Sp Mortgage Bank Plc

BOARD OF DIRECTORS' REPORT AND IFRS FINANCIAL STATEMENTS

31 DECEMBER 2021

Sp Mortgage Bank Plc

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SP MORTGAGE BANK PLC'S BOARD OF DIRECTORS' REPORT

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

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

During the financial year, Sp Mortgage Bank's operations proceeded as planned and the loan portfolio reached at the end of the year the amount of EUR 2,247 million. The COVID-19 pandemic, which started in previous year, had no significant impacts on Sp Mortgage Bank's profit.

During the financial year, a targeted share issue to the owner banks was carried out, which amounted to EUR 7 million.

Sp Mortgage Bank issued a covered bond of EUR 500 million under its loan programme in September. S&P Global Ratings rated the covered bond AAA. The covered bond issued in 2016 matured according to the payment schedule in November of the financial year.

Sp Mortgage Bank's operating profit during the financial year amounted to EUR 2.0 million, and the balance sheet total amounted to EUR 2,375 million.

THE SAVINGS BANKS GROUP AND THE SAVINGS BANKS AMALGAMATION

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

The Savings Banks Group is the most longstanding banking group in Finland. It is comprised of Savings Banks forming the Savings Banks Amalgamation, the Savings Banks' Union Coop which acts as their Central Institution, as well as the subsidiaries and associated companies owned by the Savings 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, 17 Savings Banks, Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc and the companies within the consolidation groups of the above-mentioned entities, as well as Sp-Fund Management Company Ltd and Savings Bank Services Ltd. The 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.

The governing bodies of Liedon Säästöpankki and Mietoisten Säästöpankki have approved the acquisition of the banking business of Mietoisten Säästöpankki by Liedon Säästöpankki in accordance with the business transfer plan. The aim is to complete the business transaction in early 2022.

Eurajoki Savings Bank relinquished its membership of Savings Banks' Union Coop and the Savings Banks Amalgamation effective from 1 December 2021. In connection with this, Eurajoki Savings Bank transferred its entire business to Oma Savings Bank Plc. The business transfer took effect on 1 December 2021. According to the accounting principles confirmed by the Board of Directors of Savings Banks' Union Coop, Eurajoki Savings Bank's result for 2021 is included in the Savings Bank Group's result until the date of the demerger. As a result of the merger, the number of savings banks in the Savings Banks Amalgamation and the Savings Banks Group decreased from 18 to 17.

In 2019, the Savings Banks Group launched the core banking system upgrade. The core banking system is based on Temenos technology and will be provided by Samlink Ltd. On 18 November 2021, Kyndryl announced that it would acquire the entire share capital of Samlink Ltd from Cognizant. Kyndryl is an independent company that started its operations on 4 November 2021 and that is a corporate spin-off of IBM's global infrastructure services. The Savings Banks Group has agreed with Cognizant that if the Samlink acquisition is realised, the agreement on the core banking system upgrade will be annulled. The transaction between Kyndryl and Cognizant still requires the authorities' approval.

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 2021 started in an atmosphere of emerging economic optimism. The pandemic had been raging around the world for over nine months, but a vaccine had been developed, creating confidence that the pandemic would gradually abate. Consequently, the global economy recovered quickly in 2021. The OECD, for example, estimates that the global economy grew by 5.6% in 2021, which is the fastest rate of growth in several in decades.

The recovery started first in China, with the pre-pandemic GDP level reached already in 2020. In the United States, the recovery started faster than in Europe due to the quicker progress of vaccinations, and the pre-pandemic GDP level was reached in the second quarter of 2021. The euro zone is expected to have reached the pre-pandemic GDP level in late 2021.

Globally, the economic recovery was very rapid in the spring and summer. The fastest stage of recovery began to slow as the autumn approached, but economic activity was still brisk. There were several new waves of COVID-19 infections during the year but, significantly, their economic impacts were smaller and smaller with each new wave. Societies have learned to live with the virus and the improved vaccination coverage reduced the correlation between the number of infections and cases of serious disease as the year went on.

The quick recovery led to various capacity restrictions in the economy. Due to strong growth in demand, companies have not been able to deliver products in the same manner as before. Delivery times have become longer for many products. There have also been challenges related to the availability of raw materials and logistics chains have suffered from disruptions caused by COVID-19.

Due to these factors and rising energy prices, inflation accelerated rapidly in 2021 and reached levels not seen for a long time. In the USA, inflation rose to nearly 7%. While inflationary pressures in the euro zone have been more moderate, inflation here has also risen to nearly 5%, which is well above the central bank's target. Inflation was initially expected to be temporary, but it now appears that increasing prices are a slightly longer-term phenomenon.

At the beginning of the year, the hope was that the pandemic would abate as vaccination coverage improves. This hope has turned out to be unfounded. Although vaccines provide good protection against serious illness, yet another new wave of infections was seen at the end of the year, pushing the limits of health care capacity in various countries. This forced the authorities to again introduce new restrictions. The restrictions have a particularly severe impact on the service sector industries that have suffered the most during the COVID-19 crisis: tourism, events and restaurants, for example. Nevertheless, the overall economic impact of the restrictions is likely to be fairly limited.

Uncertainty increased further in the latter part of the year with the emergence of Omicron, a new rapidly spreading variant of COVID-19. While its severity is still uncertain, early data indicates that this new variant spreads easily but causes fewer serious cases than the Delta variant, for instance. The total burden on the health care system remains unclear.

The strong development of the housing market continued in 2021, although it became evident late in the year that the period of highest activity has already passed. Activity in the housing market has been maintained by the need for more space brought about by the increase in remote work, people's desire to improve the quality of their housing, increased savings and low interest rates.

INTEREST RATE ENVIRONMENT

Short-term interest rates in the euro area have remained virtually unchanged over the reference period. The increase in long-term euro interest rates, which started at the beginning of the year, came to a halt over the summer and subsequently continued in the second half of the year, levelling off slightly towards the end of 2021. As Euribor rates are the dominant form of interest rate fixation in lending, the low level of these interest rates presented a challenge to the net interest income of banking operations during the review period.

The extensive use of the European Central Bank's TLTRO programme has reduced the debt issuance of banks in the wholesale markets and, consequently, the costs of wholesale funding remained low in terms of credit margins throughout the period under review.

INVESTMENT MARKETS

The investment markets developed favourably during the year in spite of the increased uncertainty. The pandemic, accelerating inflation and expectations of changes in central bank monetary policy were the key themes in the investment markets in 2021. Share prices continued to develop favourably in Europe and the United States. In emerging markets, share price developments were more moderate and investors' risk appetite was reduced by concerns related to the Chinese real estate market in particular. The risk margins of corporate bonds remained stable in Europe during the year, which helped support corporate bond yields. The yields of sovereign bonds were reduced by higher long-term interest rates and expectations of accelerating inflation.

THE FINNISH ECONOMY

Like the global economy, the Finnish economy recovered briskly in 2021. The Savings Banks Group estimates that the Finnish economy grew by 3.5%, which is substantially faster than normal. The rapid growth is attributable to the recovery from the COVID-19 crisis. On the whole, the Finnish economy has performed well during the COVID-19 crisis: the decline in 2020 was not as sharp as in many other countries and the subsequent recovery has been relatively quick. Finnish GDP reached the pre-crisis level in the second quarter of 2021.

The recovery of the economy has been broad-based. The service sector, which has been hit the hardest by

COVID-19, has generally recovered fairly well, although production in certain service industries (including the arts, entertainment and recreational services) is still substantially below pre-crisis levels. The manufacturing industry has recovered rapidly, and construction activity has been brisk during the COVID-19 crisis.

On the whole, households have coped with the COVID-19 crisis relatively well. The labour market recovered faster than expected in 2021. The employment rate has risen above the pre-crisis level and the unemployment rate has decreased, approaching the pre-crisis level. There are reports of labour shortages and plenty of vacancies in the job market.

The household savings rate has increased during the COVID-19 crisis and households a lot of savings. While private consumption has recovered, it has not resulted in a spending spree. Indeed, it is possible that some households will leave the funds they have accumulated during the COVID-19 crisis in various forms of savings and investments, such as deposits, mutual funds and the stock markets. Funds accumulated by households have also been channelled into the housing market and the housing loan portfolio has grown during the COVID-19 crisis. According to a consumer confidence survey, households' perceptions of their financial situation has improved during the COVID-19 crisis.

THE HOUSING MARKET IN FINLAND

The strong development of the housing market continued in 2021, although it became evident late in the year that the period of highest activity has already passed. To summarise the year 2021, it could be said that housing prices increased more broadly than previously, across Finland, the demand for large dwellings, including single-family houses, has been high, while the demand for rental housing has been weak, especially in the Helsinki Metropolitan Area. Activity in the housing market has been maintained by the need for more space brought about by the increase in remote work, people's desire to improve the quality of their housing, increased savings and low interest rates. There would certainly have been even more housing transactions, but many customers have wanted to find a new home first before starting the sale of their current one. This has had a limiting effect on supply. While supply decreased significantly as early as the autumn of 2020, in November 2021, for example, the number of listings in the Etuovi online housing portal was more than 11 per cent lower than in November of the previous year.

Between January and November 2021, the transaction volume of old dwellings grew by 15% year-on-year and the five-year price change was 18.8% (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 grew by 24%, while the corresponding figure was 12.7% for terraced houses and 12.5% for single-family houses. In old dwellings sold, transaction volumes have grown more in other parts of Finland (16.4%) than in large cities (13.4%). Each region has also seen significant year-on-year growth. Among the regions, the strongest growth has been seen in Kanta-Häme, Central Ostrobothnia and Kymenlaakso.

As demand has exceeded supply in many places, prices have increased substantially. In the Helsinki Metropolitan Area, the prices of old dwellings in blocks of flats increased by 5.8% in 2021 compared to the previous year. The corresponding figure collectively for the major cities outside the Helsinki Metropolitan Area is 4.5% and the figures for Turku, Tampere and Oulu are 8.5%, 6.3% and 1%, 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, housing production rose in 2020 to 40,500 dwellings, contrary to expectations, with activity in the housing market being exceptionally high during the latter part of the year. The transaction volume for new dwellings remained high in 2021. The housing production volume for the year is estimated to be 44,000 dwellings. The number of starts is expected to decrease to 40,000 dwellings in 2022. According to the price monitoring service of the Central Federation of Finnish Real Estate Agencies, real estate agents' transaction volume for newly constructed dwellings increased by 18% compared to the previous year. The majority of construction is concentrated in large cities.

Activity in the market for holiday homes has been high for the past two years. In 2020, the transaction volume in terms of units was approximately 3% higher than in 2021, but the total value of the transactions increased by approximately 6% in 2021. The transaction volume in terms of units has increased by 32% over the past five years, with the properties ranging from inexpensive dry land cottages to high-priced chalets near ski resorts. The transaction volume in terms of units has been curbed by the low supply, which has also created upward pressure on prices. The previous assumption of the trend that younger generations would no longer want to buy secondary residences has proved to be wrong.

SP MORTGAGE BANK'S PROFIT AND BALANCE SHEET

SP MORTGAGE BANK'S FINANCIAL HIGHLIGHTS

(EUR 1,000)	1-12/2021	1-12/2020	1-12/2019
Revenue	30,364	30,275	25,162
Net interest income	24,981	21,854	19,216
% of revenue	82.3 %	72.2 %	76.4 %
Operating profit before taxes	1,968	6,561	2,766
% of revenue	6.5 %	21.7 %	11.0 %
Total operating revenue	3,636	8,292	5,014
Total operating expenses	-2,033	-1,689	-2,224
Cost to income ratio %	0.56	0.20	0.44
Total assets	2,375,143	2,255,494	2,066,789
Total equity	120,384	111,646	98,397
Return on equity %	1.4 %	5.0 %	2.4 %
Return on assets %	0.0 %	0.1 %	0.0 %
Equity/assets ratio %	5.3 %	4.9 %	4.8 %
Solvency ratio %	15.2 %	14.2 %	13.7 %
Impairment losses on loans and other receivables	404	-42	-24

PROFIT TRENDS (COMPARISON PERIOD 1–12/2020)

The Interest income increased to EUR 30.4 (26.8) million and consisted mostly of housing loan interest payments. Growth in Interest income comes from in housing loans and interest income from hedging derivatives. The Interest expenses were EUR 5.4 (5.0) million consisted mostly of Interest expenses from liabilities to credit institutions and Interest expenses from covered bonds. The net interest income amounted to EUR 25.0 (21.9) million.

The net fee and commission income mainly consisted of fees paid to the intermediating banks amounted to EUR -20.5 (-16.2) million.

Net profit from hedge accounting for the financial year was EUR -0.8 (- 2.7) million and it is presented under Net trading income on the income statement.

Operating expenses were EUR 2.0 (1.7) million.

Operating profit for the financial year was EUR 1.6 (5.2) million.

BALANCE SHEET AND FUNDING (COMPARISON FIGURES 31 DECEMBER 2020)

The loan portfolio of Sp Mortgage Bank grew to EUR 2,247 (2,146) million during the financial year.

Sp Mortgage Bank funds its operations with covered bonds. Financial credit from Central Bank of Savings Banks Finland Plc is used as short-term bridge financing. The value of the covered bonds was EUR 1,545 (1,512) million at the end of the financial year. The amount of short-term funding drawn from Central Bank of the Savings Banks Finland Plc was EUR 699 (609) million.

During the financial year a targeted share issue to the owner banks was carried out, which amounted to EUR 7 million. At the end of the financial year equity amounted to EUR 120 (112) million.

CAPITAL ADEQUACY AND RISK POSITION

CAPITAL ADEQUACY (COMPARISON FIGURES 31 DECEMBER 2020)

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

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

STRESS TESTS

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

CAPITAL CONTINGENCY PLAN

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

PILLAR I CAPITAL REQUIREMENTS

The biggest capital requirements of Sp Mortgage Bank are comprised of mortgage loan receivables. The standard method is applied to calculate the capital requirement for credit risk of the Bank. The capital requirement for operational risk is calculated by the basic method.

OWN FUNDS AND CAPITAL ADEQUACY

At the end of the financial year, the Sp Mortgage Bank had a strong capital structure, consisting of CET1 capital. Own funds were EUR 120 (112) million. Risk-weighted assets amounted to EUR 792 (785) million. The capital ratio of Sp Mortgage Bank was 15.2 (14.2) % and the CET1 capital ratio was 15.2 (14.29) %.

The capital requirement of Sp Mortgage Bank was EUR 83 (82) million that equals to 10.5% of risk-weighted assets. The components of the capital requirement have remained unchanged compared to the previous year. The capital requirement is formed by:

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

The Pillar II capital requirement imposed by the Financial Supervisory Authority on the Savings Banks Amalgamation is currently 1.25 (1.25) %. Based on the Financial Supervisory Authority's decision in November

2021, the Pillar II capital requirement will rise to 1.5 % effective from 30 June 2022. At least three quarters of the Pillar II capital requirement must be Tier 1 capital, of which at least three quarters must be CET1 capital.

The Finnish Financial Supervisory Authority is responsible for domestic macroprudential decision making. Decisions on the activation of macro prudential instruments are taken on a quarterly basis expect for decisions on O-SII buffers that have taken at least once a year, and on systemic risk buffers that have taken at least once in two years.

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

At its meeting on 29 June 2021, the Board of the Financial Supervisory Authority decided to change the maximum lending ratio so that the maximum lending ratio of other than first-home buyers is reduced by 5 percentage points to 85 %. The amendment entered into force on 1 October 2021. In addition, the Financial Supervisory Authority decided not to impose 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 De-posit 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.

At the end of the financial year, the Sp Mortgage Bank had a strong capital structure, consisting of CET1 capital. Own funds were EUR 120 million.

The standard method is used to calculate the capital requirement for credit risk of the Sp Mortgage Bank. The capital requirement for operational risk is calculated by the basic method. Sp Mortgage Bank publishes the relevant information with regard to capital adequacy calculation each year as part of its Annual Report and Notes to the Financial Statement. The main capital adequacy information has been published in the Half-year Report.

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

SP MORTGAGE BANK'S CAPITAL ADEQUACY'S MAIN ITEMS

Own Funds (EUR 1,000)	31.12.2021	31.12.2020
Common Equity Tier 1 (CET1) capital before regulatory adjustments	120,384	111,646
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-272	-16
Common Equity Tier 1 (CET1) capital	120,112	111,630
Tier 1 capital (T1 = CET1 + AT1)	120,112	111,630
Total capital (TC = T1 + T2)	120,112	111,630
Risk weighted assets	791,647	784,525
of which: credit and counterparty risk	769,956	746,409
of which: credit valuation adjustment (CVA)	11,102	26,849
of which: market risk		
of which: operational risk	10,588	11,268
Common Equity Tier 1 (as a percentage of total risk exposure amount)	15.2 %	14.2 %
Tier 1 (as a percentage of total risk exposure amount)	15.2 %	14.2 %
Total capital (as a percentage of total risk exposure)	15.2 %	14.2 %
Capital requirement		
Total capital requirement	120,112	111,630
Capital requirement total*	83,123	82,375
Capital buffer	36,989	29,255

*The capital requirement of 10.5% is formed by the statutory minimum capital adequacy requirement of 8%, the capital conservation buffer of 2.5% according to the Act on Credit Institutions, and the country-specific countercyclical capital requirements of foreign exposures.

LEVERAGE RATIO

The leverage ratio of Sp Mortgage Bank's was 5.3 % (4.9 %) clearly exceeding the 3 % minimum requirement that became valid on 28 June 2021. 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 benchmark data are not fully comparable as they do not take into account the changes to the CRR that entered into force during the financial year.

LEVERAGE RATIO

(EUR 1,000)	31.12.2021	31.12.2020
Tier 1 capital	120,112	111,630
Leverage ratio exposure	2,265,694	2,266,774
Leverage ratio	5.3 %	4.9 %

RESOLUTION PLAN

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

In April 2021, the Financial Stability Authority set a minimum requirement for own funds and eligible liabilities (MREL requirement) for the Savings Banks Amalgamation and Sp Mortgage Bank Plc. The requirement will enter into force in full as of 1 January 2022 for the Savings Banks Amalgamation and with transitional provisions as of 1 January 2022 for Sp Mortgage Bank Plc. The 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. The Financial Stability Authority decided that the MREL requirement applied to the Savings Banks Amalgamation is 19.49 % of the total risk exposure amount or 5.91 % of the total exposures, whichever is higher. 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

OBJECTIVE OF RISK MANAGEMENT

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

Risk and capital adequacy management enables the identification, assessment and measurement of risks, limiting them to a level of Sp Mortgage Bank's risk appetite.

PRINCIPLES AND ORGANISATION OF RISK MANAGEMENT

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

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

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

CREDIT AND COUNTERPARTY RISKS

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

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

LIQUIDITY RISK

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

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

MARKET RISK MANAGEMENT

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

OPERATIONAL RISK

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

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

BUSINESS RISK

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

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

CORPORATE GOVERNANCE

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

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

SP MORTGAGE BANK'S BOARD OF DIRECTORS AND AUDITORS

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

The Board of Directors in 2021 consists of the following:

Tomi Närhinen,	Chairman
Monika Mangs	
Anne Toivonen	
Jouni Niuro	as of 11.3.2021
Petri Siviranta	as of 11.3.2021
Ossi Öhman	as of 11.3.2021
Pirkko Ahonen	until 11.3.2021
Jussi Hakala	until 11.3.2021
Hannu Syvänen	until 11.3.2021

Tero Kangas acts as Managing Director of Sp Mortgage Bank.

At the annual general meeting of the Sp Mortgage Bank Plc on 11 March 2021, KPMG Oy Ab, Author-ised Public Accountants, was elected as the auditor of Sp Mortgage Bank, with Authorised Public Accountant Mikko Kylliäinen as principal auditor.

PERSONNEL

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

OWNERS

Sp Mortgage Bank is wholly owned by the 17 Savings Banks belonging to the Savings Banks Amalgamation.

MAIN OUTSOURCED FUNCTIONS

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

SOCIAL RESPONSIBILITY

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

More information on the Savings Banks Group's responsibility and the Savings Banks Group's annual responsibility report can be found at www.saastopankki.fi.

MATERIAL EVENTS AFTER THE CLOSING DATE

The Savings Banks Group and Cognizant announced on 1 February 2022 that they will terminate their agreement related to the core banking system renewal signed in 2019. Cognizant will pay compensation to the Savings Banks Group for the termination of the agreement. The termination of the agreement will have a positive impact on the Savings Banks Group's operating profit for 2022 but it will not have any impact on the Sp Mortgage Banks' operating profit. The Savings Bank Group is determined to continue the development of the core banking system. The termination of the agreement does not affect the services of the Savings Bank Group's customers.

Sp Mortgage Bank's Board of Directors are not aware of any facts that would materially influence the financial position of the Sp Mortgage Bank after the completion of the financial statement.

OUTLOOK FOR THE YEAR 2022

OUTLOOK FOR THE OPERATIONAL ENVIRONMENT

Global economic recovery is expected to continue in 2022, although the fastest recovery was already seen in 2021. The OECD expects the world economy to grow by 4.5% in 2022 and 3.2% in 2023.

The pandemic will continue to be one of the biggest uncertainties in 2022. It appears that the coronavirus will continue to circulate on Earth for a long time. However, people have learned to live with the virus and vaccinations provide protection, even though it is not perfect. Thus, the impact of the coronavirus on economic activity remains limited. The threat of new variants continues to exist and the situation may change rapidly.

During the COVID-19 crisis crisis, both governments and central banks have vigorously stimulated the economy. These support measures are gradually being reduced, and the Federal Reserve, for example, has already indicated reductions in the securities purchase programme and interest rate increases in 2022. The abandonment of support measures is in fact one of the themes and risks of 2022. While monetary policy is being tightened, interest rates remain low, especially in the euro zone.

Inflation will also remain in the markets' focus in 2022. At the early stages of inflation in 2021, it was expected to be temporary. It now appears that increasing prices are a slightly longer-term phenomenon and high inflation rates will probably be seen in 2022. Consensus forecasts, however, argue for a gradual un-winding of inflation.

Finland's economic recovery will also continue, but at a slower pace than in 2021. The Savings Banks Group estimates that the Finnish economy will grow by 2.6% in 2022. After this, the growth will gradually calm down towards the longer-term potential level, which for Finland means growth of around 1.5%.

The operational environment of companies looks good in 2022. Strong industrial order books will sustain activity and the recovery of the global economy will support the export sector. The diverse challenges of supply chains are expected to gradually ease in 2022. Housing construction will calm down slightly from last year, but the level will still remain good. The recovery in the service sector will also continue, although the disease situation and possible restrictive measures will affect the outlook for the restaurant, event and tourism sectors, for example. If the disease situation eases clearly during the year, high activity can be seen in these sectors as pent-up demand is unleashed.

The year 2022 also looks quite stable from the point of view of households. Unemployment will continue to decrease, and wage developments are expected to sustain purchasing power in spite of higher inflation. The savings accumulated by households during the COVID-19 crisis allow for a rapid increase in consumption, although it appears that a significant part of the accumulated funds will be put to savings. As 2022 begins, consumer confidence has fallen below the long-term average, reflecting an increase in consumer caution.

BUSINESS OUTLOOK

Sp Mortgage Bank expects the loan portfolio to continue to grow through sales of new contracts and the quality of the loan portfolio to remain at a high level. The capital adequacy of Sp Mortgage Bank is estimated to remain strong and the risk position to remain stable. The covered bond programme established in 2016 allows for covered bond issuances 2022.

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

Sp Mortgage Bank's distributable funds amount to EUR 48.3 million.

The Board of Directors of Sp Mortgage Bank proposes to the Annual General Meeting that the profit for the financial year EUR 1.6 million is entered as accumulated retained earnings with no dividend paid.

INFORMATION

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

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

FORMULAS USED IN CALCULATING THE FINANCIAL HIGHLIGHTS:

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

ALTERNATIVE PERFORMANCE MEASURES

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

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

SP MORTGAGE BANK'S CONSOLIDATED IFRS FINANCIAL STATEMENTS

SP MORTGAGE BANK'S INCOME STATEMENT

(EUR 1,000)	Note	1-12/2021	1-12/2020
Interest income		30,365	26,843
Interest expense		-5,384	-4,989
Net interest income	6	24,981	21,854
Net fee and commission income	7	-20,539	-16,242
Net trading income	8	-845	2,680
Total operating revenue		3,597	8,292
Personnel expenses	10	-34	-26
Other operating expenses	11	-2,000	-1,635
Depreciation of intangible assets	12		-29
Total operating expenses		-2,033	-1,689
Net impairment loss on financial assets	13	404	-42
Profit before tax		1,968	6,561
Taxes	14	-394	-1,312
Profit		1,574	5,249

SP MORTGAGE BANK'S STATEMENT OF COMPREHENSIVE INCOME

(EUR 1,000)	1-12/2021	1-12/2020
Profit	1,574	5,249
Total comprehensive income	1,574	5,249

SP MORTGAGE BANK'S STATEMENT OF FINANCIAL POSITION

(EUR 1,000)	Note	1-12/2021	1-12/2020
Assets			
Loans and advances to credit institutions	16	115,048	85,309
Loans and advances to customers	16	2,246,459	2,145,433
Derivatives	17	4,066	20,712
Intangible assets	18	260	
Other assets	19	9,310	4,040
Total assets		2,375,143	2,255,494
Liabilities and equity			
Liabilities			
Liabilities to credit institutions	20	701,400	627,830
Derivatives	17	5,362	
Debt securities issued	21	1,544,537	1,511,782
Tax liabilities			944
Provisions and other liabilities	22	3,461	3,292
Total liabilities		2,254,760	2,143,848
Equity			
Share capital	23	72,051	67,273
Reserves		35,972	33,586
Retained earnings		12,361	10,787
Total equity		120,384	111,646
Total liabilities and equity		2,375,143	2,255,494

SP MORTGAGE BANK'S STATEMENT OF CASH FLOWS

(EUR 1,000)	1-12/2021	1-12/2020
Cash flows from operating activities		
Profit	1,574	5,249
Adjustments for items without cash flow effect	1,827	-1,296
Change in deferred tax		
Cash flows from operating activities before changes in assets and liabilities	3,401	3,952
Increase (-) or decrease (+) in operating assets	-105,748	-189,498
Loans and advances to customers	-100,637	-189,172
Other assets	-5,111	-326
Increase (-) or decrease (+) in operating liabilities	126,679	168,994
Liabilities at fair value through profit or loss		
Liabilities to credit institutions	73,570	167,530
Liabilities to customers		
Debt securities issued	52,925	1,088
Other liabilities	184	376
Paid income taxes	-1,497	-457
Total cash flows from operating activities	22,835	-17,010
Cash flows from investing activities		
Investments in property, plant and equipment and intangible assets	-260	
Total cash flows from investing activities	-260	0
Cash flows from financing activities		
Increase in basic capital	4,778	5,336
Other monetary increases in equity items	2,386	2,664
Total cash flows from financing activities	7,164	8,000
Change in cash and cash equivalents	29,739	-9,010
Cash and cash equivalents at the beginning of the period	85,309	94,318
Cash and cash equivalents at the end of the period	115,048	85,309
Cash and cash equivalents comprise the following items:		
Receivables from central banks repayable on demand	115,048	85,309
Total cash and cash equivalents	115,048	85,309
Adjustments for items without cash flow effect		
Impairment losses on financial assets	-404	42
Changes in fair value	806	-2,680
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets		29
Other adjustments	1,425	1,312
Total	1,827	-1,296
Interest received	29,489	26,458
Interest paid	5,725	4,735

SP MORTGAGE BANK'S STATEMENT OF CHANGES IN EQUITY

(EUR 1,000)	Share capital	Share premium	Retained earnings	Total equity
Equity 1 January 2020	61,937	30,922	5,538	98,397
Comprehensive income				
Profit			5,249	
Total comprehensive income			5,249	5,249
Subscription issue	5,336	2,664		8,000
Total equity 31 December 2020	67,273	33,586	10,787	111,646
Equity 1 January 2021	67,273	33,586	10,787	111,646
Comprehensive income				
Profit			1,574	
Total comprehensive income			1,574	1,574
Subscription issue	4,778	2,386		7,164
Total equity 31 December 2021	72,051	35,972	12,361	120,384

BASIS OF PREPARATION

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

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

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

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

The Savings Banks focus on retail banking, particularly services related to daily business, saving and investments, and lending services. The service and product range offered is complemented with the other financial services and products provided in cooperation with the service and product companies within the Savings Banks Group. The service and product companies within the Savings Banks Group support and promote the operations of the Savings Banks Group via producing

Sp Mortgage Bank is responsible for the Savings Banks Group's mortgage-secured funding by issuing covered bonds.

centralised services or having responsibility for certain products. The most significant service and product companies of the Savings Banks Group are Sp Mortgage Bank Plc, Central Bank of Savings Banks Finland Plc, Sb Life Insurance Ltd, Sp-Fund Management Company Ltd, Savings Bank Services Ltd and Sp-Koti Oy.

The member organisations of the Savings Banks Amalgamation form a financial entity as defined in the Act on the Amalgamation of Deposit Banks, in which the Savings Banks' Union Coop and its member credit institutions are jointly liable for each other's liabilities and commitments. The Savings Banks Amalgamation comprises the Savings Banks' Union Coop, which acts as the Central Institution of the Amalgamation, 17 Savings Banks, the Central Bank of Savings Banks Finland Plc , Sp Mortgage Bank Plc, Savings Bank Services Ltd and Sp-Fund Management Company Ltd as well as the above-mentioned companies within the consolidation groups.

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

The governing bodies of Liedon Säästöpankki and Mietoisten Säästöpankki have approved the acquisition of the banking business of Mietoisten Säästöpankki by Liedon Säästöpankki in accordance with the business transfer plan. The aim is to complete the business transaction in early 2022.

Eurajoki Savings Bank relinquished its membership of Savings Banks' Union Coop and the Savings Banks Amalgamation effective from 1 December 2021. In connection with this, Eurajoki Savings Bank transferred its entire business to Oma Savings Bank Plc. The business transfer took effect on 1 December 2021. The number of savings banks in the Savings Banks Amalgamation and the Savings Banks Group decreased from 18 to 17 due to Eurajoen Säästöpankki leaving the Group.

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

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

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

Sp Mortgage Banks Board of Directors has approved the Bank's financial statement 2021 on 1st February 2022, and the financial statement will be presented to the Annual General Meeting of 2022 for approval. The Annual General Meeting has the choice of approving or not approving the financial statement.

NOTE 2. ACCOUNTING POLICIES

1. GENERAL

The financial statements of the Sp Mortgage Bank are prepared in accordance with the International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the European Union.

Sp Mortgage Bank is part of the Savings Banks Amalgamation and 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 IFRS.

Sp Mortgage Bank's financial statements are presented in euros, which is the presentation and functional currency of the Bank.

Sp Mortgage Bank's financial statements are prepared under the historical cost convention, except for the derivatives and hedged items in fair value hedges (for hedged risks), which are measured at fair value.

Assets and liabilities are offset with the net amount presented in the balance sheet only if the the Sp Mortgage Bank holds a currently enforceable legal right to set off the recognised amounts and there is intention to settle on net basis or to realize asset and settle the liability simultaneously.

In 2021, the Savings Banks Group adopted the agenda decision published by IFRIC in April concerning the accounting treatment of configuration and customisation costs of SaaS arrangements and whether the expenses should be recognised as intangible assets in accordance with IAS 38. Adopting the decision did not have an impact on Sp Mortgage Bank's financial statements.

2. FINANCIAL INSTRUMENTS

2.1 Financial assets and liabilities

The Sp Mortgage Bank applies IFRS 9 Financial instruments standard on recognition and measurement of financial instruments and for hedging relationships under general hedge accounting.

Classification in the Sp Mortgage Bank's balance sheet is independent of the IFRS 9 categories. Different valuation bases can therefore be applied to assets and liabilities recognised on the same line in the balance sheet. The classification of financial assets and liabilities recognised in the balance sheet into valuation categories is set out in Note 15.

2.1.1 Initial recognition

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

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

2.1.2 Classification of financial assets and the determination of classification

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

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

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

Business model assessment

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

Assessment of cash flow characteristics

Cash flow characteristics means the characteristics of the contractual cash flows of the financial asset.

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

Amortised cost

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

- The financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and

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

Measured at fair value through other comprehensive income

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

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

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

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

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

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

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

Financial assets measured at fair value through profit or loss

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

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

Changes in the classification of financial assets

Debt instruments are reclassified only when Sp Mortgage Bank changes the business models applied in the management of financial assets. Sp Mortgage Bank expects such changes to be highly infrequent.

Changes in contractual cash flows

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

2.1.3 Derecognition of financial assets and liabilities

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

A financial asset is considered to be transferred if the Sp Mortgage Bank either:

- transfers the contractual rights to receive the cash flows of the financial asset; or

- retains the contractual rights to receive the cash flows of the financial asset but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions stipulated by IFRS 9. A contract can be considered to meet the conditions for such an arrangement if:

  - There is no obligation to pay amounts to the eventual recipients unless equivalent amounts are collected from the original asset

  - The selling or pledging of the original asset is prohibited by the terms of the transfer contract

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

- The significant risks and rewards of ownership are transferred; or

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

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

2.2. Determining fair value

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

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

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

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

- Fair values quoted in active markets for identical assets or liabilities (Level 1)

- Fair values that are determined using other input data than the quoted prices at Level 1, which are observable for the assets or liabilities either directly (e.g. prices) or indirectly (e.g. derived from prices) (Level 2)

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

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

2.3. Impairment

2.3.1 Expected credit losses

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

The methods and parameters used for expected credit loss calculation are discussed in more detail in the note 13 Impairment losses on financial assets.

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

2.3.2 Incurred credit losses

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

2.4. Hedging and derivatives

Sp Mortgage Bank hedges its interest rate risk from changes in fair value and applies hedge accounting to hedging relationships. The hedged items in the fair value hedge are the issued fixed rate covered bonds.

For hedging relationships under general hedge accounting, Sp Mortgage Bank has adopted IFRS 9.

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

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

3. LEASES

Sp Mortgage Bank as the lessee

At the inception of a contract and when the terms and conditions of a contract are changed, Sp Mortgage Bank assesses whether the contract contains a lease. 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.

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 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. Sp Mortgage Bank recognises leases as a right-of-use asset under “Right-of-use assets” and a liability under “Provisions and other liabilities”.

Short-term leases and assets of low value

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

Sp Mortgage Bank as the lessor

Sp Mortgage Bank does not act as a lessor.

4. INTANGIBLE ASSETS

An intangible asset is an identifiable asset that has no physical substance. In Sp Mortgage Bank, intangible assets include computer software.

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

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

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

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

The estimated useful lives are mainly as follows:

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

Other intangible assets ....5 years

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

4.1 Software as a Service (SaaS) projects

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

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

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

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

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

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

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

5. TAXES

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

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

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

6. REVENUE RECOGNITION PRINCIPLES

Interest income and expenses

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

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

Fees and commissions

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

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

Net Trading Income

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

7. SEGMENT INFORMATION

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

8. NEW IFRS-STANDARDS AND INTERPRETATIONS

New and amended standards applied in financial year ended

Sp Mortgage Bank has applied as from 1 January 2021 the following new and amended standards that have come into effect.

COVID-19-Related Rent Concessions beyond 30 June 2021 – Amendment to IFRS 16 *Leases* (effective from 1 April 2021 for financial years starting at the latest, on or after 1 January 2021)

The amendments allow the lessees not to account for rent concessions as lease modifications if the concessions are a direct consequence of the COVID-19 pandemic and only if certain conditions are met. The change in the standard did not have an impact on Sp Mortgage Bank's financial statements.

Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases* (effective for financial years beginning on or after 1 January 2021)

Amendments address issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of interest rate benchmark reform. Amendments assist companies in providing useful information about the effects of interest rate benchmark reform on financial statements. The change in the standards did not have a significant impact on Sp Mortgage Bank's financial statements.

Adoption of new and amended standards in future financial years

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

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 changes in the standards will have no significant impact on Sp Mortgage Bank's financial statement.

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 will have no significant impact on Sp Mortgage Bank's financial statement.

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 recognized in profit or loss, together with the costs of producing those items. The change in the standard will have no significant impact on Sp Mortgage Bank's financial statement.

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 made further reference related amendments. The change in the standard will have no significant impact on Sp Mortgage Bank's financial statement.

Classification of Liabilities as Current or Non-current - Amendments to IAS 1 *Presentation of Financial Statements* (effective for financial years beginning on or after 1 January 2023, early application is permitted)

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

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 Sp Mortgage Bank's financial statement.

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

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

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

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

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

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

NOTE 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

In the financial statements dated 31 December 2021, the most significant uncertainty influencing the management's estimates has been the prevailing COVID-19 pandemic. There is considerable uncertainty associated with estimating the economic impacts of the coronavirus pandemic, which particularly influences the assessment of the expected credit losses on financial assets.

Determination of expected credit losses

Sp Mortgage Bank'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.

Sp Mortgage Bank uses modelling-based calculations for determining expected credit losses but, where necessary, the figures generated by the models are adjusted to reflect the management's 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 exceptional uncertainty regarding future economic development that prevailed during the financial year and the reduced forecast ability of macroeconomic forecasting models have increased the significance of the management's judgment and estimates.

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, 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 or the number and duration of instalment-free periods that have been applied for.
- 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.

Based on an analysis of the credit portfolio, Sp Mortgage Bank does not have significant sector-specific risk concentrations that would necessitate increases to the expected credit losses indicated by the forecasting models by making adjustments based on the management's judgment.

In October, Sp Mortgage Bank updated the economic forecasts used in the calculation of expected credit losses and the weights set for the scenarios. Further details on the key macroeconomic variables and the weights assigned to the scenarios in the economic forecasts are presented in Note 13, "Impairment losses on financial assets".

Fair value measurement

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

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

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

RISK MANAGEMENT AND CAPITAL ADEQUACY MANAGEMENT POLICIES

NOTE 4. RISK MANAGEMENT AND GOVERNANCE

OBJECTIVE OF RISK MANAGEMENT

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

PRINCIPLES AND ORGANIZATION OF RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

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

- independent risk control
- compliance
- internal audit

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

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

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

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

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

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

The independent functions of Savings Banks' Union Coop are responsible for Sp Mortgage Bank's inde-pendent functions.

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

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

Credit and counterparty risks

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

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

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

Management of credit risk

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

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

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

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

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

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

Residential mortgage loan pledged as collateral for a covered bond may not exceed the fair value of the shares or real estate used as collateral. Only 70 per cent of the fair value of the shares or real estate used as collateral for each residential mortgage loan is counted in the total amount of collateral for covered bonds.

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

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

The loan portfolio of Sp Mortgage Bank increased during 2021 by 101 million and was 31.12.2021 EUR 2,247 (2,146) million. Loans on the balance sheet to private persons are 98 per cent and loans to entrepreneurs 2 per cent.

BREAKDOWN OF LOANS BY CUSTOMER GROUPS
(EUR 1,000)

Customer group	31.12.2021	31.12.2020	change %
Private persons	2,201,110	2,107,416	4 %
Entrepreneurs	45,832	38,889	18 %
Total	2,246,942	2,146,305	5 %

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

PRIVATE LENDING BY RATING DISTRIBUTION

(EUR 1,000)	31.12.2021				% of portfolio	
Description	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**31.12.2021**	**31.12.2020**
1 Excellent	217,351			217,351	10 %	1 %
2 Good	645,867	1,434		647,301	29 %	15 %
3 Good	759,495	4,440		763,935	34 %	37 %
4 Average	258,567	5,432		263,999	12 %	33 %
5 Average	100,616	5,047		105,662	5 %	12 %
6 Weak	86,318	13,550		99,867	4 %	2 %
7 Past due but not impaired	33,651	12,928		46,580	2 %	1 %
8 Past due but not impaired	19,147	29,462		48,609	2 %	0 %
D Non-performing	17,872	34,199		52,071	2 %	
Total			1,568	1,568	0 %	0 %
Yhteensä	2,138,884	106,491	1,568	2,246,942	100 %	100 %

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

Doubtful exposures

Doubtful exposures, delayed payments, forborne exposures and non-performing receivables are monitored regularly 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 1–3 months and the customer being a potential problem customer. Sp Mortgage bank's delayed receivables were approximately 0.16 per cent (0.19) of the credit portfolio.

A loan that meets at least one of the following criteria is classified as a non-performing receivable: the loan is classified as in default, the loan is in ECL stage 3, the loan has a non-performing forborne exposure or at least 20% of all of the loans of the counterparty have been classified as non-performing.

In Sp Mortgage Credit Bank, the amount of non-performing receivables was 0.17% (0.00) of the credit portfolio at the end of 2021. The number of non-performing receivables remained at a reasonable level in 2021, despite the introduction of the new broader definition of default. At the end of 2021, 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. Concessions are granted on the loan terms of renegotiated receivables due to the customer's financial difficulties by. In certain circumstances, when a debtor experiences financial difficulty, the customer is granted a concession on the terms of the loan in the form of an instalment-free period or restructuring the liability. The aim is to ensure the customer's ability to pay and avoid potential credit losses. Granting forbearance is conditional on the customer's financial difficulties being short-term and temporary. The Bank's forborne exposures totaled EUR 27 million (EUR 35 million).

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

Concentration risks

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

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

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

Market risk

In general, market risk refers to the impact of a change in market prices on the market value of financial assets and liabilities. The most important market risk 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 business of Sp Mortgage Bank is to issue euro-denominated covered bonds with residential mort-gage loans as collateral and grant residential mortgage loans as defined in the Act on Mortgage Credit Bank operations.

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

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

Market risk management

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

Interest rate risk in the banking book

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

Interest rate risk refers to the adverse effect of interest rate changes on the market value (present value risk) or on the net interest income (income risk) of the balance sheet and off-balance sheet items.

In Sp Mortgage Bank interest rate risk arises from the different interest rate bases of lending and funding.

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

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

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

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

(EUR 1,000)	Change in net interest income			
	31.12.2021		31.12.2020	
Period	Down	Up	Down	Up
Change in the coming 12 months	6,154	-3,934	5,965	-2,304
Change in 12-24 months	11,771	-1,876	8,432	-3,270

Liquidity risk

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

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

The liquidity reserve and the liquidity requirement

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

Assets 31.12.2021 (EUR 1,000)	Total	< 3 months	3-12 months	1-5 years	> 5 years
Loans and advances to credit institutions	115,048	115,048			
Loans and advances to customers	2,246,942	36,820	109,913	573,071	1,527,138
Financial assets total	2,361,990	151,867	109,913	573,071	1,527,138

Liabilities 31.12.2021 (EUR 1,000)	Total	< 3 months	3-12 months	1-5 years	> 5 years
Due to credit institutions and central banks	701,400	29,400	28,000	523,500	120,500
Debt securities in issue	1,550,000		500,000	500,000	550,000
Financial liabilities total	2,251,400	29,400	528,000	1,023,500	670,500

Assets 31.12.2020 (EUR 1,000)	Total	< 3 months	3-12 months	1-5 years	> 5 years
Loans and advances to credit institutions	85,309	85,309			
Loans and advances to customers	2,146,305	33,970	105,367	560,763	1,446,206
Financial assets total	2,231,614	119,279	105,367	560,763	1,446,206

Liabilities 31.12.2020 (EUR 1,000)	Total	< 3 months	3-12 months	1-5 years	> 5 years
Due to credit institutions and central banks	627,830	95,830	411,000	53,500	67,500
Debt securities in issue	1,500,000		500,000	500,000	500,000
Financial liabilities total	2,127,830	95,830	911,000	553,500	567,500

Operational risk

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

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

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

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

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

Legal risk

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

Compliance function has been established to ensure that Sp Mortgage Bank comply with regulations and internal guidelines. Compliance function's responsibility is to ensure that the bank comply with laws, regulations and guidelines. Compliance function also monitors that the bank complies with its own internal guidelines, ethical principles for personnel and other instructions. There is no risk tolerance for compliance risks and necessary means are taken to prevent any compliance risks to materialize in Savings Banks Group.

Business risk

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

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

NOTE 5. CAPITAL ADEQUACY MANAGEMENT

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

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

Stress tests

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

Capital contingency plan

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

PILLAR I CAPITAL REQUIREMENTS

The biggest capital requirements of Sp Mortgage Bank are comprised of mortgage loan receivables. The standard method is applied to calculate the capital requirement for credit risk of the Bank. The capital requirement for operational risk is calculated by the basic method. The capital requirement relating to market risk is calculated by the basic method for the foreign exchange exposure if the total net foreign exchange position is over 2% of the aggregate amount of own funds. Sp Mortgage Bank does not have a trading book and Sp Mortgage Bank's business does not involve taking commodity risk.

OWN FUNDS AND CAPITAL ADEQUACY

At the end of the financial year, the Sp Mortgage Bank had a strong capital structure, consisting of CET1 capital. Own funds totaled EUR 120 (112) million. CET1 capital amounted to 120 (112) million euro. Risk-weighted assets amounted to 792 (785) million. The capital ratio of Sp Mortgage Bank was 15.2 (14.2) % and the CET1 capital ratio was 15.2 (14.2) %.

The capital requirement of Sp Mortgage Bank was EUR 83 (82) million that equals to 10.5% of risk-weighted assets. The components of the capital requirement have remained unchanged compared to the previous year. The capital requirement is formed by:

- 8 % minimum capital requirements set by Capital Requirement Regulation (CRR),

- 2.5% CET1 capital conservation buffer of according to the Act on Credit Institutions

- The country specific countercyclical CET1 capital requirements of foreign exposures.

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

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

At its meeting on 29 June 2021, the Board of the Financial Supervisory Authority decided to change the maximum lending ratio so that the maximum lending ratio of other than first-home buyers is reduced by 5 percentage points to 85 %. The amendment entered into force on 1 October 2021. In addition, the Financial Supervisory Authority decided not to impose 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.

In Finland, the Board of the Financial Supervisory Authority is responsible for macroprudential policy decisions. Decisions on the countercyclical capital buffer and on the maximum lending ratio for mortgages are made on a quarterly basis, decisions on the capital buffers of credit institutions of national importance (O-SII buffers) are made annually and decisions on systemic risk buffers are made at least every two years.

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.

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

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

SP MORTGAGE BANK'S CAPITAL ADEQUACY'S MAIN ITEMS

Own Funds (EUR 1,000)	**31.12.2021**	**31.12.2020**
Common Equity Tier 1 (CET1) capital before regulatory adjustments	120,384	111,646
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-272	-16
Common Equity Tier 1 (CET1) capital	120,112	111,630
Additional Tier 1 (AT1) capital	0	0
Tier 1 capital (T1 = CET1 + AT1)	120,112	111,630
Tier 2 (T2) capital	0	0
Total capital (TC = T1 + T2)	120,112	111,630
Risk weighted assets	791,647	784,525
of which: credit and counterparty risk	769,956	746,409
of which: credit valuation adjustment (CVA)	11,102	26,849
of which: market risk		
of which: operational risk	10,588	11,268
Common Equity Tier 1 (as a percentage of total risk exposure amount)	15.2 %	14.2 %
Tier 1 (as a percentage of total risk exposure amount)	15.2 %	14.2 %
Total capital (as a percentage of total risk exposure)	15.2 %	14.2 %
Capital requirement		
Total capital requirement	120,112	111,630
Capital requirement total*	83,123	82,375
Capital buffer	36,989	29,255

*The capital requirement of 10.5% is formed by the statutory minimum capital adequacy requirement of 8%, the capital conservation buffer of 2.5% according to the Act on Credit Institutions, and the country-specific countercyclical capital requirements of foreign exposures.

LEVERAGE RATIO

The leverage ratio of Sp Mortgage Bank was 5.3% (4.9), clearly exceeding the binding 3% minimum requirement that entered into force on 28 June 2021. The leverage ratio has been calculated according to the known regulation, and it describes the ratio of the Bank's Tier 1 capital to total liability. The figures for the reference period are not fully comparable as they do not take into account the changes to the CRR that entered into force during the financial period.

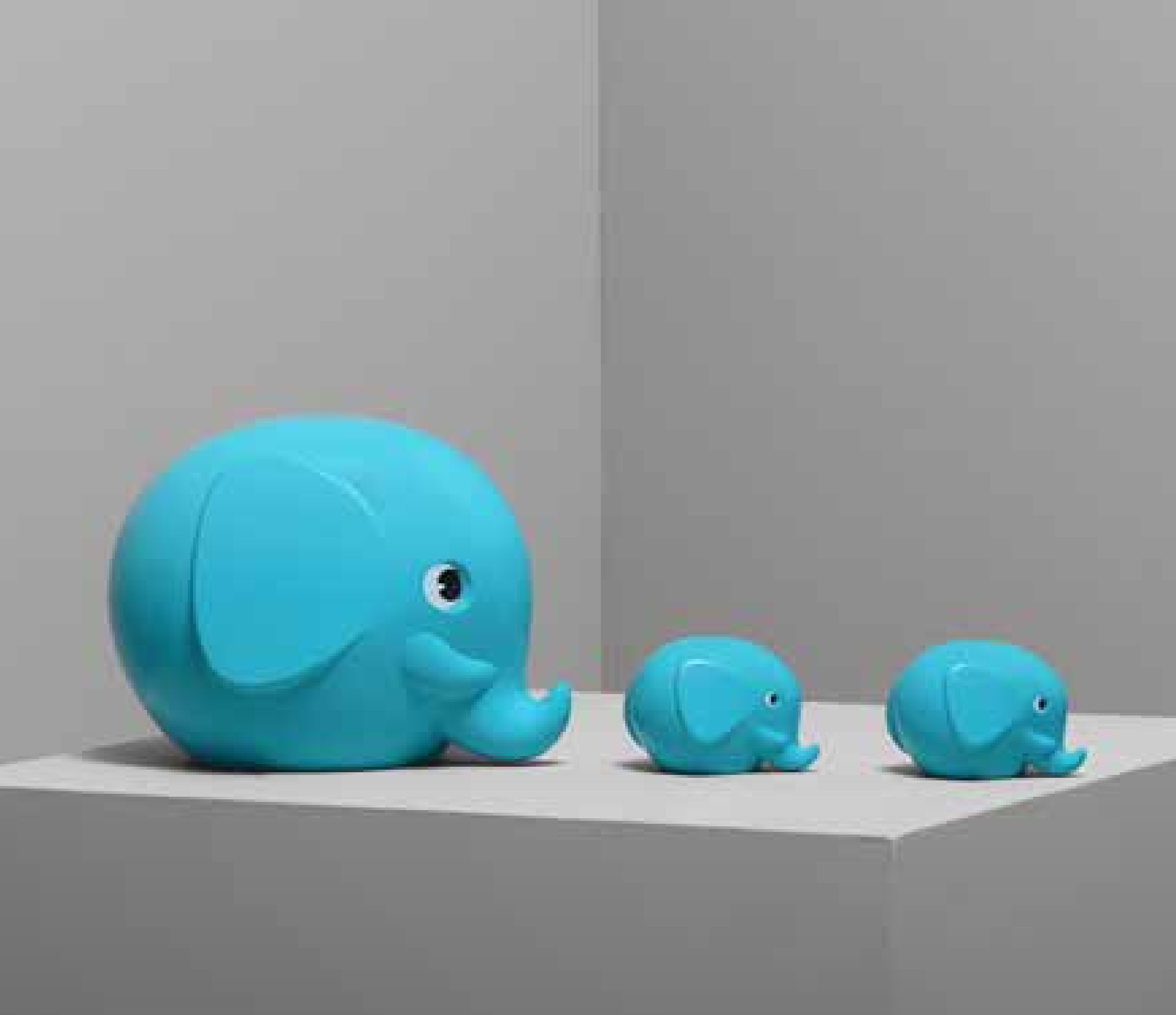
LEVERAGE RATIO

(EUR 1,000)	31.12.2021	31.12.2020
Tier 1 capital	120,112	111,630
Leverage ratio exposure	2,265,694	2,266,774
Leverage ratio	5.3 %	4.9 %

RESOLUTION PLAN

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

In April 2021, the Financial Stability Authority set a minimum requirement for own funds and eligible liabilities (MREL requirement) for the Savings Banks Amalgamation and Sp Mortgage Bank Plc. The requirement will enter into force in full as of 1 January 2022 for the Savings Banks Amalgamation and with transitional provisions as of 1 January 2022 for Sp Mortgage Bank Plc. The MREL requirement is by nature a Pillar II type minimum requirement that must be met continuously. The Financial Stability Authority decided that the MREL requirement applied to the Savings Banks Amalgamation is 19.49 % of the total risk exposure amount or 5.91 % of the total exposures, whichever is higher. As of 1 January 2024, the MREL requirement in full for Sp Mortgage Bank Plc is 15.71 % of the total risk amount or 5.91 % of the total exposures, whichever is higher. In addition to the requirement calculated based on overall risk, the institution specific capital buffer requirement shall be met on an ongoing basis.



PROFIT FOR THE FINANCIAL YEAR

NOTE 6. NET INTEREST INCOME

(EUR 1,000)	1-12/2021	1-12/2020
Interest income		
Loans and advances to customers	21,185	20,688
Debt securities	-36	
Derivative contracts		
Hedging derivatives	9,062	6,097
Other	154	58
Total	30,365	26,843
Interest expense		
Liabilities to credit institutions	-2,384	-1,937
Liabilities to customers	-37	
Derivative contracts		
Hedging derivatives	-162	
Debt securities issued	-2,386	-2,464
Limits	-412	-510
Other	-2	-78
Total	-5,384	-4,989
Net interest income	24,981	21,854

NOTE 7. NET FEE AND COMMISSION INCOME

(EUR 1,000)	1-12/2021	1-12/2020
Fee and commission income		
Lending	805	752
Total	805	752
Fee and commission expense		
Loans*	-21,324	-16,976
Other	-20	-18
Total	-21,344	-16,994
Net fee and commission income	-20,539	-16,242

* Consists mainly of fees paid to the intermediating banks.

NOTE 8. NET TRADING INCOME

(EUR 1,000)	1-12/2021	1-12/2020
Net income from financial assets at fair value through other comprehensive income		
Debt securities		
Capital gains and losses	-72	
Transferred from fair value reserve during the financial year	33	
Total Debt securities	-39	
Net income from hedge accounting		
Change in hedging instruments' fair value	-22,035	8,300
Change in hedged items' fair value	21,229	-5,620
Net trading income	-845	2,680

NOTE 9. INCOME AND EXPENSES FROM FINANCIAL INSTRUMENTS

(EUR 1,000)	1-12/2021	1-12/2020
Interest income on		
Unimpaired amortized cost investments	21,339	20,746
Total interest income arising from financial assets not measured at fair value through profit or loss	21,339	20,746
Finance income	21,339	20,746
Financial liabilities measured at amortized cost - interest expense	-5,384	-4,989
Loan receivables - impairment loss	404	-42
Finance expenses	-4,981	-5,031
Net income and expenses from financial instruments	16,359	15,715

NOTE 10. PERSONNEL EXPENSES

(EUR 1,000)	1-12/2021	1-12/2020
Wages and salaries	-34	-26
Personnel expenses	-34	-26

NOTE 11. OTHER OPERATING EXPENSES

(EUR 1,000)	1-12/2021	1-12/2020
Other administrative expenses		
Office expenses	-927	-888
ICT expenses	-682	-466
Telecommunications	-8	-8
Marketing	-8	-7
Other administrative expenses	-3	
Total	-1,628	-1,369
Other operating expenses		
Other operating expenses*	-371	-266
Total	-371	-266
Other operating expenses total	-2,000	-1,635
***Audit fees**		
Statutory audit	-19	-15
Other services	-26	
Total	-45	-15

NOTE 12. DEPRECIATION OF INTANGIBLE ASSETS

(EUR 1,000)	1-12/2021	1-12/2020
Depreciation of intangible assets		-29
Total depreciation		-29
Depreciation of intangible assets		-29

NOTE 13. IMPAIRMENT LOSS ON FINANCIAL ASSETS

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

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

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

- Stage 2 includes financial assets for which the credit risk has increased significantly after the date of initial recognition. The measurement of the expected credit loss for stage 2 financial assets is based on the probability of a default event being incurred within the remaining life of the financial asset.

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

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

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Financial asset 31 December 2021				
Loans and advances	2,138,884	106,491	1,568	2,246,942
Off-balance sheet items	8,643	7		8,650
Total	2,147,527	106,497	1,568	2,255,592

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Financial asset 31 December 2020				
Loans and advances	2,056,022	89,590	694	2,146,305
Off-balance sheet items	6,025			6,025
Total	2,062,046	89,590	694	2,152,330

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.

- Deterioration of credit rating grade: 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 credit rating grade is deteriorated by 4 or more rating grades.

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

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

- PD% increase (investment assets): credit risk is deemed to have increased significantly and the contract is migrated from stage 1 to stage 2 when its PD increases either by 10 basis points or 2,5 times its original value.

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

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

Expected Credit Losses (ECL), Loans and advances and off-balance sheet	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
(EUR 1,000)	**12 month ECL**	**Lifetime ECL**	**Lifetime ECL**	
Expected Credit Losses 1 January 2021	664	219	10	893
Transfers to stage 1	92	-313	-58	-279
Transfers to stage 2	-138	1,350	-30	1,182
Transfers to stage 3	-2	-4	49	43
New assets originated or purchased	204	8		212
Assets derecognised or repaid	-106	-198	-46	-350
Change in credit risk without stage change	-403	-529	1,310	378
Manual repair, individual level	-126	-279	-1,185	-1,590
Net change in ECL				-404
Expected Credit Losses 31 December 2021	184	255	50	489

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 2020	497	350	4	851
Transfers to stage 1	23	-160		-138
Transfers to stage 2	-12	77	-2	62
Transfers to stage 3				
New assets originated or purchased	164	43	3	210
Assets derecognised or repaid	-72	-59		-131
Amounts written off				
Change in credit risk without stage change	-65	-15		-81
Manual repair, individual level	130	-17	6	119
Net change in ECL				42
Expected Credit Losses 31 December 2020	664	219	10	893

Methods and parameters used in calculation of expected credit losses

The Savings Banks Group's assessment of expected credit loss 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*LGD*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 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 scenarios have been updated in October 2021. The key macroeconomic factors and their forecasted values for the next three years are presented below (the value variation range between different scenarios).

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

Changes in the ECL model and calibration of parameters

At the beginning of the review period, the Savings Banks Group has adopted a definition of default that is compliant with the EBA guidelines and a new credit rating model for retail customers. The PD parameters that are used in calculation of expected credit losses for retail clients are calibrated to the amended credit rating grades based on the new definition of default. The PD parameters for corporate clients are calibrated based on the new definition of default.

The stage 3 criteria for calculation of expected credit losses have been harmonized with the EBA - compliant definition of default adopted at the beginning of the reporting period. Following the amendment the contract will transition to stage 3, if any of the following criteria is met:

- payment delay of more than 90 days for an exposure exceeding the threshold,

- severe external disturbance or

- unlikeliness to pay.

Following the amendment the definition of default applied in calculation of expected credit lossess is aligned with the definition of default used in internal risk management.

The stage 2 criteria for calculation of expected credit losses has been amended due to adoption of a new credit rating model for retail clients. The criteria has been amended by replacing the decrease by 3 credit rates with decrease by 4 credit rates whereas the other stage 2 creiteria remained stable. The Sp Mortgage Bank will calibrate the stage 2 criteria during the 1st quarter of 2022.

Incorporation of forward looking economic information in calculation of expected credit losses for the loan portfolio has been re-modelled. The three scenarios used in the new model are base, pessimistic and optimistic and they are based on macroeconomic forecasts prepared by the Savings Banks Groups' Chief Economist. The key macroeconomic variables in the new model are EuropeStoxx, GDP and investments. The allocated scenarioweights are based on the Savings Banks Groups' Chief Economist's and management's view on the likelihood of the different macroeconomic outcomes.

The effects of amendments on the amount of expected credit losses are presented in the row "ECL model parameter changes" in the flow calculation.

NOTE 14. INCOME TAXES

(EUR 1,000)	1-12/2021	1-12/2020
Current tax	-394	-1,312
Income taxes	-394	-1,312
Total income taxes	-394	-1,312
Reconciliation between tax expense in the income statement and tax expense calculated by the applicable tax rate		
Accounting profit before tax	1,968	6,561
Differences between accounting and taxable profit		
Taxable profit	1,968	6,561
Tax using the domestic corporation tax rate	-394	-1,312
Tax for prior years		
Tax expense as specified above	-394	-1,312
Corporate income tax rate	20 %	20 %

NOTE 15. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(EUR 1,000) 31.12.2021	Amortized costs	Financial assets at fair value through profit or loss	Total
Loans and advances to credit institutions	115,048		115,048
Loans and advances to customers	2,246,459		2,246,459
Derivatives		4,066	4,066
of which fair value hedging		4,066	4,066
Total assets	2,361,507	4,066	2,365,573
Liabilities to credit institutions	701,400		701,400
Debt securities issued	1,544,537		1,544,537
Total liabilities	2,245,937		2,245,937

31.12.2020	Amortized costs	Financial assets at fair value through profit or loss	Total
Loans and advances to credit institutions	85,309		85,309
Loans and advances to customers	2,145,433		2,145,433
Derivatives		20,712	20,712
of which fair value hedging		20,712	
Total assets	2,230,742	20,712	2,251,454
Liabilities to credit institutions	627,830		627,830
Debt securities issued	1,511,782		1,511,782
Total liabilities	2,139,612		2,139,612

NOTE 16. LOANS AND ADVANCES

(EUR 1,000) 31.12.2021	Not impaired (gross)	Expected credit losses (ECL)	Balance sheet value
Loans and advances to credit institutions			
Deposits*	115,048		115,048
Total	115,048		115,048

*of which Deposits to Credit Institutions belonging to the Savings Banks Amalgamation EUR 115,046 thousand.

Loans and advances to customers			
Loans	2,246,942	-483	2,246,459
Total	2,246,942	-483	2,246,459
Loans and advances total	2,361,990	-483	2,361,507

(EUR 1,000) 31.12.2020	Not impaired (gross)	Expected credit losses (ECL)	Balance sheet value
Loans and advances to credit institutions			
Deposits*	85,309		85,309
Total	85,309		85,309

*of which Deposits to Credit Institutions belonging to the Savings Banks Amalgamation EUR 85,309 thousand.

Loans and advances to customers			
Loans	2,146,305	-872	2,145,433
Total	2,146,305	-872	2,145,433
Loans and advances total	2,231,614	-872	2,230,742

NOTE 17. DERIVATIVES AND HEDGE ACCOUNTING

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

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

(EUR 1,000)	Nominal value / remaining maturity				Fair value	
31.12.2021	**Less than 1 year**	**1 - 5 years**	**Over 5 years**	**Total**	**Assets**	**Liabilities**
Hedging derivative contracts						
Fair value hedging	500,000	500,000	500,000	1,500,000	4,066	-5,362
Interest rate derivatives	500,000	500,000	500,000	1,500,000	4,066	-5,362
Total	500,000	500,000	500,000	1,500,000	4,066	-5,362
Derivatives total						-1,296

(EUR 1,000)	Nominal value / remaining maturity				Fair value	
31.12.2020	**Less than 1 year**	**1 - 5 years**	**Over 5 years**	**Total**	**Assets**	**Liabilities**
Hedging derivative contracts						
Fair value hedging	500,000	500,000	500,000	1,500,000	20,712	
Interest rate derivatives	500,000	500,000	500,000	1,500,000	20,712	
Total	500,000	500,000	500,000	1,500,000	20,712	
Derivatives total					20,712	

The nominal value of the issued fixed rate covered bonds hedged for fair value changes was EUR 1,500,000,000 and carrying amount EUR 1,500,137,175 on the balance sheet date. The nominal values of derivative instruments are equal to the nominal values of the hedged items.

NOTE 18. INTANGIBLE ASSETS

(EUR 1,000)	31.12.2021	31.12.2020
Intangible assets under development	260	
Total	260	0

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

2021
(EUR 1,000)

Changes in intangible assets	Intagible assets	Intagible assets under development	Total
Acquisition cost 1 January		260	260
Transfers between items			
Acquisition cost 31 December		260	260
Accumulated depreciation and impairments 1 January			
Depreciation for the financial year			
Accumulated depreciation and impairments 31 December			
Carrying amount 31 December		260	260

2020
(EUR 1,000)

Changes in intangible assets	Intagible assets	Intagible assets under development	Total
Acquisition cost 1 January	752		752
Transfers between items			
Acquisition cost 31 December	752		752
Accumulated depreciation and impairments 1 January	-723		-723
Depreciation for the financial year	-29		-29
Accumulated depreciation and impairments 31 December	-752		-752
Carrying amount 31 December	0		0

NOTE 19. OTHER ASSETS

(EUR 1,000)	31.12.2021	31.12.2020
Accrued income and prepaid expenses		
Interest	4,360	3,367
Other accrued income and prepaid expenses	4,951	673
Other assets total	9,310	4,040

NOTE 20. LIABILITIES TO CREDIT INSTITUTIONS

(EUR 1,000)	31.12.2021	31.12.2020
Liabilities to credit institutions		
Other than those repayable on demand*	701,400	627,830
Total liabilities to credit institutions	701,400	627,830

*of which Liabilities to Credit Institutions belonging to the Savings Banks Amalgamation EUR 699,200 (608,500) thousand.

NOTE 21. DEBT SECURITIES ISSUED

	31.12.2021		31.12.2020	
(EUR 1,000)	Nominal value	Carrying amount	Nominal value	Carrying amount
Measured at amortised cost				
Other Securities	50,000	50,000		
Covered bonds	1,500,000	1,500,137	1,500,000	1,496,153
Fair value hedging on covered bonds		-5,600		15,629
Total debt securities issued	1,550,000	1,544,537	1,500,000	1,511,782

SP MORTGAGE BANK PLC'S COVERED BONDS ISSUED

(EUR 1,000)	Nominal value	Carrying amount	Maturity	Interest base	Coupon	Maturity date
Sp Mortgage Bank 2017	500,000	499,200	5 years	Fixed	0.125 %	24.10.2022
Sp Mortgage Bank 2019	500,000	498,131	7 years	Fixed	0.050 %	19.6.2026
Sp Mortgage Bank 2021	500,000	502,806	7 years	Fixed	0.010 %	28.9.2028
Total	1,500,000	1,500,137				

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

NOTE 22. PROVISIONS AND OTHER LIABILITIES

(EUR 1,000)	31.12.2021	31.12.2020
Provisions and other liabilities		
Payment transfer liabilities	564	179
Expected credit losses (ECL), off-balance sheet items	6	21
Total other liabilities	570	200
Accrued expenses		
Interest payable	1,025	1,366
Interest advances received	4	4
Other accrued expenses	1,863	2,667
Total accured expenses	2,891	4,036
Total provisions and other liabilities	3,461	4,236

NOTE 23. CAPITAL AND RESERVES

(EUR 1,000)	31.12.2021	31.12.2020
Share capital	72,051	67,273
Reserves		
Reserve for invested non-restricted equity	35,972	33,586
Retained earnings		
Profit (loss) for previous financial years	10,787	5,538
Profit (loss) for the period	1,574	5,249
Total capital and reserves	120,384	111,646

Share capital

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

Reserve for invested non-restricted equity

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

Retained earnings

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

NOTE 24. COLLATERALS

(EUR 1,000)	31.12.2021	31.12.2020
Collateral given		
Given on behalf of Group's own liabilities and commitments		
Loans	2,198,310	2,059,487
Total colateral given	2,198,310	2,059,487
Collateral received		
Real estate collateral	2,246,484	2,146,126
Other	2,618	19,509
Total collateral received	2,249,102	2,165,635

NOTE 25. OFF BALANCE-SHEET COMMITMENTS

(EUR 1,000)	31.12.2021	31.12.2020
Loan commitments	10,187	7,668
Money Market Deposits*	90,500	20,000
Total off balance-sheet commitments	100,687	27,668

* Consists of loan agreements with Central Bank of Savings Banks Finland Plc, where the trade date is after the end of the reporting period.

NOTE 26. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

31.12.2021				Amounts which are not offset but are subject to enforceable master netting arrangements or similar agreements				
(EUR 1,000)	Recognised financial assets, gross	Recognised financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	"Carrying amount of Financial instruments in balance sheet, net"	"Carrying amount in balance sheet of financial instruments recieved as collateral"	Balance sheet value	Cash held as collateral	Net amount
Assets								
Derivative contracts				4,066		4,066	2,200	1,866
Total				4,066		4,066	2,200	1,866
Liabilities								
Derivative contracts				5,362		5,362		5,362
Total				5,362		5,362		5,362

31.12.2020				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	"Carrying amount of Financial instruments in balance sheet, net"	"Carrying amount in balance sheet of financial instruments recieved as collateral"	Balance sheet value	Cash held as collateral	Net amount
Assets								
Derivative contracts				20,712		20,712	19,330	1,382
Total				20,712		20,712	19,330	1,382
Liabilities								
Derivative contracts								
Total								

NOTE 27. FAIR VALUES BY VALUATION TECHNIQUE

Fair value measurement

Financial instruments are presented in the Sp Mortgage Bank's balance sheet at amortised cost and at fair value in derivatives. The classification of financial assets and liabilities by valuation technique as well as the criteria for measurement methods and for determining fair value are described in the accounting policies of the financial statement (Note 2).

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

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

Fair value hierarchy

Level 1 consists of financial assets, for which the value is determined based on quotes on a liquid market. Market is considered liquid if the prices are available easily and regularly enough. Level 1 includes securities which are quoted on public.

Level 2 includes financial assets for which there is no quotation directly available on an active market and whose fair value is estimated using valuation techniques or models. These are based on assumptions which are supported by verifiable market information such as the listed interest rates or prices of similar instruments. This group includes e.g. loans to customers as well as commercial papers and certificates of deposit.

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

Transfers between levels

Transfers between the levels of the fair value hierarchy are considered to take place on the date when an event causes such a transfer or when circumstances change.

In the financial reporting period January to December 2021, there were no transfers between levels 2 and 3.

Financial assets 31.12.2021	Carrying amount	Fair value by hierarchy level			Fair value
(EUR 1,000)		Level 1	Level 2	Level 3	total
Measured at fair value					
Derivatives	4,066		4,066		4,066
Measured at amortised cost					
Loans and advances	2,361,507		2,610,580		2,610,580
Total financial assets	2,365,573		2,614,646		2,614,646

Financial liabilities 31.12.2021	Carrying amount	Fair value by hierarchy level			Fair value
(EUR 1,000)		Level 1	Level 2	Level 3	total
Measured at fair value					
Derivative contracts	5,362		5,362		5,362
Measured at amortised cost					
Liabilities to credit institutions	701,400		710,720		710,720
Debt securities issued*	1,544,537	1,505,525	55,699		1,561,224
Total financial liabilities	2,251,299	1,505,525	771,781		2,277,306

* Carrying amount includes the adjustment from the hedging EUR -5.6 million.

Financial assets 31.12.2020	Carrying amount	Fair value by hierarchy level			Fair value
(EUR 1,000)		Level 1	Level 2	Level 3	total
Measured at fair value					
Derivatives	20,712		20,712		20,712
Measured at amortised cost					
Loans and advances	2,230,742		2,486,172		2,486,172
Total financial assets	2,251,454		2,506,884	0	2,506,884

Financial liabilities 31.12.2020	Carrying amount	Fair value by hierarchy level			Fair value
(EUR 1,000)		Level 1	Level 2	Level 3	total
Measured at amortised cost					
Liabilities to credit institutions	627,830		641,301		641,301
Debt securities issued*	1,511,782	1,518,100			1,518,100
Total financial liabilities	2,139,612	1,518,100	641,301		2,159,401

* Carrying amount includes the adjustment from the hedging EUR 15.6 million.

NOTE 28. RELATED PARTIES

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

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

Key management personnel compensation	**2021**	**2020**
(EUR 1,000)		
Short-term employee benefits	34	26
Total	34	26

Key personnel compensation*

2021	**Salary and remuneration**
Mangs Monika	9
Niuro Jouni	6
Siviranta Petri	5
Toivonen Anne	7
Öhman Ossi	6
Hakala Jussi	1
Syvänen Hannu	2
Total	34

2020	**Salary and remuneration**
Ahonen Pirkko	1
Hakala Jussi	5
Syvänen Hannu	8
Siviranta Petri	1
Mangs Monika	6
Toivonen Anne	6
Total	26

NOTE 29. SUBSEQUENT EVENTS

The Savings Banks Group and Cognizant announced on 1 February 2022 that they will terminate their agreement related to the core banking system renewal signed in 2019. Cognizant will pay compensation to the Savings Banks Group for the termination of the agreement. The termination of the agreement will have a positive impact on the Savings Banks Group's operating profit for 2022 but it will not have any impact on the Central Bank of Savings Banks' operating profit for 2022.

The Savings Banks Group is determined to continue the development of the core banking system. The termination of the agreement does not affect the services of the Savings Banks Group's customers.

NOTE 30. PILLAR III DISCLOSURES

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

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

Auditor's Report

To the Annual General Meeting of Sp Mortgage Bank Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sp Mortgage Bank Plc (business identity code 2685273-8) for the year ended 31 December, 2021. The financial statements comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies.

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

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

Basis for Opinion

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

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

In our best knowledge and understanding, the non-audit services that we have provided to the company in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 11 to the financial statements.

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

Materiality

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

Key Audit Matters

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

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

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT

Valuation of receivables (loans and receivables from customers); Notes to financial statements 2, 3, 4 and 13

- Calculation of expected credit losses in accordance with IFRS 9 Financial Instruments is based on the valuation models used by the company. The calculation of expected credit losses involves assumptions, estimates and management judgements for example in respect to the probability of the expected credit losses, the realizable value of the collateral as well as determining significant increases in credit risk.
- The components of the calculation of expected credit losses are continuously updated and specified based on realized development of credit losses, validation and development of the calculation process as well as regulatory changes and requirements.
- Due to the significance of the carrying amount involved, complexity of the accounting methods and management judgement involved, receivables from customers are addressed as a key audit matter.

- We assessed principles and controls over recognition and monitoring of loan receivables. Our audit procedures included testing of controls regarding determination and recording of expected credit losses on loans.
- We have obtained an understanding of the control environment of the calculation of expected credit losses using centralized audit procedures.
- Furthermore, we assessed the appropriateness of the note disclosures made in relation to receivables and impairment losses.

Valuation of derivative instruments; Notes to financial statements 2, 8 and 17

- Sp Mortgage Bank hedges its interest rate risk from changes in fair value and applies hedge accounting to hedging relationships.
- At year-end the nominal value of derivatives is significant, amounting to € 1,5 billion. As derivatives are measured at fair value in preparing financial statements, this may result in significant volatility in the income statement.

- We assessed the appropriateness of the measurement principles applied and the compliance with the applicable financial reporting standards.
- We also considered the accuracy of the fair values determined.
- Furthermore, we assessed the appropriateness of the note disclosures made in relation to derivatives.

— Fair values for the derivatives used by the company are not directly observable in an active market, instead the company determines fair values using applicable fair value models.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on 16 of April 2015, and our appointment represents a total period of uninterrupted engagement of 7 years.

Other Information

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

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

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

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

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

Helsinki, 4 February 2022

KPMG OY AB

MIKKO KYLLIÄINEN
Authorised Public Accountant, KHT

Sp Mortgage Bank Plc

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