees received	38,919	63,354
Collateral received	9,978,158	9,332,365

* Loans that have given as collateral to Sp Mortage Bank's secured bonds.

NOTE 37: OFF-BALANCE SHEET COMMITMENTS

Guarantees and pledges given as collateral for another party's liabilities are recognised under off-balance sheet commitments. Commitments are recorded in the maximum amount of the guarantee or pledge at any given time. Items considered equivalent to a guarantee include contract, delivery and export commitments and other guarantee commitments given on behalf of the customer in favour of a third party regarding the fulfilment of the customer's identified obligation or compensation obligation, including letters of credit and other commitments given in favour of the seller as collateral for the completion of a movable property transaction.

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

(EUR 1,000)	31.12.2022	31.12.2021
Guarantees	73,111	79,396
Commitments related to short-term trade transactions	687,575	790,581
Other	12,306	1,656
Exit from the Savings bank group	75,931	
Off balance-sheet commitments	848,923	871,633

NOTE 38: FAIR VALUES BY VALUATION TECHNIQUE

FAIR VALUE MEASUREMENT

The Savings Banks Group measures assets and liabilities at amortised cost or at fair value. Financial assets and liabilities that are classifed as to be measured at fair value are measured at fair value. The breakdown of financial assets and liabilities into measurement categories is presented in note 18.

Fair value is the price that would be attained if the asset was sold or would be paid to transfer the liability from one market party to another in a standard business transaction taking place on a valuation day. The fair values of financial instruments are primarily determined using quotations on a publicly traded market or, if active markets do not exist, on the company's own valuation methods. A market is considered active if price quotations are readily and regularly available and if they reflect real and regularly occurring arm's-length market transactions. Current bid price is used as the quoted market price of a financial asset.

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

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

Investment property in the Group's financial statements is measured at cost less depreciation and impairment. The fair value of investment property is presented in the notes. Fair values are determined on the basis of market prices which are as comparable as possible or a valuation model which is based on net income from investment property. An independent appraiser's opinion on the valuation is sought for the most material properties.

The Savings Banks Group does not have assets measured at fair value on a non-recurring basis.

FAIR VALUE HIERARCHY

The fair values are divided into three hierarchical levels, depending on how the fair value is defined. The fair value hierarchy level into which an item measured at fair value is fully classified is determined by the input data which is at the lowest level and is significant in respect of the whole item. The significance of input data is evaluated considering the whole item which is valued at fair value.

Level 1 consists of fair values that are based on quotes for identical assets or liabilities in active markets. Market is considered active when the prices are available easily and regularly enough. Fair value hierarchy level 1 includes quoted bonds, shares and participations as well as other securities and derivative contracts which are quoted on a public market.

Level 2 consists of fair values that are estimated using valuation techniques or models for which the input data is either directly available on an active market as a e.g. price or can be derived from a e.g. price. Fair values on hierarchy level 2 are based on assumptions which are supported by verifiable market information such as the quoted interest rates or prices of similar instruments. Fair value hierarchy level 2 includes interest rate derivative contracts as well as commercial papers and certificates of deposit.

Level 3 consists of fair values that cannot be derived from public market quotations or through valuation techniques or models which are based on observable market data. Fair values on level 3 are often based on price information received from a third party. Fair value hierarchy level 3 includes investments in unquoted equity instruments and other securities for which there is currently no binding market quotation available. The Savings Banks Group has only limited amount of financial assets that are measured at fair value and belong to level 3.

The table presents carrying amounts and fair values of financial assets and liabilities as well as investment properties and break down of fair values into the levels of fair value hierarchy for continuing operations. The fair values presented exclude accrued interest and possible effects arising from hedging derivative instruments.

31.12.2022	**Carrying amount**	**Fair value by hierarchy level**			
Financial assets (EUR 1,000)		**Taso1**	**Taso2**	**Taso3**	**Yhteensä**
Measured at fair value					
At fair value through profit or loss					
Banking	1,339,322	1,325,991		13,332	1,339,322
Asset Management Services*	858,372	858,372			858,372
Derivative contracts					
Banking	89		89		89
Fair value through other comprehensive income					
Banking	562,311	558,241		4,070	562,311
Asset Management Services*	139,269	123,486		15,783	139,269
Measured at amortised cost					
Investments, Banking	61,201	57,638			57,638
Loans and other receivables, Banking	9,107,517		10,226,220		10,226,220
Total financial assets	12,068,081	2,923,727	10,226,310	33,185	13,183,221
Investment property					
Banking	22,460			57,549	57,549
Total	22,460			57,549	57,549

* Including fair value of investments covering unit-linked policies, which are reported on level 1.

** The other investors' share of the consolidated mutual funds.

31.12.2022 Financial liabilities (EUR 1,000)	Carrying amount	Fair value by hierarchy level Level 1	Level 2	Level 3	Total
Measured at fair value					
At fair value through profit or loss					
Banking	18,107	18,107			18,107
Asset Management Services*	859,814	859,814			859,814
Derivative contracts					
Banking	263,422		263,422		263,422
Measured at amortised cost					
Banking	10,046,968	2,696,266	6,280,176	928,124	9,904,566
Total financial liabilities	11,188,311	3,574,187	6,543,598	928,124	11,045,909

* Includes liabilities for unit-linked insurance and investments contracts which are reported on level 1 in accordance of the underlying investment.
** The other investors' share of the consolidated mutual funds.

Changes at level 3

Reconciliation of changes in financial instruments at level 3.

Financial assets at fair value through profit or loss (EUR 1,000)	Banking	Asset Management Services	Total
Carrying amount 1 January 2022	9,794		9,794
Purchases	5,009		5,009
Sales	-690		-690
Matured during the period	-504		-504
Changes in value recognised in income statement, realised	-56		-56
Changes in value recognised in income statement, unrealised	-222		-222
Carrying amount 31 December 2022	13,332		13,332

Changes in fair value recognised in the income statement are presented in the item "Net investment income" and "Net life insurance income".

Fair value through other comprehensive income (EUR 1,000)	Banking	Asset Management Services	Total
Carrying amount 1 January 2022	1,287	14,891	16,178
Purchases	263	1,380	1,643
Sales	-1,425	-225	-1,650
Matured during the period	2		2
Changes in value recognised in income statement, realised	-3,423	-5	-3,428
Changes in value recognised in comprehensive income statement	2,796	-258	2,538
Transfers from level 1 and 2	4,571		4,571
Carrying amount 31 December 2022	4,070	15,783	19,853

Changes in fair value recognized in the income statement are included in the item "Net investment income" and "Net life insurance income".
Unrealized changes in fair value of financial assets classified as measured at fair value through other comprehensive income are accounted for in the fair value reserve included in other comprehensive income.

Sensitivity analysis of financial instruments at level 3 (EUR 1,000)

31.12.2022	Carrying amount	Effect of hypothetical changes' on profit, negative
At fair value through profit or loss		
Banking	13,332	-55
Total	13,332	-55
Fair value through other comprehensive income		
Banking, liabilities	4,070	-76
Asset Management Services	15,783	-2,374
Total	19,853	-2,450
Total	33,185	-2,505

The above table shows the sensitivity of fair value for level 3 instruments in the event of market changes. Interest-bearing securities have been tested by assuming 1 percentage points parallel shift of the interest rate level in all maturities. For non-interest sensitive instruments, the market prices are assumed to change by -15 percentage. For derivatives it is assumed that the possible change in value equals to the fair value of the derivative.

31.12.2021	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					
Banking	1,178,004	1,166,562		11,442	1,178,004
Asset Management Services*	992,787	992,787			992,787
Derivative contracts					
Banking	33,693		33,693		33,693
Fair value through other comprehensive income					
Banking	701,727	700,480		1,247	701,727
Asset Management Services*	163,084	147,835		15,249	163,084
Measured at amortised cost					
Investment assets, banking	68,429	68,800			68,800
Loans and advances, banking	9,743,261		11,146,790		11,146,790
Total financial assets	12,880,985	3,076,464	11,180,483	27,938	14,284,886
Investment property					
Banking	32,975			62,459	62,459
Total	32,975			62,459	62,459

* Including fair value of investments covering unit-linked policies, which are reported on level 1.

** The other investors' share of the consolidated mutual funds.

31.12.2021 Financial liabilities (EUR 1,000)	Carrying amount	Fair value by hierarchy level Level 1	Level 2	Level 3	Total
Measured at fair value					
At fair value through profit or loss					
Banking	13,706	13,706			13,706
Asset Management Services*	990,491	990,491			990,491
Derivative contracts					
Banking	15,511		15,511		15,511
Measured at amortised cost					
Banking	10,619,649	2,370,358	7,621,940	639,842	10,632,141
Total financial liabilities	11,639,357	3,374,555	7,637,452	639,842	11,651,849

* Includes liabilities for unit-linked insurance and investments contracts which are reported on level 1 in accordance of the underlying investment.
** The other investors' share of the consolidated mutual funds.

Changes at level 3

Reconciliation of changes in financial instruments at level 3.

Financial assets measured at fair value through profit or loss (EUR 1,000)	Banking	Asset Management Services	Total
Carrying amount 1 January 2021	22,949	947	23,896
Purchases	4,752		4,752
Sales	-13,444	-1,001	-14,445
Matured during the period	-1,506		-1,506
Changes in value recognised in income statement, realised	-2	54	52
Changes in value recognised in income statement, unrealised	-365		-365
Transfers from level 1 and 2	362		362
Transfers between levels 1 and 2	-1,304		-1,304
Carrying amount 31 December 2021	11,442		11,442

Changes in fair value recognised in the income statement are presented in the item "Net investment income" and "Net life insurance income".

Fair value through other comprehensive income (EUR 1,000)	Banking	Asset Management Services	Total
Carrying amount 1 January 2021	4,740	6,930	11,671
Purchases	2,371	7,143	9,514
Sales	-3,482		-3,482
Matured during the period	26		26
Changes in value recognised in income statement, realised	-523		-523
Changes in value recognised in comprehensive income statement	-1,887	818	-1,069
Carrying amount 31 December 2021	1,247	14,891	16,138

Changes in fair value recognized in the income statement during the year are included in the item "Net investment income" and "Net life insurance income".
Unrealized changes in fair value are booked in the equity fair value reserve through the other comprehensive income.

Sensitivity analysis of financial instruments at level 3 (EUR 1,000)

31.12.2021	Carrying amount	Negative effect of hypothetical changes' on profit
At fair value through profit or loss		
Banking	11 442	-82
Total	11 442	-82
Fair value through other comprehensive income		
Banking	1 247	-26
Asset Management Services	15 249	-2 297
Total	16 496	-2 323
Total	27 938	-2 405

The above table shows the sensitivity of fair value for level 3 instruments in the event of market changes. Interest-bearing securities have been tested by assuming 1 percentage points parallel shift of the interest rate level in all maturities. For non-interest sensitive instruments, the market prices are assumed to change by -15 percentage. For derivatives it is assumed that the possible change in value equals to the fair value of the derivative.

NOTE 39: PENSION LIABILITIES

Employee benefits include short-term employee benefits, termination benefits, post-employment benefits and other long-term employee benefits. IAS 19 Employee Benefits determines the accounting treatment of employee benefits. Short-term employee benefits include e.g. wages, salaries and benefits, annual leave, bonuses and extra insurances. Short-term employee benefits are expected to be paid in full within 12 months after the end of the financial year during which employees perform the work concerned. Termination benefits are based on the termination of employment, not on the work performed. These benefits consist of redundancy benefits.

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

For defined contribution plans, the Savings Banks Group pays fixed pension contributions to pension insurance companies. The Savings Banks Group has no legal or actual obligation to make additional payments in case the pension insurance company is not able to make the benefit payments. The most significant contribution-based plan is the basic employee insurance (TyEL) subject to the Pensions Act. Independent pension insurance companies are responsible for this pension scheme within the Savings Banks Group.

The Savings Banks Group also has defined benefit plans, for which the Savings Banks Group still has obligations after making the payments for the financial period. For benefit-based pension plans, the present value of obligations arising from the plan at the reporting date less the fair value of plan assets is presented as a liability.

The Savings Banks Group uses a professionally qualified actuary to determine the essential obligations arising from post-employment benefits. The calculation is performed using the projected unit credit method. When calculating the present value of the pension obligation, the discount rate is determined on the basis of the market return on high-quality corporate bonds at the reporting date.

Other long-term employee benefits are based on long-term employment. Such benefits include e.g. paid vacation and bonuses or gifts, which are granted on the basis of accumulated years of service.

Pension liabilities

Retirement age is 60–65 years. The target pension is 60% of pensionable salary. Pension benefit plans are under the statutory taxation and other laws.

The amount of assets in the insurance arrangement reflects the part of the obligation which is on the insurance company's responsibility, and it is calculated with the same discount rate as the liability. The assets in the arrangement include 100% qualifying insurances. As the obligations are insured, there are no signifigant liabilities on Group's responsibility. The Group is mainly responsible for increases in pensions tied to TyEL-index and for the effect of discount rate change and salary increase rate.

The defined benefit plan assets which are managed by insurance companies are part of their investment capital, and the related investment risk is on the insurance company.

PENSION LIABILITIES

(EUR 1,000)	31.12.2022	31.12.2021
Present value of obligation	10,152	14,578
Fair value of plan assets	8,606	11,374
Liability in balance sheet 31 December	1,546	3,204
Actuarial assumptions		
Discount rate, %	3,90%	1,00%
Pay development, %	3,10%	2,60%
Pension increase, %	0,00–2,80%	0,00–2,40%

	2022	2021
Current service cost	516	495
Previous service cost	-18	-156
Net interest	29	13
	527	352
Items in other comprehensive income		
Costs recognised in income statement	527	352
Remeasurements	-1,482	953
Comprehensive income before tax	-955	1,305
Present value of obligation 1 January	14,578	15,065
Current service cost	516	495
Interest expense	144	74
Actuarial gains (-) / losses (+) arising from experiential adjustments		-1
Actuarial gains (-) / losses (+) arising from changes in economic expectations	-4,625	223
Actuarial gains (-) / losses (+) arising from changes in demographic assumptions	396	382
Benefits paid	-377	-511
Effect of plan curtailment	-479	-1,148
Present value of obligation 31 December	10,152	14,578
Fair value of plan assets 1 January	11,374	12,124
Interest expense	115	61
Return on plan assets excl. items in interest expense/income	-2,748	-349
Benefits paid	-377	-511
Contributions	702	1,042
Effect of plan curtailment	-461	-992
Fair value of plan assets 31 December	8,606	11,374
Present value of obligation	10,152	14,578
Fair value of plan assets	8,606	11,374
Liability in balance sheet 31 December	1,546	3,204
Liability in balance sheet 1 January	3,204	2,941
Costs in income statement	527	352
Contributions	-702	-1,042
Remeasurements in comprehensive income statement	-1,482	953
Liability in balance sheet 31 December	1,546	3,204

SENSITIVITY ANALYSIS – NET LIABILITY

Effect of changed in assumptions on net liability in euros and % can be seen in the table below.

(EUR 1,000)	2022	2021
Change in discount rate +0,50%	-150	-351
Change in discount rate -0,50%	182	401
Change in pay development +0,50%	94	174
Change in pay development -0,50%	-91	-168
Change in pensions + 0,5%	321	574
Change in pensions - 0,5%	-295	-522

Duration based on the weighted average is 13 (17) years.

The Savings Banks Group expects to contribute approximately EUR 708 (637) thousand to defined benefit plans in 2023

NOTE 40: LEASES

Savings Banks Group as lessee

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

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

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

The lease term begins at the commencement date specified in the lease. The end of the lease term is determined by the lease. The lease term is reassessed if an option to extend the lease is exercised differently than initially assessed. If the lease term is indefinite, the end of the lease term is considered to be the earliest possible date of termination specified in the lease. The exception to this rule is properties for which the location determines the end of the lease term. In Savings Banks Group's strategy, for leased properties located in growth centres or significant regional centres, the lease term is three years. For properties in other locations, the lease term is one year. The discount rate used is the interest rate at which the Central Bank of Savings Banks provides financing to Savings Banks Group banks.

The value of a right-of-use asset at the commencement date is the lease liability plus payments made to the lessor at or before the commencement date, estimated restoration costs at the end of the lease term and initial direct costs. A right-of-use asset is subsequently measured at cost and amortised according to the lease term.

Savings Banks Group recognises leases as a right-of-use asset under "Right-of-use assets" and a liability under "Provisions and other liabilities".

Savings Banks Group's leases can be categorised by the following underlying assets:

- Machinery and equipment
- Real estate and apartments
- Information systems
- Others

Short-term leases and assets of low value

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

Right-of-use assets (EUR 1,000)	2022	2021
Property, plant and equipment		
Machinery and equipment	90	152
Real estate	40	43
Apartments	9 491	9 124
Total	9 621	9 319

Changes in right-of-use assets (EUR 1,000)	2022	2021
Carrying amount 1 January	9 319	10 742
Depreciations and impaiments	-1 656	-1 895
Increases	3 658	1 902
Decreases	-1 699	-1 429
Carrying amount 31 December	9 623	9 319

Maturity analyses of lease liabilities (EUR 1,000)	2022	2021
Less than one year	2 964	2 631
Between one and five years	6 449	6 302
More than five years	208	385
Total	9 621	9 319

Income statement items (EUR 1,000)	2022	2021
Interest expenses	-40	-41
Depreciations	-1 656	-1 895
Expense relating to short-term leases	-2 015	-4 670
Expense relating to leases of low-value assets	-205	226
Total	-3 916	-6 380

Savings Banks Group as lessor

Savings Banks Group does not act as a lessor in finance leases. Items leased under an operating lease are presented under “Investment assets” (investment properties) or “Intangible assets” and the lease income is recognised on a straight-line basis over the lease term under the income statement item “Net income from investment assets” or “Other operating revenue”. In Savings Banks Group, assets leased under an operating lease include residential properties owned by a bank.

(EUR 1,000)	2022	2021
Future minimum lease payments under non-cancellable operating leases receivable		
Less than one year	928	1 333
Between one and five years	885	1 100
More than five years	465	534
Total	2 278	2 967

NOTE 41: ENTITIES CONSOLIDATED IN SAVINGS BANKS GROUP'S FINANCIAL STATEMENTS

GROUP STRUCTURE

Company	Domicile
Technical parent company:	
Säästöpankki Sinetti	Orivesi
Aito Säästöpankki Oy	Tampere
Säästöpankki Kalanti-Pyhäranta	Uusikaupunki
Avain Säästöpankki	Kortesjärvi
Lammin Säästöpankki	Hyvinkää
Liedon Säästöpankki	Lieto
Länsi-Uudenmaan Säästöpankki	Lohja
Mietoisten Säästöpankki	Masku
Myrskylän Säästöpankki	Myrskylä
Säästöpankki Optia	Iisalmi
Helmi Säästöpankki Oy	Lahti
Someron Säästöpankki	Somero
Ekenäs Sparbank	Tammisaari
Nooa Säästöpankki	Helsinki
Kvevlax Sparbank	Koivulahti
Närpes Sparbank Ab	Närpiö

	Domicile	Ownership 31.12.2022	Ownership 31.12.2021
Subsidiaries:			
Nooa Savings Bank Ltd	Helsinki	100,00%	100,00%
Central Bank of Savings Banks Finland Plc	Helsinki	100,00%	100,00%
Sp-Fund Management Company Ltd	Helsinki	100,00%	100,00%
Savings Banks' Union Coop	Helsinki	100,00%	100,00%
Savings Bank Services Ltd	Helsinki	100,00%	100,00%
Sb Life Insurance Ltd	Helsinki	100,00%	100,00%
Sp-Koti Oy	Helsinki	100,00%	100,00%
Säästöpankkien Holding Oy	Helsinki	100,00%	100,00%
Sp Mortgage Bank Plc	Helsinki	100,00%	100,00%
Sp-Isännöintipalvelut Oy	Somero	100,00%	100,00%
Consolidated mutual funds:			
Säästöpankki Kiinteistö	Helsinki	76,92%	81,92%
Most significant real estate companies:			
Fast Ab Bankborg	Koivulahti	100%	100%
Fast Ab Kvevlax Affärshus	Koivulahti	65,90%	65,90%
Kiinteistö Oy Säästö-Erkko	Orimattila	62,82%	62,82%
Kiinteistö Oy Toritammi-Torgeken Fastighets Ab	Kaskinen	56,00%	56,00%
Kiinteistö Oy Eräjärven Pankkitalo	Eräjärvi	-	100%
Kiinteistö Oy Oriveden Läsimäki	Orivesi	94,22%	94,22%
Kiinteistö Oy Kaustisen Säästökeskus	Pietarsaari	76,33%	76,33%
Kiinteistö Oy Kälviän Säästöpuisto	Kokkola	100%	100%
Kiinteistö Oy Kalajoenrinne	Kalajoki	59,37%	59,37%

Significant restrictions

There are no significant restrictions on the ownership and use of assets.

Consolidated structured entities

The Group is involved in entities which have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. Such entities are structured entities. When assessing the need to consolidate structured entities in the Group's financial statements, consideration is given to the nature of the relationship between the Group and the entity as well as to the Group's power over the entity in accordance with the principle of control as defined by IFRS 10.

The structured entities within the Group's sphere of influence are mutual funds managed by Sp-Fund Management Company, which is part of the Savings Banks Amalgamation. As Sp-Fund Management Company acts as the manager of the mutual funds, the Group is considered to have power over the mutual funds whereby it is able to affect the amount of returns received. The Group has determined the scope of consolidation to include the mutual funds where the ownership of the Savings Banks Group exceeds 40% as a longer-term investment. The Savings Banks Group must have owned more than 40% of the fund for more than half a year before the fund is consolidated. One mutual fund is consolidated in the Group's financial statements on 31 December 2022 (one at the end of 2021).

The table below presents as assets the value of the mutual funds which the Group controls as defined above and which are consolidated in the Group's financial statements. Liabilities include other owners' share in the value of these funds. Liabilities do not represent claims against the Group's assets. The assets of the mutual funds can only be used to settle their own liabilities.

	31.12.2022		31.12.2021	
(EUR 1,000)	Total assets	Total liabilities	Total assets	Total liabilities
Total mutual funds	78 468	18 107	75 796	13 704

The holdings in mutual funds consolidated in the financial statements of the Savings Banks Group are classified at fair value through profit or loss. Other owners' interests in the assets and liabilities are measured at fair value through profit or loss.

Associates and joint ventures

Information about the Savings Banks Group's investments in associates and joint ventures is presented in Note 24 "Investments in associates".

NOTE 42: INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

The table below presents financial information about the structured entities which are not consolidated in the Group's financial statements, as well as the Group's investment in these entities and the maximum exposure to loss. These entities are mutual funds managed by Sp-Fund Management Company, which is part of the Savings Banks Amalgamation. Sp Fund Management Company manages 33 mutual funds. The Group has invested in 8 (6) mutual funds of Sp Fund Management Company and one of them is included to consolidation per 31.12.2022. The liabilities presented below represent the liabilities to both entities within the Group and other owners.

	31.12.2022			
(EUR 1,000)	**Total assets**	**Total liabilities**	**Group investment**	**Maximum exposure to loss**
Total mutual funds	78,468	78,468	17,774	17,774

	31.12.2021			
(EUR 1,000)	**Total assets**	**Total liabilities**	**Group investment**	**Maximum exposure to loss**
Total mutual funds	75,796	75,796	14,017	14,017

All holdings in mutual funds are classified as at fair value through profit or loss. The unrealized fair value changes of the unconsolidated mutual funds managed by Sp-Fund Management Company, amounting to EUR -1,033 (2,692) thousand, are included in the profit or loss of the Group. During the financial year, a total of EUR 76 (359) thousand of realized gains and losses were recorded in the investment income of the Group.

The Group's maximum exposure to loss for each structured entity is restricted to the investment made by the Group.

NOTE 43: RELATED PARTIES

The Board of Directors of the Savings Banks' Union Coop has defined the related parties of the Savings Banks Group. The related parties of the Savings Banks Group's comprise the entities consolidated in the Group's financial statements, associated companies and key management personnel as well as their close family members. In addition, related parties comprise entities which the key management personnel and/or their close family members control. The key management personnel of the Savings Banks Group comprise the members and deputy members of the Supervisory Board, the members of the Board of Directors, the Managing Director and his deputy as well as the Executive Board of Savings Banks' Union Coop.

Loans and guarantees to related parties have been granted under the terms and conditions which apply to the corresponding customer loans and guarantees.

2022

Transactions with related parties (EUR 1,000)	Key management personnel*	Close companies**	Associates and joint arrangements	Total
Assets				
Loans	5,730	6,745		12,476
Total assets	5,730	6,745		12,476
Liabilities				
Deposits	3,679	2,500	803	6,982
Other liabilities	915			915
Total liabilities	4,594	2,500	803	7,898
Off balance-sheet commitments				
Loan commitments	85	569	300	954
Total	85	569	300	954
Revenue and expense				
Interest income	53	101	2	156
Interest expense	-1			-1
Insurance premiums	227			227
Fee and commission income	2	14	5	21
Other expenses				
Total	281	115	7	403

* Including key management personnel and their close family members.
** Including entities which the key management personnel or their close family members control.

KEY MANAGEMENT PERSONNEL COMPENSATION

(EUR 1,000)	2022	2021
Short-term employee benefits	5 943	5 713
Post-employment benefits		352
Other long-term benefits	489	458
Termination benefits	122	
Total	6 554	6 524

2021

Transactions with related parties	Key management personnel*	Close companies**	Associates and joint arrangements	Total
Assets				
Loans	6,279	2,467	2,311	11,058
Total assets	6,279	2,467	2,311	11,058
Liabilities				
Deposits	3,177	3,314	8,615	15,106
Other liabilities	2,623	1,222	257	4,103
Total liabilities	5,800	4,537	8,872	19,209
Off balance-sheet commitments				
Loan commitments	76	235	282	593
Total	76	235	282	593
Revenue and expense				
Interest income	35	47	41	123
Interest expense	-2			-3
Insurance premiums	35	513		548
Fee and commission income	3	4	1	8
Other expenses			-4,621	-4,621
Total	71	563	-4,579	-3,945

* Including key management personnel and their close family members.
** Including entities which the key management personnel or their close family members control.

NOTE 44: MATERIAL EVENTS AFTER THE CLOSING DATE

The Board of Directors of the Savings Banks' Union Coop is not aware of any factors that would materially influence the financial position of the Savings Banks Group after the completion of the financial statements.

SIGNATURES OF THE CONSOLIDATED FINANCIAL STATEMENT OF SAVINGS BANKS' GROUP

SIGNATURES OF THE CONSOLIDATED FINANCIAL STATEMENT OF SAVINGS BANKS' GROUP

We have adopted the Report of Board of Directors and the Consolidated Financial Statements of the Savings Banks' Group specified in the Act on the amalgamation of deposit banks the for the financial year ending 31 December 2022. The report and the Financial Statements are presented to the General Meeting of Savings Banks' Union Coop on 10 March 2023.

In Helsinki 14 February 2023

The Board of Directors of the Savings Banks' Union Coop

Pirkko Ahonen
Chairman of the Board

Jari Oivo
Vice chairman of the Board

Tuula Heikkinen
Member of the Board

Eero Laesterä
Member of the Board

Simo Leisti
Member of the Board

Heikki Paasonen
Member of the Board

Veli-Pekka Mattila
Member of the Board

Ulf Sjöblom
Member of the Board

Hannu Syvänen
Member of the Board

Karri Alameri
Managing Director

Auditor's endorsement

Our auditor's report has been issued today

Helsinki, 14 February 2023.

KPMG Oy Ab

Mikko Kylliäinen
Authorised Public Accountant

AUDITOR'S REPORT

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

Auditor's Report

To the members of Savings Banks' Union Coop

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of amalgamation Savings Banks Group pursuant to the Act on the Amalgamation of Deposit Banks for the year ended 31 December, 2022. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies.

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

Our opinion is consistent with the additional report submitted to the Audit Committee of Savings Banks' Union Coop.

Basis for Opinion

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

We are independent of member institutions within Savings Banks Group in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the Savings Banks Group are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 14 to the consolidated financial statements.

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

Materiality

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

Key Audit Matters

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

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

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Receivables from customers (notes 2, 3, 5 and 16 to the financial statements)	
— Receivables from customers, totaling EUR 9.0 billion, are the most significant item in the Savings Banks Group's consolidated balance sheet representing 65 percent of the total assets. — Calculation of expected credit losses in accordance with IFRS 9 *Financial Instruments* is based on the impairment models used by the company and expert assessments. Calculation of expected credit losses involves assumptions, estimates and management judgement in respect of the probability of credit losses, significant increases in credit risk and valuation of collaterals. — The elements of accounting for expected credit losses are updated and defined, based on materialized credit risk developments, validation and improvement of the accounting process as well as on regulations and changes therein. — Due to the significance of the carrying amount involved, complexity of the accounting methods used for measurement purposes and management judgement involved, receivables is addressed as a key audit matter.	— We assessed the appropriateness of the recognition and measurement principles, as well as tested controls over recognition and monitoring of impairment losses and measurement of receivables. — We assessed the impairment models and key assumptions for calculating expected credit losses as well as tested the controls related to calculation process and credit risk models for the expected credit losses. Our IFRS and financial instruments specialists were involved in the audit. — We requested other auditors of Savings Banks Group entities to issue an opinion that the entities within Savings Banks Group have complied with the instructions provided by Savings Banks Union Coop in respect of valuation of receivables and determination of expected credit losses. — Furthermore, we considered the appropriateness of the notes provided by Savings Banks Group in respect of receivables and expected credit losses.

Investment assets measured at fair value and derivative contracts (notes 2, 3, 18, 20, 21 and 38 to the financial statements)

- The carrying value of investment assets measured at fair value totals EUR 785 million mainly consisting of investments measured at fair value. Life insurance assets include other investments totaling EUR 142 million. Derivative liabilities are EUR 263 million comprising contracts held for hedging purposes. Derivatives are measured at fair value in preparing the financial statements.
- The fair value of financial instruments is determined using either prices quoted in an active market or Savings Banks Group's own valuation techniques where no active market exists. Determining fair values involves management judgements, especially in respect of those instruments for which market-based data is not available.

- We evaluated the appropriateness of the accounting principles applied, as well as tested controls over valuation of investment assets.
- As part of our year-end audit procedures, we compared the fair values used in measurement of investment assets with market quotations and other external price references.
- We requested other auditors of Savings Banks Group entities to issue an opinion that the entities within Savings Banks Group have complied with the instructions provided by Savings Banks Union Coop in respect of valuation of investment assets.
- Furthermore, we considered the appropriateness of the notes on investment assets and derivates.

Life insurance liability (notes 2, 3, 5 and 31 to the financial statements)

- The life insurance liability, totaling EUR 0.9 billion, is a significant item in the Savings Banks Group's consolidated balance sheet. Calculation of life insurance liability is based on various actuarial assumptions and calculation methods. The most significant assumptions relate to calculation methods, mortality rate and development of interest rates.

- Our audit procedures included assessment of controls around the calculation process of life insurance liability.
- Our actuary specialist evaluated the appropriateness of the assumptions and methods used in determining life insurance liability by inspecting the technical bases applied and assessing the appropriateness of the calculation models to ensure the adequacy of liabilities for insurance policies, among others.
- We evaluated the appropriateness of the accounting principles applied. Furthermore,

	we considered the appropriateness of the notes on life insurance liability.
IT systems and related control environment	
— The key processes of the entities within Savings Banks Group are dependent on technology. Therefore, IT plays essential role for business continuity, incident management and the accuracy of financial reporting. — The most significant risks relate to integrity of data, confidentiality, and disruption of services. — The IT control environment related to the financial reporting process has a significant effect on the selected audit approach.	— We obtained an understanding of the IT systems related to financial reporting and the associated control environment and tested the effectiveness of the related internal controls with the help of assurance reports received from external service providers, among others. — Our audit procedures included extensive substantive procedures and data analyses.

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Savings Banks Group to express an opinion on the consolidated financial statements. We remain solely responsible for our audit opinion.

— We also acquaint ourselves with the financial statement policies adopted by Savings Banks Group's member institutions, as well as the auditors' reports submitted for the audit of Savings Banks Group's consolidated financial statements.

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

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

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

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting of Savings Banks' Union Coop on 13.3.2014, and our appointment represents a total period of uninterrupted engagement of 9 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors. Our opinion on the financial statements does not cover the other information.

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

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

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

Helsinki, 14 February 2023

KPMG OY AB

MIKKO KYLLIÄINEN
Authorised Public Accountant, KHT

Savings Bank

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