# CAPITAL AND RISK MANAGEMENT REPORT

# 2019

S-Bank

# SUMMARY OF RISK MANAGEMENT IN 2019

During 2019, S-Bank focused on improving the overall profitability. S-Bank's operating profit for the year ended 31 Dec 2019 amounted to EUR 29 million as compared to 17,1 million last year. The increase is primarily driven by growth in business volumes, several measures introduced to increase income and improved operational efficiency.

S-Bank's capital position has remained stable throughout the year. At the end of the period, the capital ratio of S-Bank was 16,3%. S-Bank's capital position remained above the regulatory requirement of 13,82% and the internal minimum target level of 15,3%.

In line with the strategy, total REA grew by EUR 204,4 million, mainly due to the increase in household customers' lending portfolio. In terms of sales, housing loans performed especially well and exceeded the overall market by a higher margin. This shows that S-Bank is preferred over other banks by an increasing number of Finnish people.

Expected credit losses (ECL) amounted to EUR 17,1 million (14,5 million). The amount of ECL has grown steadily during the review period in rather equal proportion with the increase in credit risk exposure. ECLs are within the risk appetite limits set in the credit risk strategy by the S-Bank Board of Directors.

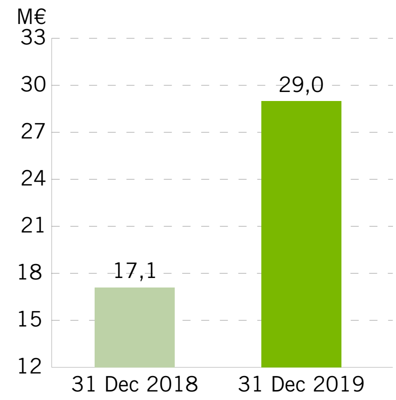
S-Bank's liquidity position was robust at the year-end.

In March 2019, S-Bank reformed the bank's organisation to further concentrate its operations around two business units, Banking and Wealth Management. As a result, the employment contracts of 54 employees were or will be terminated during 2020. FIM Asset Management Ltd also closed its Swedish branch at the end of June.

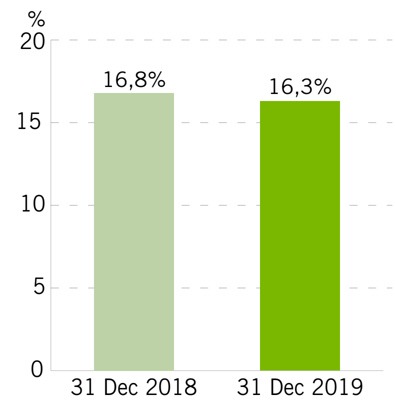
At the end of June, the Finnish Financial Stability Authority issued its decisions on the Minimum Requirement for own funds and Eligible Liabilities (MREL) applicable to the S-Bank Group. The requirement is 9,9 % of the total liabilities and own funds (TLOF). The requirement must be met on a gradual basis by 30 June 2022. Necessary measures are taken to cover set stipulations.

In December 2019, the Finnish Financial Supervisory Authority (FIN-FSA) imposed a penalty payment of EUR 980 000 on S-Bank Ltd. It issued a public warning to FIM Asset Management Ltd for omissions in cus-tomer due diligence. The FSAs decision addresses process deficiencies in customer due diligence during the year 2014-2017. S-Bank is not suspected of money laundering. S-Bank Ltd and FIM Asset Management Ltd have made continuous improvements to comply with the tightened anti-money laundering requirements by developing the existing customer due diligence processes of both companies as well as to comply with the regulatory requirements of the Anti-Money Laundering Directives.

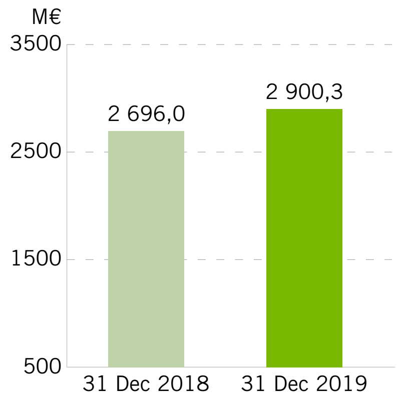
**Operating profit (EUR m)**



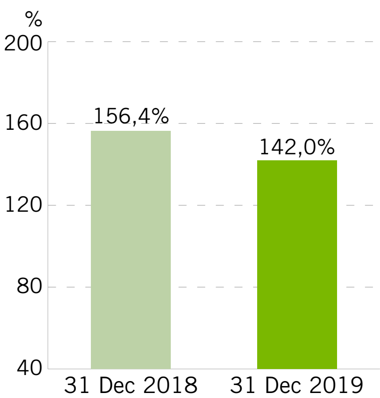

**Total capital ratio (%)**



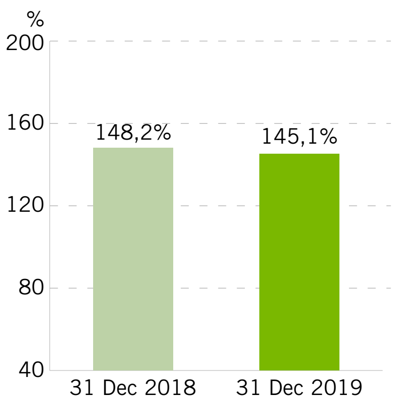

**Tota REA (EUR m)**



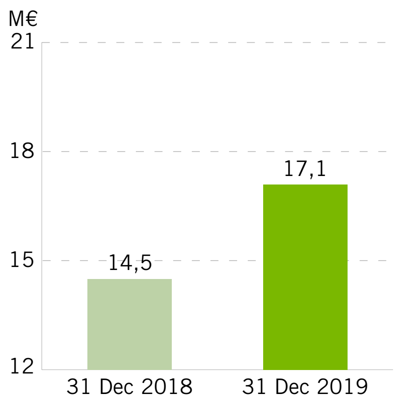

**LCR (%)**




**NSFR ratio (%)**




**ECL (EUR m)**



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# 1 SUMMARY OF THE RISK PROFILE

This report presents comprehensive information on risks, risk management and capital adequacy required by applicable regulation. This chapter provides a summary of the risk profile and risk management arrangements of S-Bank Group (hereinafter “S-Bank”).

S-Bank produces financial and asset management services to household and corporate customers. S-Bank’s strategy seeks strong growth in the coming years, focusing primaliry on services to household customers and the asset management business. The risk management framework, which determines S-Bank’s risk capacity, risk appetite, risk objectives and organisation of risk management, are designed to support S-Bank’s business model and growth strategy. Risk management framework ensures that all risks are identified, analysed, monitored, managed and reported.

- **Risk capacity** sets the maximum level for risk-taking in the short and long term. Securing sufficient capital adequacy, liquidity and ensuring compliance with regulation are key factors of the risk capacity.
- **Risk appetite** reflects the approved amount and type of exposures that S-Bank is willing to take in its business operations over a certain period while pursuing its set objectives. It also defines e.g. the internal target levels for capital adequacy and liquidity. The risk limit structure sets numerical goals, acceptable risk limits, restrictions and decision-making levels to support the implementation of the risk management framework.

According to the regulatory Pillar 1 capital requirements, S-Bank’s most significant risk types are credit and operational risk. In addition to these regulatory capital requirements, S-Bank calculates an internal Pillar 2 capital requirement for all relevant risks to ensure a comprehensive evaluation of the risk profile. The most significant risks potentially affecting S-Bank’s profitability, capital adequacy and liquidity include unfavourable development of business volumes, the margins in lending and borrowing, the general interest rate level, economic development, credit losses and cost-efficiency of operations.

Table 1 summarizes the key risk ratios at the consolidated Group level by the end of the reporting period.

**Table 1: Key risk ratios (at consolidated Group level)**

| EUR million | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| **Risk weighted assets (amounts)** | | |
| Total risk-weighted assets | 2 900,3 | 2 696,0 |
| Credit and counterparty risk, standardised approach | 2 610,1 | 2 419,7 |
| Market risk | 0,0 | 0,0 |
| Operational risk, basic indicator approach | 290,1 | 273,1 |
| Credit valuation adjustment, CVA | 0,1 | 3,1 |
| **Own funds (amounts)** | | |
| Common Equity Tier 1 (CET1) capital | 422,2 | 401,8 |
| Tier 2 (T2) capital | 50,0 | 50,0 |
| Total capital | 472,2 | 451,8 |
| Pillar 1 minimum capital requirement (8,0 %) | 232,0 | 215,7 |
| Pillar 1 total capital requirement (13,82 % in 2019 and 12,79 % in 2018) | 400,8 | 344,8 |
| **Capital ratios (as a percentage of total risk exposure amount)** | | |
| Common Equity Tier 1 (CET1) ratio | 14,6 % | 14,9 % |
| Total capital ratio | 16,3 % | 16,8 % |
| **Non-Performing Loans (NPL)** | | |
| NPL ratio | 0,6 % | 0,5 % |
| **Leverage ratio (CRR)** | | |
| Leverage ratio (%) | 6,2 % | 6,0 % |
| **Liquidity Coverage Ratio (LCR)** | | |
| Liquidity Coverage Ratio (%) | 142,0 % | 156,4 % |
| **Net stable funding ratio (NSFR)** | | |
| NSFR ratio (%) | 145,1 % | 148,2 % |

Credit risk constitutes 90 % (2,6 EUR billion) of S-Bank's total risk exposure amounts (REA's). The most substantial items requiring capital include mortgages secured by on immovable property, retail and corporate exposures. The lending growth was strong especially in housing loans to household customers. Indicators of non-performing loans remained at a low level. S-Bank sustains a low credit risk profile in line with the conservative risk appetite, supported by active risk management and monitoring measures.

S-Bank does not have a trading book. As S-Bank's market risks arise from the banking book, these are – in accordance with the Pillar 1 requirement and methods – included in the regulatory capital requirements for credit risk. In addition, market risk is measured with an internal market risk model as part of the Pillar 2 and ICAAP processes (Internal Capital Adequacy Assessment Process).

Operational risk constitutes 10 % of S-Bank's total REA's. Losses attributable to operational risks realised in 2019 were very low in comparison to the regulatory capital requirement for operational risk. S-Bank's operational risk profile is materially impacted by system failures and disruptions, fraud and possible deficiencies in services provided by external service providers. Losses related to compliance risks are included in the S-Bank's operational risk. In 2019, there was one significant compliance risk loss due to a penalty payment of EUR 980 000 imposed on S-Bank Ltd by FIN-FSA due to its breaches of the former Act on Detecting and Preventing Money Laundering and Terrorist Financing in relation to risk-based approach and customer due diligence processes. S-Bank had voluntarily corrected its processes before the FIN-FSA inspection and is continuously developing its knowledge on 3,1 million customers.

S-Bank's capital position has remained stable. It has been above the regulatory requirements and the internal minimum target level of 15,3 %. S-Bank's total capital adequacy ratio was 16,3 % as of 31 December 2019. Total REA increased by EUR 204,4 million to EUR 2,9 billion, mainly due to strategic growth in lending to household customers.

S-Bank is also adequately capitalised to ensure continuity of its operations even under stressed conditions. The capital buffer in relation to the total regulatory Pillar 1 capital requirement (13,82 %) was EUR 71,4 million.

S-Bank's leverage ratio of 6,2 % is strong, while the minimum regulatory requirement is set at 3 %. The liquidity position was robust at the year-end.

# 2 DISCLOSURE OF PILLAR 3 INFORMATION

Part Eight of the EU Capital Requirements Regulation (CRR, 575/2013) sets out the requirements on disclosure of information (Pillar 3) concerning institutions' risks, risk management and capital adequacy. S-Bank complies with these disclosure requirements and publishes this report on S-Bank's website in conjunction with the financial statements once a year. Section 14 presents the disclosure index demonstrating where the information required by CRR Articles 435-451 can be found.

Risk management, capital adequacy and other risk related information are also described and disclosed as a part of the Board of Directors' Report and the financial statements. In its interim reports, S-Bank discloses risk management and capital adequacy information that is to be published more frequently than once a year in line with regulatory stipulations. Other information required by the Pillar 3 requirements, such as corporate governance statement and report on remuneration systems are available on S-Bank's website.

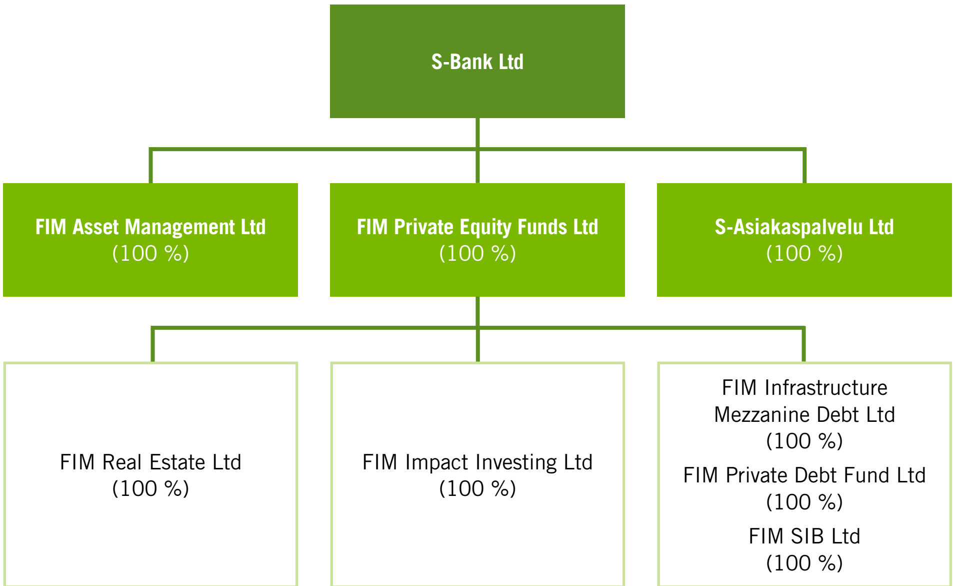
This report has not been externally audited. However, information disclosed in this report is subject to the internal review and internal control processes as defined in the S-Bank's disclosure policy. Material in this report applies to S-Bank's consolidated figures as of 31 December 2019 if not otherwise stated.

S-Bank adopted the International Financial Reporting Standards (IFRS) as of 1 January 2019 in its consolidated financial reporting. Hence, the data in the annual report and the financial statements for current and previous reporting period is presented in accordance with the IFRS standards. In this Capital and Risk Management Report (CAR), data for the current period is published in accordance with the IFRS and the reference data as of 31 December 2018 are presented in accordance with the Finnish Accounting Stand-ards (FAS). FAS figures are used due to the fact that they were used in the previous report. Hence, there may be some insignificant differences concerning data for the previous reporting period between the CAR-report and the annual report.

# 3 DESCRIPTION OF S-BANK GROUP

The S-Bank Group includes the parent company S-Bank Ltd and all its subsidiaries. Figure 1 depicts the legal structure of the S-Bank Group. The owners of S-Bank are SOK Group, the regional co-operatives belonging to S-Group, LocalTapiola General Mutual Insurance Company, LocalTapiola Life, the regional LocalTapiola insurance companies and Elo Mutual Pension Insurance Company.

**Figure 1: Legal structure of S-Bank Group**




**S-Bank Ltd** is the parent company of S-Bank Group. S-Bank is a Finnish full-service bank with a mission to make customers' daily life easier. This is achieved by offering 3,1 million customers convenient and useful solutions in daily banking, savings, investments and the financing of purchases. S-Bank concentrates on providing services to the Finnish household market and selected large companies, with an emphasis on geographical growth areas in Finland. The funds and asset management services offered by S-Bank Group are managed by FIM Asset Management Ltd.

**FIM Asset Management Ltd** manages the FIM and LocalTapiola funds and provides services related to asset management to the entire S-Bank Group. S-Bank owns 100 % of FIM Asset Management Ltd's share capital.

**FIM Private Equity Funds Ltd** is an alternative fund manager, managing real estate and other private equity funds. S-Bank owns 100 % of FIM Private Equity Funds Ltd's share capital.

**S-Asiakaspalvelu Ltd** is a 100 % owned subsidiary of S-Bank Ltd. S-Asiakaspalvelu provides data processing and other services related to a credit institution's core operations as a service company in accordance with the Finnish Act on Credit Institutions (610/2014).

**FIM Real Estate Ltd** is the general partner in S-Bank Group's real estate funds. In December, FIM Private Equity Funds Ltd acquired the remaining shares of FIM Real Estate Ltd and now owns 100 % (80 % previously) of the company.

**FIM Impact Investing Ltd** (formerly Epiqus Ltd) was acquired in January 2019. The company provides impact investment services and acts as a management company as well as a general partner for two impact investment funds. FIM Private Equity Funds owns 100% of FIM Impact Investments Ltd.

**FIM Infrastructure Mezzanine Debt Ltd, FIM Private Debt Fund Ltd and FIM SIB Ltd** are part of the S-Bank Group as well. These companies serve as general partners in funds managed by FIM Private Equity Funds Ltd. These companies do not have any other business operations and they are 100 % owned by FIM Private Equity Funds Ltd.

Table 2 provides information on the consolidation method applied to each entity within the accounting and the regulatory (CRR) scope of consolidation. There are no other significant differences in the consolidation principles that influence the preparation of the financial statements or the capital adequacy requirements.

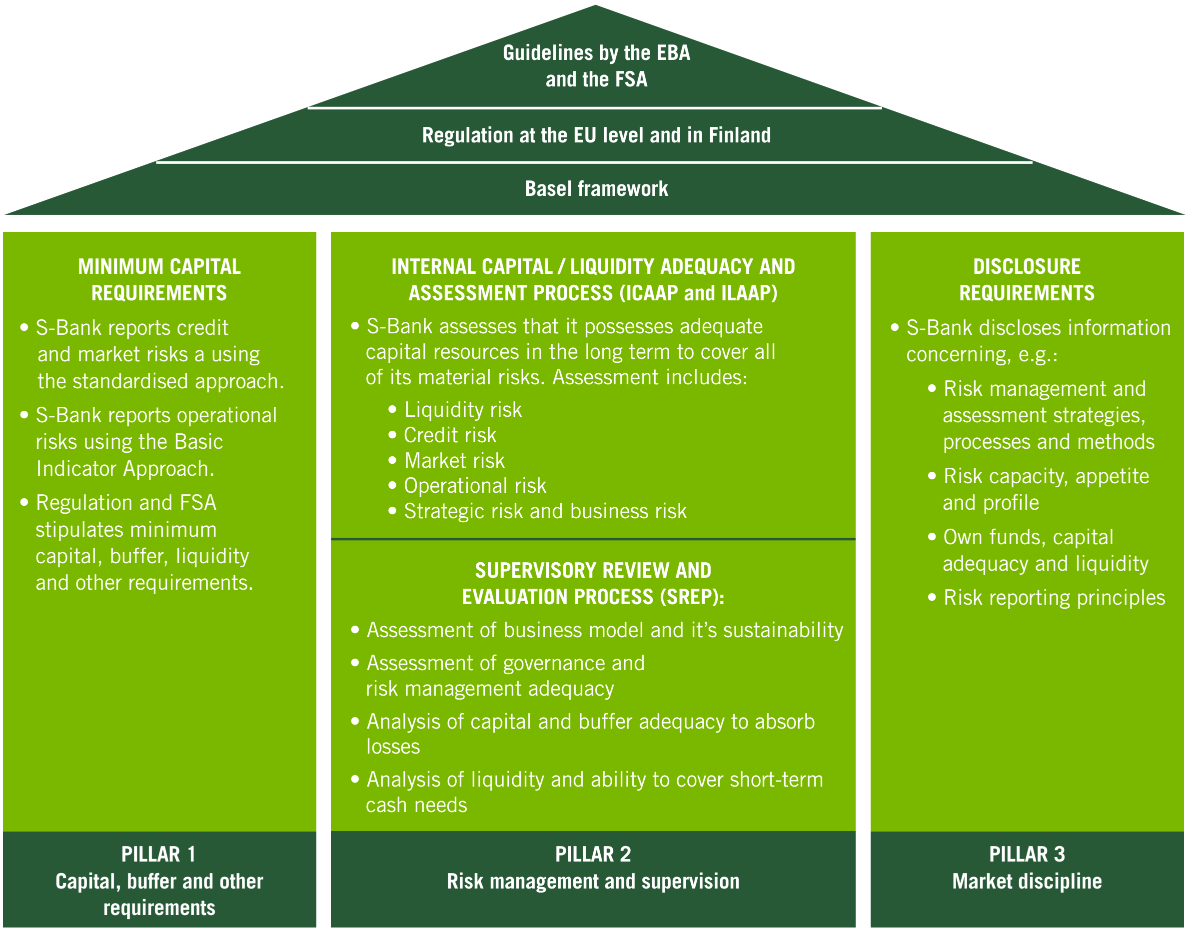
**Table 2: Outline of the differences in the scopes of consolidation (EU LI3)**

| Owner | Company | Voting power of holding (%) | Industry | Method of accounting consolidation | Method of regulatory consolidation in accordance with CRR |
|---|---|---|---|---|---|
| **S-Bank Ltd** | FIM Private Equity Funds Ltd | 100 % | Asset management | purchase method | full consolidation |
| | FIM Asset Management Ltd | 100 % | Asset management | purchase method | full consolidation |
| | S-Asiakaspalvelu Ltd | 100 % | Service entity | purchase method | full consolidation |
| | S-Crosskey Ltd | 40 % | IT-service entity | equity method | recognised under the equity method |
| **FIM Private Equity Funds Ltd** | FIM Impact Investments Ltd | 100 % | Asset management | purchase method | full consolidation |
| | FIM Infrastructure Mezzanine Debt Ltd | 100 % | Asset management | purchase method | full consolidation |
| | FIM Private Debt Fund Ltd | 100 % | Asset management | purchase method | full consolidation |
| | FIM SIB Ltd | 100 % | Asset management | purchase method | full consolidation |
| | FIM Real Estate Ltd | 100 % | Real estate activities | purchase method | full consolidation |
| **FIM Real Estate Ltd** | Asian Pro Oy | 40 % | Asset management | equity method | recognised under the equity method |

# 4 RISK MANAGEMENT AND REGULATION

The Basel international regulatory framework for banks comprises of three interlinked entities, or Pillars, condensed in Figure 2. In addition, the Basel framework is implemented through EU-level directives, regulations, standards, guidelines and national legislation. The framework is likewise specified by regulations and guidelines issued by various authorities e.g. the European Banking Authority (EBA) and the local FIN-FSA.

**Figure 2: Basel international regulatory framework**




## 4.1 KEY RISK MANAGEMENT FRAMEWORK MEASURES AND DEVELOPMENT DURING 2019

During 2019, the main tasks of risk management included monitoring and implementing the regulatory changes and overseeing compliance with the risk appetite limits set by the Board of Directors as well as other internal guidelines supporting S-Bank's risk management. Regular monitoring involved, for example, development of credit risk exposure, adequacy of liquidity and funding, performance of risk modelling and management methods, processes related to Know Your Customer (KYC), compliance with the regulatory requirements (e.g. Markets in Financial Instruments Directive II and Market Abuse Regulation), continuous operative Anti Money Laundering (AML) monitoring, as well as new operating models, distribution channels, IT systems and products.
In 2019, S-Bank developed automation related to credit processes in order to enhance process efficiency, improve customer experience and to systematize credit risk control processes. These changes will also enable the loan portfolio to grow more strongly in the future.

S-Bank elaborated and strengthened the three lines of defence in risk management. As a consequence, Petri Viertiö, M.Sc. (Tech), started as S-Bank's Chief Risk Officer in August. He also joined the S-Bank Group Management Team.

Key risk management framework development procedures related to regulatory changes are presented subsequently.

### IFRS

S-Bank has adopted the IFRS standards as of 1 January 2019 in its consolidated reporting. The implementation has affected S-Bank's financial reporting. These changes and subsequent decisions have affected S-Bank's processes, income and capital ratios. The effects of the IFRS transition are described in the annual report (Note 1 to the consolidated financial statements: Accounting policies used in the preparation of the consolidated financial statements).

### OTC CLEARING

In 2019, S-Bank transferred to the clearing of over-the-counter (OTC) derivative contracts through central counterparty, pursuant to the European Market Structure Regulation (EMIR). This arrangement aims at reducing risks related to individual counterparties.

### NON-PERFORMING EXPOSURES

European Parliament and Council announced in April 2019 a provisioning backstop for non-performing exposures (NPEs). Regulation 360/2019 amends the Capital Requirements Directive (CRR, 575/2013) by setting a binding minimum loss coverage level that banks must hold to cover losses caused by these exposures. Applicable coverage requirements vary depending on whether the NPEs are secured or unsecured, and whether the collateral is movable or immovable. The regulation applies to exposures initiated on or after the 26th of April 2019. These requirements affected monitoring process related to non-performing exposures by creating a parallel calculation procedure alongside with IFRS 9. The estimated impact of this regulation on S-Bank's own funds requirements is marginal.

The EBA also published Guidelines concerning management of non-performing and forborne exposures that came into effect on 30th of June 2019. S-Bank has strived to develop and implement the applicable parts of the regulation into credit processes during the reporting period.

### UPDATED NON-PERFORMING AND FORBORNE EXPOSURES DISCLOSURE REQUIREMENTS

The EBA published in December 2018 guidelines on disclosure of non-performing and forborne exposures. Pertinent parts of these guidelines are implemented in this report (Credit quality and non-performing loans).

### MINIMUM REQUIREMENT FOR OWN FUNDS AND ELIGIBLE LIABILITIES (MREL)

The Finnish Financial Stability Authority is responsible for resolution planning and decision-making in relation to the restructuring of local institutions that are facing financial difficulties. The Authority decided in June 2019 to set a minimum requirement for own funds and eligible liabilities (MREL) for S-Bank at the Group level. MREL requirement consists of the amount needed to cover losses and to recapitalise the institution. The firm specific MREL requirement should be met by own funds and MREL eligible liabilities.

The requirement is set at 9,9 % of total liabilities and own funds (TLOF) and it must be met gradually so that the requirement is completely fulfilled entirely by 30th of June 2022. The requirement represents approximately 22% of the total risk exposure amounts (REA). The requirement is valid for a maximum period of two years from the date of application, unless the Financial Stability Board reviews the decision beforehand. Necessary measures are being taken to fulfil the above requirements set stipulations.

### REPORTING ENQUIRIES BY AUTHORITIES

During the financial period, S-Bank has regularly participated in numerous data enquiries by various authorities. Mainly these queries are stipulated by the FIN-FSA and the Finnish Financial Stability Authority. The purpose of this data accumulation is to map S-Bank's risk position and risk management capabilities as well as to gather information to prepare for upcoming regulatory initiatives.

### OPERATIONAL RISK

During the year 2019, S-Bank further developed its existing new product approval processes. All new products and services are approved in accordance with the process to ensure that potential operational risks have been properly identified and managed prior to launching a new product or service.

All business units are required to regularly complete risk and control self-assessments to identify and mitigate the operational risks related to their processes. During the financial period new risk-based internal controls were developed and implemented. The development of internal controls is continuous and based on risk assessments as well as compliance and audit findings.

### COMPLIANCE RISK

Development of AML and KYC processes is an ongoing part of S-Bank's operational business and management of compliance risk. In 2019 organizational changes related to these processes were made to emphasize the responsibilities of different AML and KYC process stakeholders in accordance with the three lines of defense model.

As a part of the key compliance risk development measures in 2019 a renewed whistleblowing IT system that allows submitting completely anonymous notices was introduced and the previous whistleblowing process and guidelines were updated accordingly.

Regulatory changes affecting S-Bank's capital requirements are discussed further in chapter 7.4.

## 4.2 FORTHCOMING REGULATORY DEVELOPMENT

This section summarizes essential regulatory development concerning S-Bank. S-Bank monitors these changes and strives to anticipate their impact on its operations and to develop its processes to comply with regulation.

### BASEL III FRAMEWORK REFORMATION

In 2017 the Basel Committee's introduced reforms to complement the initial phase of the Basel III. The revised standards are implemented from 1st of January 2022, with some reforms phased over five years. The EBA has published detailed policy recommendations for several areas of the Basel III framework. Furthermore, the EBA acknowledges request for supplementary technical advice on further aspects of the final framework.

S-Bank is in process of analysing the effects of the forthcoming changes. Initial analyses indicate that the reforms concerning standardised approach for credit risk will influence S-Bank's risk position and capital requirements. Lesser effects will follow from modification of operational risk framework.

### UPDATED PILLAR 3 DISCLOSURE REQUIREMENTS

In December 2018, the Basel Committee on Banking Supervision (BCBS) published and updated framework of Pillar 3 disclosure requirements. It includes additions arising from finalization of Basel III regulatory reforms and new requirements concerning asset encumbrance as well as capital distribution constraints. For this purpose the EBA is developing several all-inclusive regulatory disclosure products, including the comprehensive draft Implementing Technical Standards (ITS) on institutions' public disclosures, applicable to all institutions subject to the disclosure requirements under Part Eight of the CRR. The application of the disclosure requirements will be in June 2021. Outcomes of these modifications will affect significantly the processes related to disclosing Pillar 3 information.

### LOAN ORIGINATION AND MONITORING

The draft Guidelines issued by the EBA specify the internal governance arrangements for granting and monitoring of credit facilities throughout their lifecycle. They introduce requirements for borrowers' credit-worthiness assessment and bring together the EBA's prudential and consumer protection objectives. The guidelines aim to ensure that institutions have robust and prudent standards for credit risk taking, management and monitoring, and that newly originated loans are of high credit quality. The Guidelines also aim to ensure that the institutions' practices are aligned with consumer protection rules and AML requirements. The Guidelines are applied in accordance with proportionality principle. Guidelines will affect S-Bank's credit granting policies and practices notably. The guidelines will apply presumably from 30 June 2020.

### DEFINITION OF DEFAULT

The EBA published guidelines to harmonize the definition of default. Consequently, the Finnish FSA published further definitions concerning the materiality threshold for credit obligations past due. The banks under FIN-FSA supervision may determine the first date of application of the threshold, provided that it is not later than 31st of January 2020.

### PREVENTION OF OVER-INDEBTEDNESS OF HOUSEHOLDS

The Ministry of Finance (FM) issued suggested measures to prevent the over-indebtedness of Finnish households. These actions include inter alia setting maximums for Debt-to-Income (DTI) ratio and mortgage repayment period as well as limitations to housing company loans. The FM will prepare a proposal on the matter during 2020, with the changes coming into effect at the earliest in January 2021.

### BANK RECOVERY AND RESOLUTION (BRRD)

The BRRD 2 concerns loss-absorbing and recapitalization capacity of credit institutions and investment firms. It includes several regulative amendments entering into force gradually.

# 5 RISK MANAGEMENT OBJECTIVES

S-Bank has a risk strategy approved by the parent company's Board of Directors. The strategy defines and sets key limits for the risk appetite and capacity. The document also describes S-Bank's risk management objectives and organisation. The risk strategy is supplemented with risk category-specific principles and procedures. S-Bank's business and support units maintain more specific instructions and descriptions to support the risk management of their own operations.

The primary objective of risk management is to support the level of profitability, and to maintain the capital adequacy and the liquidity above the minimum target levels defined by the Board of Directors. The objective is also to manage the reputational risk and to secure business continuity in both the short and long run. The risk management process is implemented in all of the Group's organisational levels. This supports the achievement of business objectives by ensuring that material risks are identified, and that their impact is analysed and managed.

Risk management is a continuous process integrated into S-Bank's strategy, processes, decision-making, reporting and internal control framework. Risk management refers to the procedures used to identify, assess, measure and monitor risks related to the company's operations. It also encompasses the maintenance and development of risk mitigation methods that will keep potential risks at an acceptable level.

## 5.1 RISK CAPACITY AND RISK APPETITE

The Board of Directors annually define the quantitative and qualitative aspects of the risk capacity and risk appetite.

**Risk capacity** sets the maximum level for risk-taking in the short and long term. Securing sufficient capital adequacy, liquidity and ensuring compliance with regulation are key factors of the risk capacity.

**Risk appetite** reflects the approved amount and type of exposures that S-Bank is willing to take in its business operations over a certain period while pursuing its set objectives. It also defines e.g. the internal minimum target levels for capital adequacy and liquidity. The basis of risk appetite is to achieve a stable and adequate return on the Group's equity in the short and long run. The purpose is also to secure business continuity, to confirm that the confidentiality, integrity and availability of relevant information is not compromised as well as to ensure that S-Bank's risk-taking is controlled and planned. Figure 3 provides an overview of S-Bank's risk appetite framework and its' metrics.

**Figure 3: Summary of S-Banks' risk appetite framework during 2019**

| The key Risk Appetite indicators | |
|---|---|
| **Capital and earnings** | • Capital ratios<br>• Leverage ratio, CRR<br>• Profitability |
| **Liquidity and funding** | • Liquidity coverage ratio, LCR<br>• Net Stable Funding Ratio, NSFR<br>• Continuity of funding |
| **Credit risk** | • Credit losses<br>• Non-performing loans (NPL)<br>• Concentration risk<br>• Risk limits |
| **Market risk** | • Interest rate risk<br>• Spread risk<br>• Other market risks |
| **Non-financial risks** | • Operational risk indicators<br>• Compliance risk indicators |

The risk capacity and appetite are reflected in the risk limit structure and implemented in S-Bank's operations. The Board of Directors sets internal qualitative and quantitative metrics to define the risk appetite by setting concise numerical goals, acceptable risk limits, restrictions and decision-making levels to support the implementation of the risk strategy. These limits and objectives reflect possible limitations stipulated by various regulatory authorities with applicable internal buffers. Decision making mandates are defined and delegated to an appropriate level to ensure fluent daily control of business operations. Objectives and limits are updated regularly and whenever needed if risks associated with business operations and the operating environment so require. Set objectives and limits are monitored and controlled as part of the regular monitoring and reporting procedures (section 6.2).

# 6 GOVERNANCE OF RISK MANAGEMENT

S-Bank's risk management is built on three lines of defence. The first line of defence is responsible for risk-taking, the identification of risks, day-to-day risk management, risk mitigation, and risk monitoring and reporting.

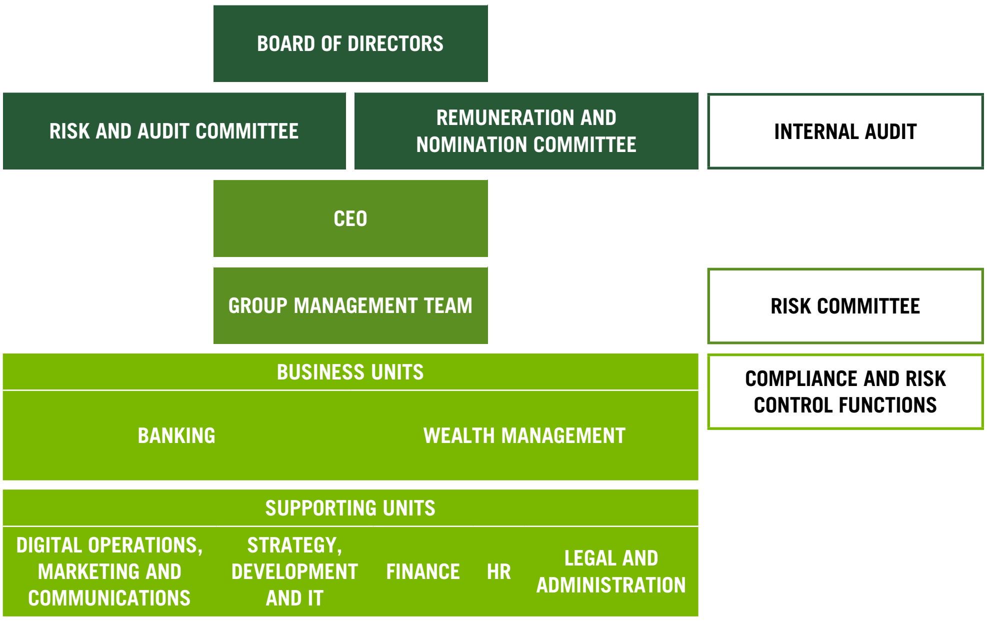
The second line of defence consists of the Group-level internal control functions: Risk Control and Compliance, which are independent of the business lines and units. The Risk Control function monitors and assesses the Group's risk-taking and the efficiency of risk management. The function also oversees the realisation of the risk strategy, total risk exposures in relation to the risk capacity and appetite, capital adequacy and liquidity. The Compliance function assesses and monitors the Group's compliance with relevant external regulations, internal policies and other pertinent management decisions.

Internal Audit is the third line of defence and is independent of the functions being audited. The purpose of this function is to audit and evaluate the effectiveness of the risk management and internal control measures carried out by the Group. Thus, Internal audit function also reviews the activities of the Risk Control and Compliance functions'.

## 6.1 ROLES AND RESPONSIBILITIES IN RISK MANAGEMENT

Figure 4 depicts S-Bank's administrative structure. The roles and responsibilities of relevant governing bodies in terms of risk management are described consequently.

**Figure 4: S-Bank's administrative structure**




**BOARD OF DIRECTORS AND ITS COMMITTEES**

Responsibility for the overall risk management in S-Bank Group is taken by the parent company's Board of Directors, ensuring that the Group's operations are appropriately organised in compliance with the applicable laws and regulations. The Board approves the risk strategy, ensures that the risk management framework is implemented consistently and that the Group has appropriately documented the principles supporting the accomplishment of set risk management process.

The Board of Directors also ensures that S-Bank continuously has adequate capital to cover all material risks arising from business operations, changes in the external business environment and that the Group's risk capacity is adequate. All substantial risks, reports concerning compliance with the set limits, main risk management policies and pertinent changes thereto are discussed by the Board of Directors on a regular basis.

Furthermore, the Board of Directors monitors the scope, effectiveness and soundness of risk management and ensures the adequacy of the independent internal control functions. The Board of Directors oversees that the Internal Audit function regularly assesses the effectiveness and quality of risk management, the internal control framework, in addition to the integrity and expediency of the independent internal control functions.

The Board of Directors is assisted by the Risk and Audit Committee, as well as by the Remuneration and Nomination Committee. The Risk and Audit Committee assists the Board of Directors in matters concerning S-Bank's risk strategy and risk-taking. The Committee also oversees and assesses issues related to ICAAP and ILAAP process. Also, the Committee works in co-operation with the Remuneration and Nomination Committee ensuring that S-Bank's remuneration principles are consistent with sound and efficient risk management and that they do not entail excessive risk-taking.

#### CEO AND GROUP MANAGEMENT TEAM

S-Bank's Chief Executive Officer (CEO), assisted by the Group Management Team, is responsible for the practical execution of risk management. The CEO and the Group Management Team ensure that Group's ongoing operations are compliant with applicable laws and regulations, Articles of Association and other relevant internal documents. The CEO and Group Management Team are responsible for the achievement of the set objectives and the monitoring and management of any risks threatening these objectives. In addition, the CEO and Group Management Team oversee that the responsibilities, authorisations, processes and reporting procedures related to risk management have been clearly defined and described, and that the risk management resources are adequate.

#### BUSINESS AND SUPPORTING UNITS

The directors of S-Bank's business and support units are primarily responsible for the risks in their respective areas and for ensuring that the operations of their units are carried out in accordance with S-Bank's guidelines and principles. These units are also responsible for running the operations within the set limits. Therefore, the business and support units are responsible for identifying and assessing the risks associated with their processes, as well as managing and monitoring these risks. The units also report risk related information in accordance with the agreed instructions. Each business and support unit is responsible for the clear and adequate description of the pertinent frameworks, operations, and risk management prerequisites.

The business units have separate Executive Teams, comprising of pertinent business unit directors. The Executive Teams are responsible for the execution, implementation and monitoring of the quantitative and qualitative goals. Executive Teams can apply their own risk limits that are stricter than those adopted by the Board of Directors.

#### RISK COMMITTEE

The Risk Committee is comprised of independent internal function members. The main duty of the Risk Committee is to ensure that the Board of Directors and the Risk and Audit Committee are provided with adequate and appropriate information on S-Bank's risks, risk management and capital adequacy. The Risk Committee confirms essential decision proposals concerning the Group's capital adequacy and liquidity for the Board's approval. Similarly, it confirms the key strategies concerning internal control and risk management. The Committee also oversees that the proposals comply with regulation, the risk capacity and appetite.

#### INDEPENDENT INTERNAL CONTROL FUNCTIONS

S-Bank's Board of Directors has established independent internal control functions to ensure effective and comprehensive internal control and risk management. These functions consist of the Risk Control and Compliance functions and Internal Audit.

**Risk Control function** is responsible for the comprehensive monitoring and assessment of S-Bank's risk-taking level and the realisation of risk management. The Risk Control function develops and maintains risk management framework, monitors the execution of the risk strategy, the total risk exposure and ensures that the risks taken by the Group are appropriately proportioned and within set limits. In addition, the Risk Control function sustains and develops risk measurement, assessment and reporting methods, and supports business operations in the identification and management of risks. The function prepares regular reports concerning S-Bank's risk exposures and management levels to the management, the Risk Committee, the Risk and Audit Committee, the Board of Directors and the authorities. To carry out its duties, the Risk Control function has the authorisation to receive any information it needs from the Group's business units and supporting functions.

**Compliance function** ensures that S-Bank has appropriate policies and procedures in place to secure compliance with regulatory requirements. Compliance continuously monitors and assesses adherence to regulatory requirements according to its' risk-based annual monitoring plan approved by S-Bank's Board of Directors. Furthermore, Compliance reports to the Board of Directors and senior management on a regular basis on its' monitoring and assessment results including any potential compliance risks.

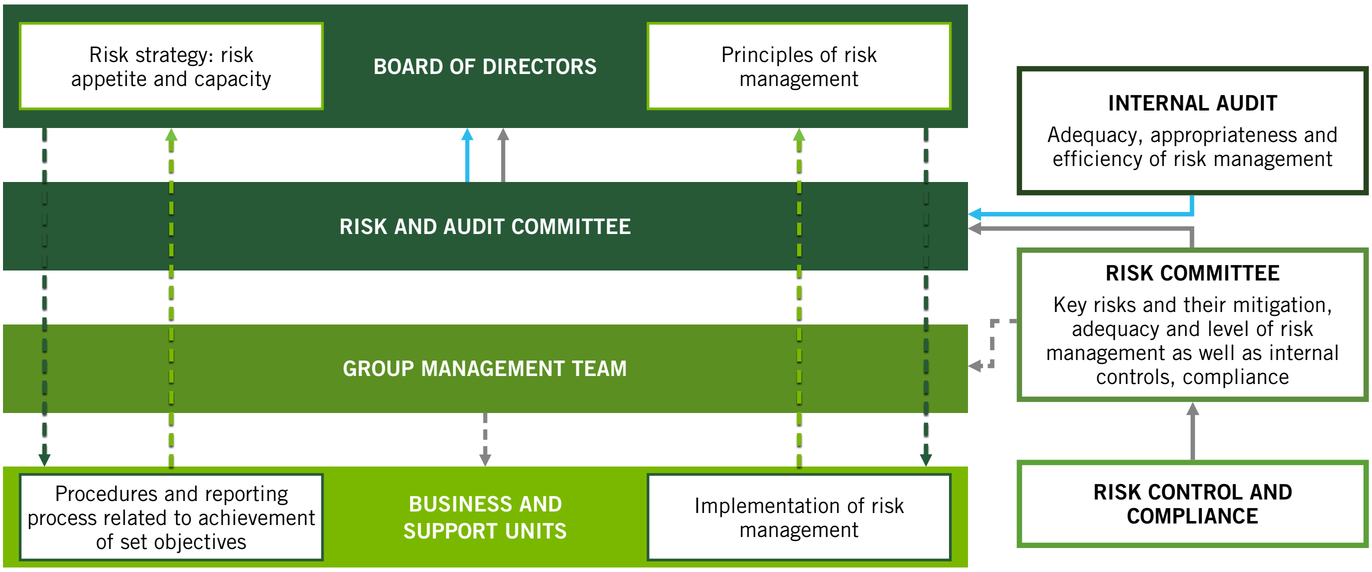
**Internal Audit function** performs independent evaluation and verification activities that concentrate on auditing the adequacy, functionality and effectiveness of the internal control and risk management frameworks and consequent measures. These features are estimated in a risk-oriented manner in accordance with the auditing plan approved by the Board of Directors annually. When conducting audits, Internal Audit uses auditing criteria that are based on external regulations, internal guidelines and the set objectives.

## 6.2 RISK MONITORING AND REPORTING

Risks are measured, monitored and reported in such a way that the Board of Directors and line management have adequate and relevant information on risks and their management procedures. S-Bank's internal risk reporting process includes, alongside financial reporting, regular analyses on the achievement of the set objectives. Risk-taking, in relation to the risk capacity and appetite is monitored regularly and assessed along with the strategic processes or when making important decisions concerning business projects or investments. These assessments are also conducted in conjunction with the Internal Capital Adequacy Process (ICAAP), Internal Liquidity Adequacy Process (ILAAP) report, as well as the Recovery and Resolution Plan. Risk reporting and monitoring practices facilitates communication on achievement of set objectives and maintaining a sound risk culture across organisation. Figure 5 portrays the overall risk reporting process.

S-Bank monitors risks on a continuous basis as part of its day-to-day routines. Each employee must be aware of their own responsibilities related to risk management, and they are responsible for with observing the implementation of risk management procedures within their area of responsibility. Employees are also instructed to report any observed deviations and deficiencies in risk management in accordance with the agreed procedures.

**Figure 5: The overall risk reporting in S-Bank**




As part of continuous risk reporting, the risk exposure of S-Bank and the Group companies are assessed based on set risk limits. Market and liquidity risks are monitored and reported on a daily basis. Credit risks, capital adequacy and operational risks are monitored continuously and reported on monthly and quarterly basis and whenever necessary.

Independent reports on key risks and the level of risk management are integral part of risk reporting. These reports are produced by the Risk Control function to S-Bank's management, the Risk Committee, the Risk and Audit Committee and the Board of Directors as illustrated in Figure 6. In addition to regular reports, the aforementioned bodies receive a separate report and analysis if any major changes or deviations occur that may influence S-Bank's risk position or capital adequacy.

**Figure 6: Risk Control function reporting**


Internal Audit evaluates the processes concerning risk and capital management in accordance with the annual auditing plan. Internal Audit regularly reports on the results of the audits, key audit observations, any improvement recommendations and the realisation of the audit plan to the Risk and Audit Committee and the Board of Directors, as well as all other essential bodies.

# 7 CAPITAL AND LIQUIDITY MANAGEMENT

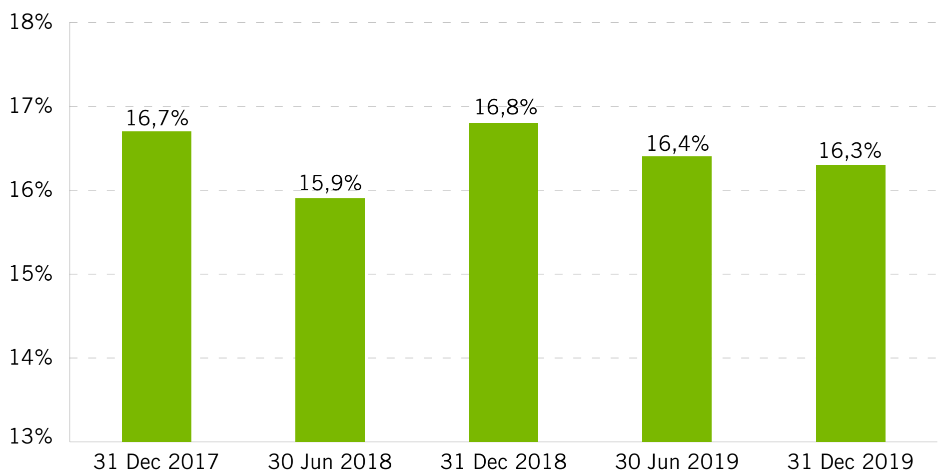
## 7.1 HIGHLIGHTS 2019 AND OVERVIEW

**S-Bank is adequately capitalised to ensure continuity of its operations even under stressed conditions and is prepared for forthcoming changes in the regulatory capital requirements.**

- S-Bank's capital position remained stable and well above the regulatory requirements.
- Total capital ratio diminished slightly from 16,8 % (31 Dec 2018) to 16,3 % in 31 Dec 2019.
    - Total REAs rose by EUR 204,4 million to EUR 2,9 billion, mainly due to strategic growth in lending to household customers.
- S-Bank's total capital requirement at the end of the reporting period was 13,82 %, consisting of the minimum capital requirement (8 %), capital conservation buffer (2,5 %), systemic risk buffer (1,0%), Pillar 2 SREP requirement (2,25%) and countercyclical buffer (0,07 %).
    - Pillar 2 SREP requirement is based on interest rate risk in the banking book and the concentration of credit risk. The requirement must be met with CET1 capital and it is valid until 30th of September 2021.
    - The Finnish FSA set a systemic risk buffer (CET1) for all credit institutions authorised in Finland. The requirement for S-Bank is one percent. These requirements are effective from 1st of July 2019.
- Leverage ratio was 6,2 % (6,0 %).

Following figure presents the development of total capital ratio. S-Bank's capital position remained stable, exceeding the regulatory requirements of 13,82 % and the internal minimum target level of 15,3 %. Strong lending growth is reflected in the expansion of REA. Consequently, increasing amounts of own founds are needed to cover the capital requirements. S-Bank carried out a share issue to its current shareholders in December 2018 to support the growth of its business and prepare for regulatory changes concerning capital requirements. The share issue increased S-Bank's Common Equity Tier 1 capital by EUR 40 million at the end of 2018.

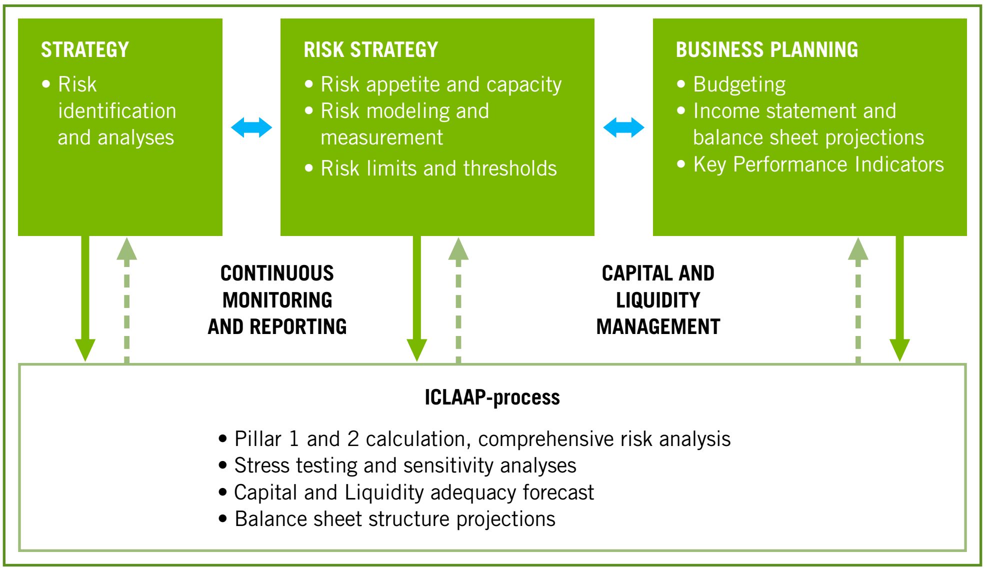
**Figure 7: Development of total capital ratio**




## 7.2 CAPITAL AND LIQUIDITY MANAGEMENT

Capital and liquidity management are fundamental parts of the risk management process. The objective of sound capital and liquidity management is to ensure that S-Bank has continuously an appropriate capital and liquidity position required to achieve its strategic business goals. Furthermore, the aim is to ensure that S-Bank has continuously sufficient capital and liquidity buffers for unexpected events. Capital and liquidity management is based on a proactive approach considering S-Bank's strategy, business plan, and risk strategy. Figure 8 depicts the capital and liquidity management framework.

**Figure 8: Capital and liquidity management framework**



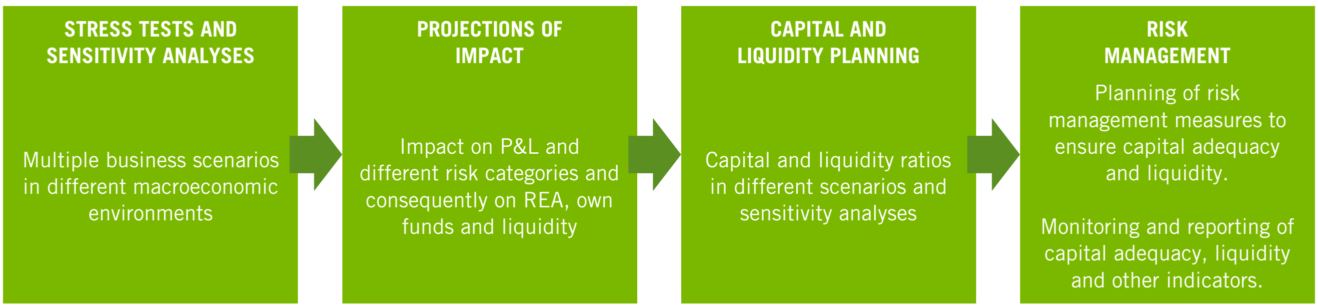

Capital and liquidity management framework and tools are also part of regularly elaborated Recovery and Resolution Plan that aims to ensure the continuity of S-Bank's critical functions, to avoid adverse effects on financial system and protect public funds. The Recovery and Resolution Plan sets several quantitative and qualitative indicators that are used to monitor the S-Bank's capital, liquidity and profitability adequacy along with asset quality. These indicators are ultimately used to decide whether to employ or refrain from taking the set recovery plan measures. The Recovery and Resolution Planning is aligned with but plausible scenarios used for ICAAP and ILAAP stress tests.

### ICAAP AND ILAAP

Regularly performed ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) processes are combined into a cohesive ICLAAP-report which S-Bank has compiled at least annually. The process begins with strategic analysis and comprehensive identification of risks associated with S-Bank's business. S-Bank utilises a variety of stress scenarios to estimate how potentially unfavourable developments could affect capital adequacy and liquidity at the Group level as well as at an individual subsidiary level over a certain time frame. Factors taken into consideration include various development patterns in the macroeconomic and competitive environment. Evaluation of S-Bank's performance under several stress scenarios covers the key risk factors and gives a more extensive understanding of S-Bank's risk profile and interaction of key risks under stressed conditions. The process also includes forecasts of capital requirements, available capital as well as the impact of new regulations. Moreover, the scenarios include potential changes in S-Bank's business volumes and in the behaviour of its customers.

ICAAP provides a comprehensive overview of S-Bank's capital and risk positions in various stress scenarios. The ICAAP report also takes into account business continuity under stressed conditions by laying out a detailed plan for increasing capital adequacy and lowering S-Banks risk profile. In addition, the ICAAP process takes into account all relevant risk types for the bank. Liquidity stress tests are conducted as a part of the ILAAP, which provides a comprehensive overview of the S-Bank's liquidity risk position in various stress scenarios. The main point of stress testing is to ensure the adequacy of S-Bank's liquid assets in order to cover unexpected liquidity outflows encompassed in the stress scenarios and concurrently to confirm that the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) fluctuate in the accepted limits. S-Bank is prepared to withstand unexpectedly large cash outflows and recover its liquidity buffer under stressed conditions. The results of stress tests outline policies for managing liquidity position, profitability and solvency under stressed conditions and enhance risk management activities. Results are also used to limit the key risk factors to fit S-Bank's risk tolerance. Figure 9 describes how the ICLAAP process progresses.

**Figure 9: ICLAAP-process**



Market risks in the banking book are generally included in Pillar 1 credit risk regulatory capital calculations, as S-Bank does not have a trading book. In the internal ICAAP-process, the capital requirement for market risk is evaluated under market risk framework and calculated according to S-Bank's internal market risk metrics and model.

## 7.3 OWN FUNDS

Table 3 presents a summary of S-Bank's own funds. The first two rows of the table illustrate the reconciliation of own funds to the balance sheet in the financial statements. Retained earnings increased by EUR 29,3 million during 2019. Due to implementation of IFRS accounting standards, the amount of intangible assets has increased as compared to 2018. Tier 2 own funds in the Group consist of three debenture term loans with a total nominal value of EUR 50 million and with a maturity over 5 years. The terms and conditions for these Tier 2 instruments are disclosed in Annex 1: Terms and conditions of issued instruments.

**Table 3: S-Banks own funds summary**

| Own funds, EUR million | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| **S-Bank Group's equity** | **473,4** | **442,1** |
| Minus the share of owners with no control | 0,0 | -0,2 |
| **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | **473,4** | **441,9** |
| Share capital | 82,9 | 82,9 |
| Reserve for invested unrestricted equity | 283,8 | 283,8 |
| Retained earnings | 107,5 | 78,2 |
| Fair value reserve | -0,8 | -3,0 |
| Other reserves | 0,0 | 0,0 |
| **Regulatory adjustments from Common Equity Tier 1 (CET1) capital** | **-51,2** | **-40,0** |
| Intangible assets | -50,1 | -38,3 |
| Value adjustments due to the requirements for prudent valuation | -1,1 | -1,7 |
| **Common Equity Tier 1 (CET1) capital** | **422,2** | **401,8** |
| **Additional Tier 1 (AT1) capital** | **0,0** | **0,0** |
| **Tier 1 (T1) capital** | **422,2** | **401,8** |
| Subordinated debt | 50,0 | 50,0 |
| **Tier 2 (T2) capital** | **50,0** | **50,0** |
| **Own funds, total** | **472,2** | **451,8** |

Table 4 constitutes the own funds disclosure template pursuant to Annex IV to Regulation No. 1423/2013. S-Bank does not have AT1 instruments.

**Table 4: S-Bank's own funds (EU 1423/2013)**

| Own funds, EUR million | | Amount on disclosure date | | Regulation (EU) No 575/2013 Article Reference |
|---|---|---|---|---|
| | | 31 Dec 2019 | 31 Dec 2018 | |
| **Common Equity Tier 1 (CET1) capital: instruments and reserves** | | | | |
| 1. | Capital instruments and the related share premium accouns | 82,9 | 82,9 | 26 (1), 27, 28, 29 |
| 2. | Retained earnings | 83,4 | 71,5 | 26 (1) (c) |
| 3. | Accumulated other comprehensive income (and other reserves) | 283,0 | 280,8 | 26 (1) |
| 5a. | Independently reviewed interim profits net of any foreseeable charge or dividend | 24,1 | 6,7 | 26 (2) |
| **6.** | **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | **473,4** | **441,9** | |
| **Common Equity Tier 1 (CET1) capital: regulatory adjustments** | | | | |
| 7. | Additional value adjustments (negative amount) | -1,1 | -1,7 | 34, 105 |
| 8. | Intangible assets (net of related tax liability) (negative amount) | -50,1 | -38,3 | 36 (1) (b), 37 |
| **28.** | **Total regulatory adjustments to Common Equity Tier 1 (CET1)** | **-51,2** | **-40,0** | |
| **29.** | **Common Equity Tier 1 (CET1) capital** | **422,2** | **401,8** | |
| **44.** | **Additional Tier 1 (AT1) capital** | **0,0** | **0,0** | |
| **45.** | **Tier 1 capital (T1 = CET1 + AT1)** | **422,2** | **401,8** | |
| **Tier 2 (T2) capital: instruments and provisions** | | | | |
| 46. | Capital instruments and the related share premium accounts | 50,0 | 50,0 | 62, 63 |
| **58.** | **Tier 2 (T2) capital** | **50,0** | **50,0** | |
| **59.** | **Total capital (TC = T1 + T2)** | **472,2** | **451,8** | |
| **60.** | **Total risk weighted assets** | **2 900,3** | **2 696,0** | |
| **Capital ratios and buffers** | | | | |
| 61. | Common Equity Tier 1 (as a percentage of total risk exposure amount) | 14,6 % | 14,9 % | 92 (2) (a) |
| 62. | Tier 1 (as a percentage of total risk exposure amount) | 14,6 % | 14,9 % | 92 (2) (b) |
| 63. | Total capital (as a percentage of total risk exposure amount) | 16,3 % | 16,8 % | 92 (2) (c) |
| 64. | Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount) | 8,07 % | 7,04 % | CRD 128, 129, 130, 131, 133 |
| 65. | of which: capital conservation buffer requirement | 2,5 % | 2,5 % | |
| 66. | of which: countercyclical buffer requirement | 0,07 % | 0,04 % | |
| 67. | of which: systemic risk buffer requirements | 1,0 % | - | |
| 68. | Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) | 10,1 % | 10,4 % | CRD 128 |

## 7.4 CAPITAL REQUIREMENTS

The Basel framework sets the minimum requirements for banks' own funds. The minimum requirement for the Common Equity Tier 1 (CET1) capital ratio is 4,5 % and the additional Tier 1 own fund requirement (AT1) is 1,5 %. Tier 1 capital (T1) consists of Common Equity Tier 1 and Additional Tier 1. The minimum requirement for Tier 2 is 2 %, meaning that the total minimum capital requirement is 8 %. In addition, a fixed capital buffer requirement of 2,5 % (non-discretionary, CET1) has been set for Finnish banks. The Finnish FSA decided on 28 June 2019 to retain the set systemic risk buffer (CET1) for all credit institutions authorised in Finland. The requirement for S-Bank is one per cent. This requirement is effective from 1 July 2019. The potential O-SII buffer does not apply to S-Bank.

In January 2018, the Finnish FSA set a discretionary Pillar 2 additional capital requirement (SREP) for S-Bank. The requirement totals to 2,25 % and is based on interest rate risk in the banking book and the concentration of credit risk. The discretionary additional capital requirement became effective on 30 September 2018 and it is valid until further notice up to 30.9.2021. The requirement must be met with CET1 capital.

Table 5 and Table 6 illustrates the calculation of the institution-specific countercyclical capital buffer in S-Bank. As of 31 December 2019, the buffer was 0,07 %.

**Table 5: Geographical breakdown of credit exposures relevant for the calculation of countercyclical capital buffer and capital requirement (1555/2015)**

| | Geographical breakdown, EUR million | General credit exposures - Exposures value SA | Own funds requirements - Of which General credit exposures | Own funds requirements weights | Countercyclical capital buffer rate |
|---|---|---|---|---|---|
| | | 010 | 070 | 110 | 120 |
| 010 | Finland | 7 072,6 | 192,6 | 95,7 % | 0,00 % |
| 010 | Sweden | 67,6 | 3,3 | 1,7 % | 2,50 % |
| 010 | Norway | 119,8 | 1,3 | 0,7 % | 2,50 % |
| 010 | Denmark | 57,5 | 2,2 | 1,1 % | 1,00 % |
| 010 | United Kingdom | 0,7 | 0,0 | 0,0 % | 1,00 % |
| 010 | France | 0,1 | 0,0 | 0,0 % | 0,25 % |
| 010 | Other countries | 132,8 | 1,7 | 0,9 % | 0,00 % |
| **020** | **Total** | **7 451,1** | **201,2** | **100,0 %** | |

**Table 6: Amount of institution-specific countercyclical capital buffer**

| | 31 Dec 2019, EUR million | Column |
|---|---|---|
| | | 010 |
| 010 | Total risk exposure amount | 2 900,3 |
| 020 | Institution specific countercyclical buffer rate | 0,07 % |
| 030 | Institution specific countercyclical buffer requirement (EUR million) | 2,0 |

Table 7 presents S-Bank’s capital requirements on 31 December 2019 as percentages and in euros.

**Table 7: S-Bank’s total capital requirement, 31 December 2019**

| Capital | Minimum capital requirement | | Capital conservation buffer | | Countercyclical buffer | | Systemic risk buffer | | Pillar 2 (SREP) additional capital requirement | | Total capital requirement | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | % | EUR million | % | EUR million | % | EUR million | % | EUR million | % | EUR million | % | EUR million |
| CET1 | 4,5 % | 130,5 | 2,5 % | 72,5 | 0,07 % | 2,0 | 1,0 % | 29,0 | 2,25 % | 65,3 | 10,32 % | 299,3 |
| AT1 | 1,5 % | 43,5 | | | | | | | | | 1,50 % | 43,5 |
| T2 | 2,0 % | 58,0 | | | | | | | | | 2,00 % | 58,0 |
| **Total** | **8,0 %** | **232,0** | **2,5 %** | **72,5** | **0,07 %** | **2,0** | **1,0 %** | **29,0** | **2,25 %** | **65,3** | **13,82 %** | **400,8** |

## 7.5 CAPITAL POSITION AND CAPITAL ADEQUACY RATIOS

S-Bank's Pillar 1 total capital adequacy ratio at the end of the financial year was 16,3 % (16,8 %), which is above the internal minimum target level of 15,3 %.

Table 8 presents a summary of total risk exposure amounts (REA). This term refers to total assets and off-balance-sheet items, weighted in accordance with capital adequacy regulation for credit risk and market risk. The operational risks are measured and added as risk exposure amount. The table also includes risk weighted asset (RWA) amounts for specific exposure classes. Off-balance-sheet items are reported within the appropriate exposure classes. The table also indicates the minimum capital requirement (8 %) for each exposure amount. Total REAs increased by EUR 204,4 million to EUR 2,9 billion, mainly due to strategic growth in lending to household customers (retail and loans secured by mortgages on immovable property exposures).

**Table 8: Overview of RWAs (EU OV1)**

| | 31 Dec 2019, EUR million | 31 Dec 2019 | | 31 Dec 2018 | |
|---|---|---|---|---|---|
| | | RWAs | Minimum capital requirements | RWAs | Minimum capital requirements |
| 1 | **Credit risk (excluding CCR), standardised approach** | **2 604,1** | **208,3** | **2 411,7** | **192,9** |
| | Central governments or central banks | 0,0 | 0,0 | 0,0 | 0,0 |
| | Regional governments or local authorities | 0,6 | 0,0 | 0,8 | 0,1 |
| | Public sector entities | 0,0 | 0,0 | 1,0 | 0,1 |
| | Institutions | 93,8 | 7,5 | 133,1 | 10,6 |
| | Corporates | 583,4 | 46,7 | 551,2 | 44,1 |
| | Retail | 722,8 | 57,8 | 646,2 | 51,7 |
| | Secured by mortgages on immovable property | 1 088,4 | 87,1 | 974,1 | 77,9 |
| | Exposures in default | 28,6 | 2,3 | 21,3 | 1,7 |
| | Covered bonds | 42,5 | 3,4 | 46,5 | 3,7 |
| | Collective investments undertakings | 27,2 | 2,2 | 24,7 | 2,0 |
| | Equity exposures | 0,5 | 0,0 | 0,5 | 0,0 |
| | Other exposures | 16,1 | 1,3 | 12,4 | 1,0 |
| 6 | **CCR** | **0,3** | **0,0** | **4,8** | **0,4** |
| 7 | Of which mark to market | 0,2 | 0,0 | 1,6 | 0,1 |
| 12 | Of which CVA | 0,1 | 0,0 | 3,1 | 0,3 |
| 19 | **Market risk** | **0,0** | **0,0** | **0,0** | **0,0** |
| 24 | **Operational risk, basic indicator approach** | **290,1** | **23,2** | **273,1** | **21,8** |
| 27 | **Amounts below the thresholds for deduction (subject to 250% risk weight)** | **5,9** | **0,5** | **6,4** | **0,5** |
| 29 | **Total** | **2 900,3** | **232,0** | **2 696,0** | **215,7** |

The following figure depicts the split of changes in REA and RWAs during the financial period.

**Figure 10: Split of changes in REA and RWAs**

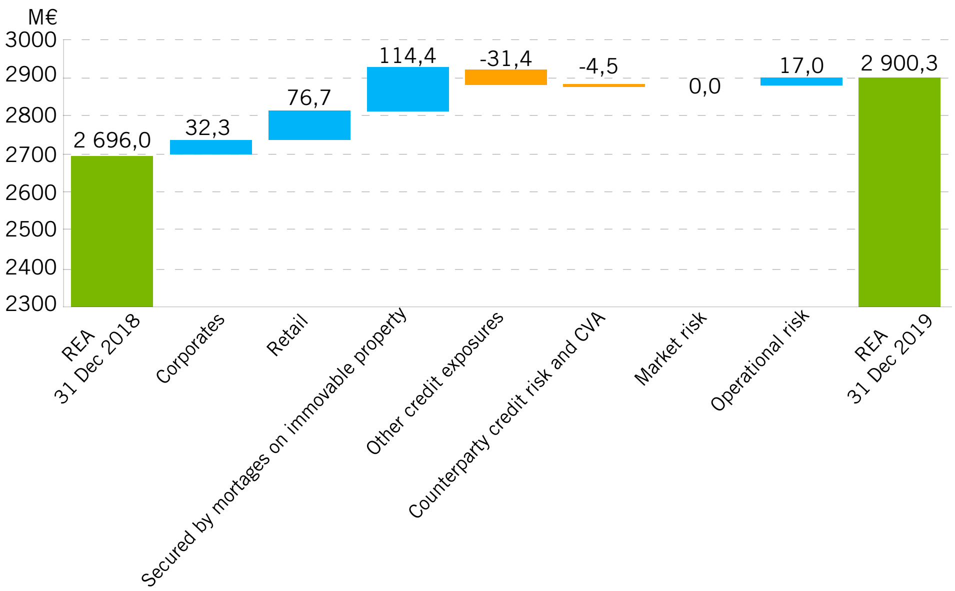
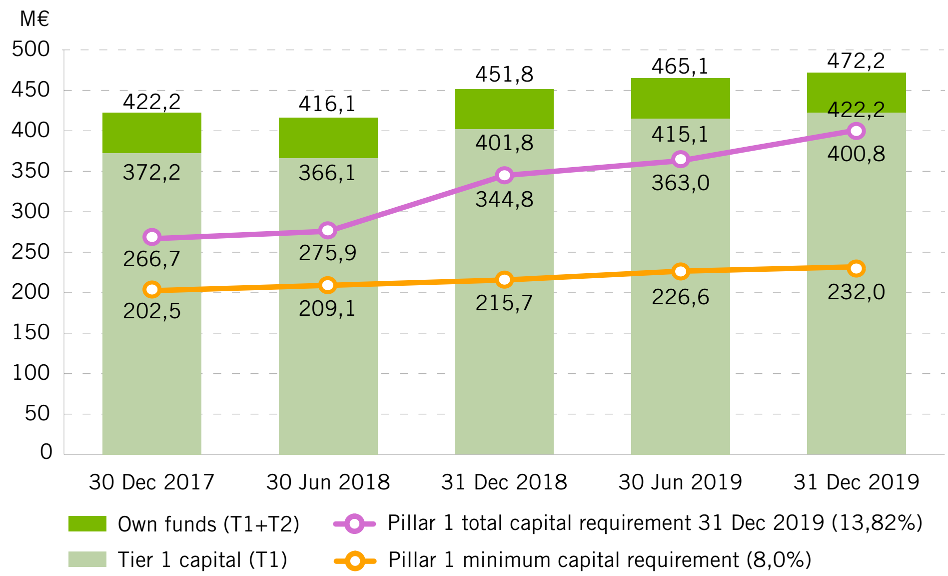


Figure 11 illustrates the euro denominated development in the Pillar 1 minimum capital requirements (8 %), the total capital requirements (13,82 %) and own funds. The additional Pillar 2 (SREP) capital requirement (2,25 %) raised the total capital requirement in the second half of 2018. The effects of the entry into force of the systemic risk buffer (1%) in the second half of 2019 are also visible. At the end of the reporting period, the capital buffer in relation to the minimum capital requirement was EUR 240,2 million and EUR 71,4 million to the total capital requirement.

**Figure 11: Changes in own fund and capital adequacy position**




## 7.6 LEVERAGE RATIO

Table 9 presents the information related to leverage ratio. S-Bank's leverage ratio of 6,2 % (6,0 %) is strong, as compared to the minimum regulatory requirement, which is set at 3 %.

**Table 9: CRR Leverage ratio (EU) 2016/200, EUR million**

| | Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures | 31 Dec 2019 Applicable Amount | 31 Dec 2018 Applicable Amount |
|---|---|---|---|
| 1 | Total assets as per published financial statements | 6 614,0 | 6 448,9 |
| 4 | Adjustments for derivative financial instruments | 3,3 | 4,9 |
| 6 | Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures) | 240,1 | 245,2 |
| 7 | Other adjustments | -50,1 | -38,3 |
| 8 | **Leverage ratio total exposure measure** | **6 807,3** | **6 660,7** |

| | Table LRCom: Leverage ratio common disclosure | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|---|
| | **On-balance sheet exposures (excluding derivatives and SFTs)** | | |
| 1 | On-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets, but including collateral) | 6 563,4 | 6 409,9 |
| 3 | Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) | 6 563,4 | 6 409,9 |
| | **Derivative exposures** | | |
| 4 | Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin) | 0,0 | 0,2 |
| 5 | Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method) | 3,7 | 5,3 |
| 11 | Total derivatives exposures | 3,7 | 5,5 |
| | **Other off-balance-sheet exposures** | | |
| 17 | Off-balance sheet exposures at gross notional amount | 1 866,0 | 2 020,4 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | -1 625,9 | -1 775,2 |
| 19 | Other off-balance sheet exposures | 240,1 | 245,2 |
| | **Capital and total exposure measure** | | |
| 20 | **Tier 1 capital** | **422,2** | **401,8** |
| 21 | **Leverage ratio total exposure measure** | **6 807,3** | **6 660,7** |
| | **Leverage ratio** | | |
| 22 | **Leverage ratio** | **6,2 %** | **6,0 %** |

| | Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|---|
| EU-1 | Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which: | 6 563,4 | 6 409,9 |
| EU-2 | Trading book exposures | 0,0 | 0,0 |
| EU-3 | Banking book exposures, of which: | 6 563,4 | 6 409,9 |
| EU-4 | Covered bonds | 425,4 | 465,3 |
| EU-5 | Exposures treated as sovereigns | 692,5 | 951,2 |
| EU-6 | Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns | 0,0 | 5,0 |
| EU-7 | Institutions | 285,8 | 430,6 |
| EU-8 | Secured by mortgages of immovable properties | 3 141,5 | 2 786,3 |
| EU-9 | Retail exposures | 1 337,0 | 1 143,6 |
| EU-10 | Corporate | 572,6 | 541,9 |
| EU-11 | Exposures in default | 22,5 | 16,8 |
| EU-12 | Other exposures (e.g. equity, securitisations, and other non-credit obligation assets) | 86,1 | 69,0 |

| Row | Table LRQua: Free format text boxes for disclosure on qualitative items | Free format |
|---|---|---|
| 1 | **Description of processes used to manage risk of excessive leverage**<br>S-Bank monitors the risk of excessive leverage as part of its continuous reporting and manage the risk as part of the ICAAP process. In addition to the regulatory minimum requirements, internal minimum target levels have been set for the Group's leverage ratio and for the CET1 capital ratio as part of the risk strategy. Leverage ratio is also one of the indicators in the Group's Recovery Plan. | |
| 2 | **Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers**<br>S-Bank's leverage ratio increased from 6,0% to 6,2% during the financial year. The leverage ratio was calculated in accordance with the Capital Requirements Regulation and the Commission Implementing Regulation (EU) 2016/200.<br>The change during the financial year is attributable to the increase of EUR 146,6 million in the total leverage ratio exposure measure. The change was mainly driven by the strategic growth in the overall banking book lending exposures. This growth is further explained in Section 8. Credit risk and counterparty risk. Correspondingly, the Tier 1 capital increased by EUR 20,4 million mainly due to growth in year-end profit. | |

# 8 CREDIT AND COUNTERPARTY RISKS

## 8.1 HIGHLIGHTS 2019 AND OVERVIEW

*Credit risk refers to the probability of a counterparty failing to meet its payment obligations as agreed, in other words, causing a credit loss for S-Bank.*

**S-Bank concentrates on household customers lending, e.g. credit cards, consumption and housing loans. The majority of S-Bank's corporate loans portfolio focuses on financing housing companies' apartment buildings, backed up by collateral. S-Bank's sustains a low credit risk profile in line with the conservative risk appetite, supported by active risk management and monitoring measures.**

- Credit risk constitutes 90 % (EUR 2,6 billion) of S-Bank's total REA. The standardised approach is used for calculating Pillar 1 capital requirements for credit risk. The most substantial items requiring capital include mortgages, retail and corporate exposures.
- Exposures secured by immovable property are mostly housing loans issued to household customers and housing companies. This item forms the largest part of S-Bank's credit portfolio net amounts (EUR 3,2 billion and 38 %). Respectively, retail exposures comprise EUR 2,8 billion and 33% of the credit portfolio.
- The Pillar 1 credit risk capital requirement includes the Treasury portfolio, since S-Bank does not have a trading book. Market risks associated with the Treasury portfolio are described in chapter 11. During 2019, the Treasury's investing activities portfolio diminished to support lending growth and to ensure the liquidity requirements.
- Total Expected Credit Losses (ECL) amounts to EUR 17,1 million (14,5). The ECL growth is attributable to increase in household loan portfolio. The coverage ratio persevered rather stable at 0,2 % of the total exposures in the ECL calculation.
- Indicators of non-performing loans remained at a low level. The NPL ratio was 0,6 % (0,5 %) and the amount of net losses EUR 14,0 million (8,7). The percentage of net credit losses is very low relative to the size of the loans (0,3 %).

Figure 12 presents the distribution of carrying amount of on-balance-sheet assets. The total amount of household customers' portfolio increased by EUR 560,4 million as compared to 2018. The growth was most apparent in household mortgages (16,9 %). Correspondingly, other household secured and unsecured loans augmented by 20,8 % and 12,0 % respectively. Corporate customers portfolio rose by EUR 34,2 million. Investing activities portfolio subtracted by EUR 464,3 million primarily to finance the lending activities and to ensure the liquidity requirements.

**Figure 12: Distribution of on-balance-sheet assets (31st Dec 2019)**

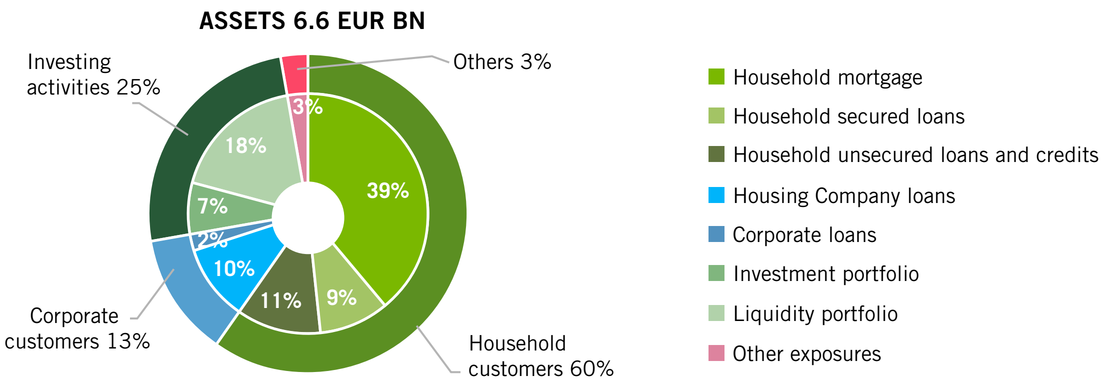
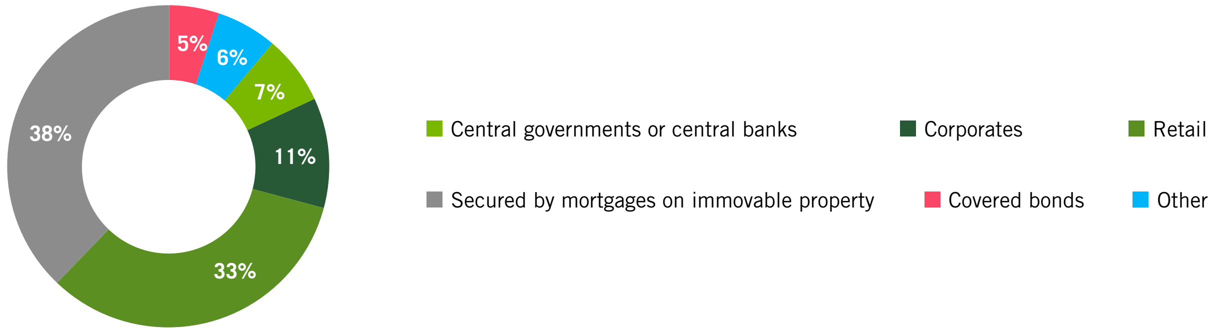



Figure 13 illustrates the distribution of net values of on-balance-sheet and off-balance-sheet credit risk exposures by classes. Th net value of exposures at the end of the period amounted to EUR 8433,1 million. The total credit portfolio decreased by approximately 3 % as compared to 2018. The amount of household customers portfolio increased as compared to 2018 (especially housing and consumption loans) while the investing activities portfolio decreased as compared to the previous year. Exposures secured by immovable property form the largest part of S-Bank's credit portfolio (38 %), comprising mostly housing loans issued to household customers and housing companies. The exposures rose by 13 percentage points since 2018. Moreover, retail exposures (e.g. credit cards, consumption and student loans to the household customers) comprise 33% of the credit portfolio, increasing by 4 percentage points as compared to 2018, respectively.

The total credit portfolio decreased during 2019 by approximately 3 % as compared to 2018.

**Figure 13: Distribution of credit risk by exposure classes**




## 8.2 MANAGEMENT OF CREDIT RISK

The Board of Directors approves S-Bank's credit risk strategy and credit decision mandates which are in line with good banking and lending practices in addition to external regulation. The credit risk strategy contains key lending goals and limitations that are aligned with S-Bank's strategy, business plan and risk strategy. Credit risks arising from the Treasury portfolio are described and limited in the Treasury's annual investment plan (approved by the Board of Directors) in line with S-Bank's risk strategy and risk appetite.

Credit risk management measures include the credit granting process, credit risk-mitigating factors such as collateral management and guarantees, pricing, credit risk monitoring, control and reporting.

Credit risk is managed continuously by the business and support units, throughout the lifecycle of credit within the framework of the set principles and limits. The methods are based on credit and customer monitoring. Necessary measures are taken to handle potential credit payment delays, overdrafts and misdemeanours. Debt collection is arranged, and credit losses are written-off in accordance with established procedures. In addition, continuous monitoring of the credit portfolio minimises the amount of non-performing loans.

S-Bank does not have securitisation positions.

### 8.2.1 CREDIT GRANTING PROCESS AND DECISION LEVELS

The granting of credit is based on a process that includes customer identification, a customer-specific analysis, a payment default check, risk classification and an assessment of the project to be funded along with the collateral (if any) required. Credit is only granted to those customers who have an adequate ability to repay the loan, regardless of potential collateral value. Customers applying for credit undergo an analysis in which the applicant's ability to meet their obligations is investigated. The information to be collected and analysed depends on the credit being applied for, its intended use and the customer group. Credit applications are evaluated with different variables and criteria describing the customer's creditworthiness, such as repayment ability.

S-Bank's Board of Directors delegates the decision-making power concerning credit granting within the organisation. The decision-making level depends on the amount of requested credit, customer's total responsibilities, potential collateral and guarantees. Credit proposals, decisions and changes to credit are prepared, executed and documented appropriately. The credit decision process is centralised and some of the household customers' credit decisions are made automatically based on risk scoring models. Automation of the decision-making process enhances credit risk management, profitability, operational efficiency and the homogeneity of decisions. The significant details and risks related to credit being granted are reviewed with the customer in accordance with the operating guidelines.

The FSA has set a loan cap, loan-to-collateral (LTC) ratio, defining a maximum amount for a residential mortgage in proportion to the fair value of the collateral provided as security when credit is granted. In 2019, the average LTC-ratio for S-Bank's residential mortgage granted was 63,1 % (63,7 %).

### 8.2.2 CREDIT RISK MODELLING

Internal risk models are used for the measurement of credit risk and consequently in the credit granting process, credit risk decisions, limit setting, pricing decisions, credit management and control measures. Internal credit risk models are also used to calculate Pillar 2 capital requirements as well as Expected Credit Losses (ECL) under IFRS 9. The ECL calculation process applies to all credits and the Treasury's investment portfolio.

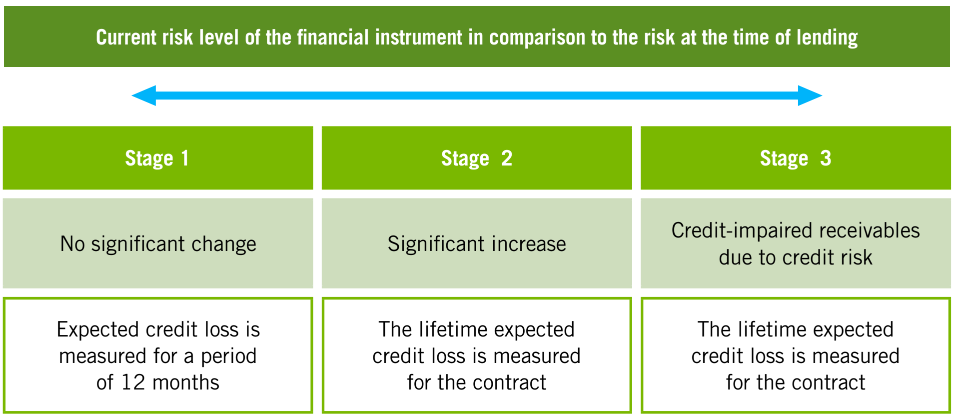
S-Bank uses the probability of default (PD), Loss Given Default (LGD) and Credit Conversion Factor (CCF) for measuring credit risks. The CCF parameter can be employed to determine the amount of liability i.e. Exposure at Default (EAD). By utilising these parameters, the expected credit losses are calculated with a formulae PD x LGD x EAD. Table 10 presents the credit risk models that S-Bank employs for each customer group.

**Table 10: Credit risk models used in the ECL calculation and risk management purposes**

| Customer group | Credit risk model | Use | Internal/external model |
|---|---|---|---|
| **Household customers** | **PD model**: probability of default within the next 12 months | Determining the risk at initial recognition and currently, clas-sifying financial instruments for measurement of value | S-Bank internal model, parameters derived from S-Bank's credit portfolio |
| | **LGD model**: S-Bank's realised cred-it losses after collection measures. | As a parameter in ECL calculation | S-Bank internal model, parameters derived from S-Bank's credit portfolio |
| | **CCF/EAD model**: exposure at default | As a parameter in ECL calculation | S-Bank internal model, parameters derived from S-Bank's credit portfolio |
| **Corporate customers** | **PD model**: probability of default within the next 12 months | Determining the risk at initial recognition and currently, clas-sifying financial instruments for measurement of value | S-Bank's internal model for corporate customers and PD estimates derived from a market database for housing companies |
| | **LGD model**: S-Bank's realised cred-it losses after collection measures. | As a parameter in ECL calculation | Parameters derived from a market database |
| | **CCF/EAD model**: exposure at default | As a parameter in ECL calculation | parameters derived from S-Bank's credit portfolio |
| **Investing activities** | **PD** and **LGD** | As a parameter in ECL calculation | Parameters derived from a market database |

Accordingly, PD model is employed and all exposures (performing and non-performing) are grouped into three stages for the calculation of pertinent impairment or provision. This classification is made at the time a contract is recognised and consequently over the lifetime of a contract to estimate whether the risk level of a credit contract is increased. Figure 14 demonstrates the continuous classification process for estimation whether the risk level of a credit contract has increased relative to the initial recognition. The estimates provided by the risk model as well as the effects of maturity and other criteria on the grouping of financial instruments are constantly monitored.

**Figure 14: Grouping of financial instruments into three stages for the impairment measurement**




Based on the PD estimates, loans are assigned a credit category. The probability of default is the lowest in credit category 1 and the highest in credit category 7, as presented in Figure 15.

In order to assimilate forward-looking information and its impact on credit risk and the calculation of ECL, S-Bank has performed historical analyses and identified key economic variables affecting potential credit risks. The forecasted economic development is based on S-Bank's economic scenarios.  Three scenarios are used – strong, basic and weak – and their probabilities are based on S-Bank's estimates. For the purposes of IFRS 9, the macroeconomic scenarios are prepared three times a year. When calculating the amount of ECL, the effects of the economic outlook are taken into account using an adjustment factor. This factor is based on the trend in housing prices and the unemployment rate in different scenarios.

Macroeconomic factor is supplemented with a management assessment. This assessment is taking in to consideration the uncertainty of the macroeconomic factor and its underlying assumptions as well as other possible additional information that the models used are not able to consider. Detailed descriptions concerning the measurement of credit risks, expected credit losses and development of the impairment model are disclosed in S-Bank's financial statements (Group note 1: Accounting policies and Group note 2: Group risks and their management).

The functioning of the credit categories and the credit risk models is tracked and controlled regularly. The risk models are validated and, if necessary, calibrated annually to ensure that their predictions are consistent with actual observations of credit in default.

Table 11 summarizes the amount of credit risk exposure without taking into account collateral or other credit enhancement arrangements. The coverage ratio illustrates the share of ECL provision in relation to the respective loan portfolio. Since S-Bank's exposures related with the central governments or central banks and regional governments or local authorities have LGD-values close to zero, the amount of the ECLs they generate rounds to zero. Therefore, these exposures are omitted from Table 11.

The ECLs at the end of the financial year amounted to EUR 17,1 million (14,5). Credit granted to household customers forms the largest exposure to credit risk in the form of ECL. The exposures of household customers include housing loans and consumer credit, of which the latter generate a relatively larger credit risk, as they are unsecured credit products. The corporate customers loans are granted largely to finance housing companies' apartment buildings. As these exposures are secured by mortgages on immovable property, they pose a smaller risk reducing the amount of pertinent ECL. The exposures of corporate customers and investing activities are mostly held by large companies with a good credit rating.

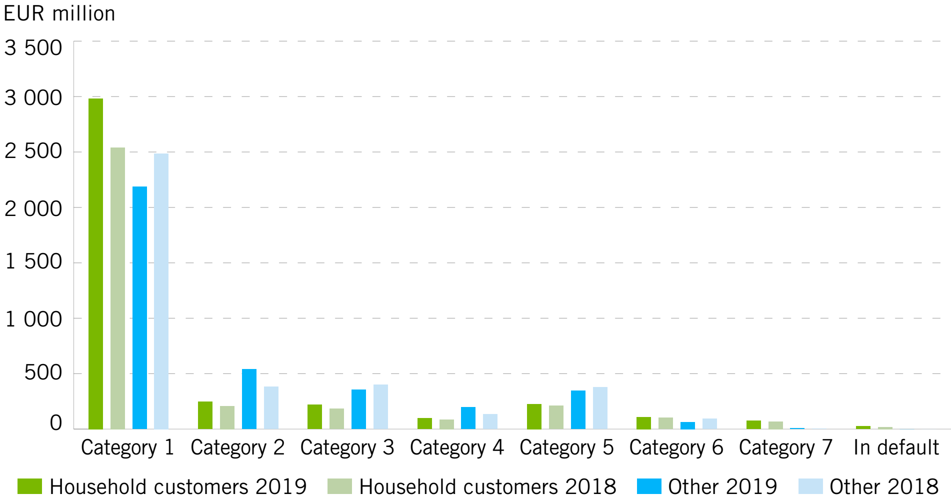
The amount of total ECL has grown steadily during the review period in rather equal proportion with the increase in credit risk exposure. During 2019 household customers' ECL provisions increased by EUR 2,5 million and off-balance-sheet commitments by EUR 0,5 million. ECL provisions for corporate customers and investing activities portfolios subtracted slightly by total of EUR 0,4 million. Coverage ratios of loan specific portfolio and the total portfolios have persisted relatively stable and within the risk appetite limits set in the credit risk strategy by the S-Bank Board of Directors.

**Table 11: Portfolios, stages and ECL provisions, 31 Dec 2019**

| 31 Dec 2019, EUR million | Stage 1 | | Stage 2 | | Stage 3 | | Total credit risk exposure | Total ECL provision | Coverage ratio % |
|---|---|---|---|---|---|---|---|---|---|
| | Credit risk exposure | ECL provision | Credit risk exposure | ECL provision | Credit risk exposure | ECL provision | | | |
| Household customers | 3 468,2 | -1,4 | 489,6 | -9,4 | 26,0 | -3,8 | 3 983,8 | -14,5 | -0,36 % |
| Corporate customers | 795,1 | -0,4 | 37,8 | -0,4 | 0,0 | 0,0 | 832,9 | -0,7 | -0,09 % |
| Investing activities | 1 023,0 | -0,6 | 0,0 | 0,0 | 0,0 | 0,0 | 1 023,0 | -0,6 | -0,06 % |
| Off-balance sheet commitments | 1 718,0 | -0,2 | 117,2 | -1,1 | 0,3 | 0,0 | 1 835,5 | -1,2 | -0,07 % |
| **Total** | **7 004,3** | **-2,5** | **644,5** | **-10,8** | **26,3** | **-3,8** | **7 675,2** | **-17,1** | **-0,22 %** |

Figure 15 defines the distribution of household customers' credit risk exposure by risk category. Corporate customers, investing activities and off-balance sheet commitments exposures are summarised under section "Other". As stated previously, main changes in the distribution of risk exposures by risk categories are mostly explicable by augmentation of household customers' portfolio and reduction of investment portfolio.

**Figure 15: On-and-off-balance sheet credit risk exposure distribution by risk category (31 Dec 2019, EUR million)**




## 8.2.3 CONCENTRATION RISK

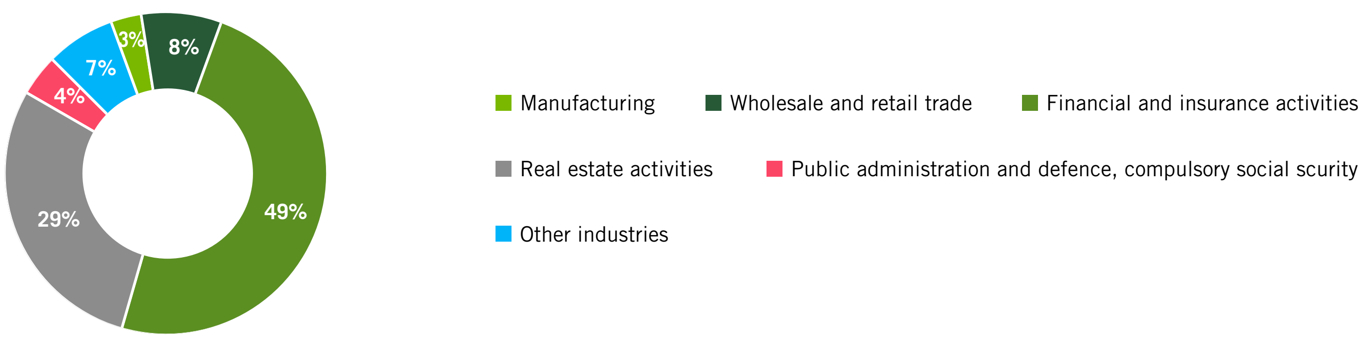
Concentration risk may arise from concentrated exposures in geographic, industrial, collateral or single name individual exposures. Concentration risks are managed within the defined limits and followed regularly. In addition, concentration risks are assessed through stress testing in the context of capital planning (ICAAP) as apart of scenario analyses.

The majority of the exposures (app. 93 %) are in Finland and app. 5 % are in the other Nordic countries. There were no substantial changes in the geographical distribution of exposure classes as compared to 2018. S-Bank's household and corporate loan portfolio are distributed geographically across Finland among various individual loans and loan products. Exposures outside Finland are primarily Treasury investments. The geographical distribution of credit is guided by the credit risk strategy targets in order to ensure that especially credit secured by mortgage is granted to regionally viable growth centres. Consequently, household mortgage exposures are soundly diversified across Finland with a focus on growth areas. Therefore, geographical concentration risk is considered to be minor. Table 15 and Table 22 provide further information on the geographical distribution of S-Bank's exposures.

Around 65% (EUR 5444,5 million) of S-Bank's on- and off-balance-sheet exposures do not have an industry category, since they mainly consist of household customers' loans and credits. Figure 16 explains the distribution of those exposures having an industry category (totalled to EUR 2988,7 million). The proportion of household lending has grown by 6 percentage points during 2019. Otherwise, there has been no significant changes in the industry distribution of exposures from 2018.

Financial and insurance activities (49%) are divided between exposures to central governments or banks, institutions and covered bonds and, therefore, do not form substantial concentration risk. The corporate lending business is targeted mainly to new housing companies (part of real estate activities, 29 %). These exposures do not form an essential industry concentration risk, since the credit risk is divided among the owners of the housing company. Table 16 and Table 23 provide further information on the distribution of exposures among different industries.

**Figure 16: Distribution of credit risk exposures by industry (excluding household exposures)**




Immovable property is S-Bank's largest individual category of collateral and may also produce indirect concentration risk. Nevertheless, immovable property collateral is spread to numerous individual loans and is geographically distributed across Finland, as stated previously. The collateral values are also monitored and updated (the process is described in chapter 8.2.4) to identify and manage possible collateral concentration risks.

This single name risk is managed by assessing the interconnectedness of corporate clients, limiting these exposures and closely monitoring their development. These risks are the only-form of concentration risk generating capital requirements as a part of Pillar 2 capital calculations.

### 8.2.4 CREDIT RISK MITIGATION

S-Bank applies collateral and guarantees as credit risk mitigating measures. The Board of Directors decides on the eligible collateral categories and their valuation principles.

As a part of interest risk in the banking book management, S-Bank uses derivatives (further information in chapter 11.2.1). Derivative contracts may lead counterparty credit risk (CCR) that is described in chapter 8.2.6.

S-Bank requires sufficient collateral to reduce credit risk. The methods for assessing collateral value, it's coverage, acceptability, extension options, and liquidation are instructed thoroughly and employed in conjunction with credit granting.

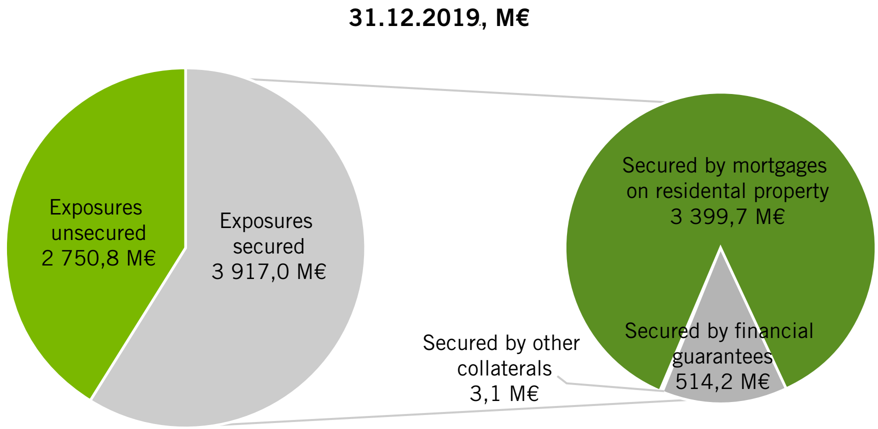
The value of the collateral is calculated based on the market or fair value of the asset and reduced by a haircut. The size of the haircut used, depends on several criteria. ECL-calculations take into account the effect of collateral and the uncertainties and costs associated with its realisation as a part of the LGD-modelling.

Immovable property collateral values are monitored and updated during the lifecycle of the credit. S-Bank uses statistical methods to monitor the value of the property and to identify the property in need of revaluation. The identified objects are assessed separately by an independent appraiser providing transparent documentation on the justification of the suggested revaluation and market value of the asset. This process is conducted annually. The collateral values are also examined in the context of changing the counterparty's loan terms. Possible changes in immovable property collateral values are taken into account as a part of stress scenarios (chapter 7.2).

Credit risk management techniques used in the calculation of capital requirements include collateral secured by immovable property and unfunded guarantee arrangements (such as government guarantees for student, -residential and -housing companies' mortgage as well as financial mortgages guarantees by an external service provider). By using guarantees, the customer risk is transferred from the counterparty to the grantor. In addition, S-Bank uses other collateral and guarantees to reduce credit risk, but these are not taken into account in the capital adequacy calculation.

Figure 17 presents the distribution of credit risk mitigation measures applicable in capital adequacy calculations. 59 % of S-Banks total loans gross carrying amounts (EUR 6667,8 million) are secured. Of the secured exposures, 87 % are secured by mortgages on residential property and the remaining 13 % by financial guarantees. Finnish Government is the most significant individual guarantor. Guarantees include also insurances covering residential mortgages. There were no significant changes in the nature of S-Bank's collateral or their valuation principles. Further information concerning credit risk mitigation is provided in chapter 8.3.3.

**Figure 17: Distribution of credit risk mitigation measures (EUR million)**




The loan-to-value (LTV) ratio is used to express the amount of outstanding mortgage as a percentage of the value of the mortgage collateral. In the calculation of the LTV, the fair value of the real estate collateral is the original purchase price, thus excluding possible increases in the collateral values. The calculation includes insurance guarantees pertinent to the mortgages.

As a significant part of the collateral portfolio is comprised of housing and real estate collateral, the increase in housing prices affects the risk profile of S-Bank. This risk is managed by directing the granting of the mortgage credit to regional growth centers such as large cities and their neighbourhoods. Table 12 presents the LTV ratio distribution for household mortgage customers.

**Table 12: Loan-to-value distribution of household customers (31 Dec 2019)**

| LTV Band | Proportion of exposures |
|---|---|
| 0 - 50 % | 17 % |
| 50 - 60 % | 13 % |
| 60 - 70 % | 19 % |
| 70 - 80 % | 32 % |
| 80 - 90 % | 15 % |
| 90 - 100 % | 3 % |
| > 100 % | 1 % |
| Total | 100 % |

## 8.2.5 CREDIT RISK QUALITY OF EXPOSURES

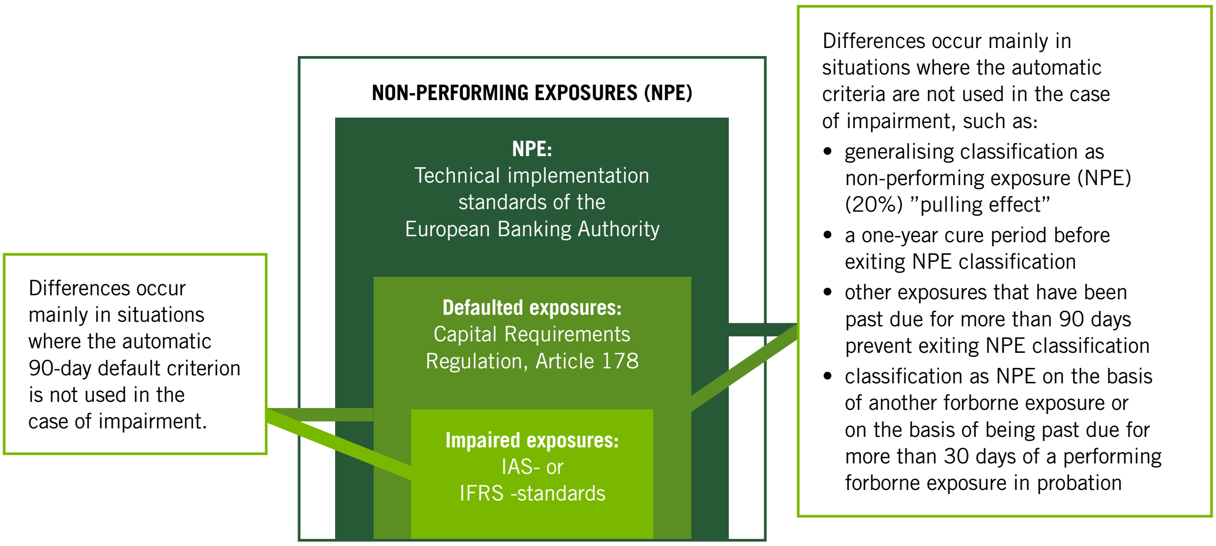
This chapter presents the essential concepts related to the credit quality of exposures, provisions and credit risk adjustments. Further numerical information concerning the credit quality of on- and off-balance-sheet exposures are provided in chapter 8.3.2.

**Non-performing exposures (NPE) concept** is comprised of exposures where the debtor is experiencing financial difficulties and therefore loan terms are modified (forbearance) and exposures with repayment delayed by more than 90 days (default) in addition to impaired and non-performing exposures. The main conditions for classifying an exposure as non-performing relate to past due and unlikely to pay statuses.

Figure 18 depicts the relations and differences in the definitions of these terms between the accounting and CRR framework. In S-Bank, this concept relates mainly to household loans, hence non-performing loans (NPL).

Payment delays, customer's' payment ability and other aspects affecting the quality of loans are monitored on a daily basis. Necessary measures are taken as soon as possible to ensure the repayment of the loan. S-Bank's arrears and collections team performs these responsibilities. S-Bank is also regularly developing the effectiveness of credit control and its collection processes that are designed based on risk-based monitoring methods. The evolvement of non-performing loans is reviewed continuously and reported to relevant parties by the banking business unit in addition to the Risk Control function.

**Figure 18: Illustration of relationship between non-performing, defaulted and impaired exposures and differences in definition between the accounting and the capital requirement regulation framework**




**FORBORNE EXPOSURES**

Forborne exposures are concessions given to a borrower's original payment schedule to assist them with short-term financial difficulties. The key objective of granting forbearance measures is to pave the way for non-performing borrowers to exit their non-performing status, or to prevent performing borrowers from reaching a non-performing status. Forbearance measures always aim to return the exposure to a situation of sustainable repayment.

If a receivable has not already being classified as non-performing and forbearance measures are granted to it, it is classified as 'performing forborne'. In this case, the contract is classified under stage 2 in impairment measurement for a probation period of two years.

If the receivable is already non-performing and it is granted forbearance, it becomes 'non-performing forborne'. A performing forborne credit becomes non-performing if one of the factors causing non-performance is triggered. Such factors include a second forbearance within the probation period or payments more than 30 days past due in relation to the payment schedule. A non-performing forborne credit is given a minimum of a 12-month cure period and classified in impairment testing under stage 3. If the factor or factors causing non-performance are removed, the contract is treated as performing forborne for a probation period of two years and classified under stage 2.

### RECOGNITION OF LOSSES

S-Bank has internal product specific definitions for cases where the probability of a credit loss is high and a realised credit loss is recognised on the receivable. For S-Bank, the largest amount of credit losses is generated by unsecured credit, which is recognised as a credit loss at an early stage (within 4-7 months after the receivable is past due). Early recognition as a credit loss naturally maintains the amount of ECL at a relatively low level. Credit losses on secured receivables are recorded at the earliest when the collateral has been realised and allocated to the receivable. In this case, the remaining receivable may not be recorded as a credit loss if a payment schedule has been created for it.

Collection agencies are still applying active measures to collect these debts. These measures will eventually reduce the gross amount of recognised credit losses. Hence, the amount of realised net credit losses is the appropriate indicator that reflects the amount of credit losses for the financial year. Further information in Figure 21.

### SPECIFIC AND GENERAL CREDIT RISK ADJUSTMENTS

General credit risk adjustments are provisions for credit risk losses for a group of exposures for which the institution has no evidence that a loss has occurred. If exposures are to be included in general credit risk adjustments, the amounts must be freely and fully available to cover loan losses. S-Bank did not have such losses in 2019, so the amount for general credit risk adjustments is zero. Hence, all credit risk adjustments are specific.

Indicators of non-performing loans remained at a low level during 2019. Figure 19 introduces the NPL ratio, representing the gross carrying amount of on-balance-sheet non-performing loans (EUR 28,4 million) in relation to on-balance-sheet loans and advances (excluding the cash balances at central banks and other on demand deposits, EUR 4801,9 million). All non-performing loans are household customers' exposures. The ratio is at a low level despite the minor growth during 2019. Further information in Table 20: Credit quality of performing and non-performing exposures by past due dates (CQ 3).

Figure 20 presents the gross carrying amount of on-balance-sheet forborne exposures in relation to on-balance-sheet loans and advances (excluding the cash balances at central banks and other on demand deposits). Forborne loans have increased during 2019, amounting to EUR 31,4 million at the end of 2019. 83 % of these exposures are performing. All forborne are household customers' exposures. Further information in Table 19: Credit quality of forborne exposures (CQ 1).

Figure 21 describes the amount of realised net losses (after reversals of receivables written off) as of 31st December 2019. During the period under review, EUR 18,3 million (13,4) was recognised as realised credit losses on the income statement. The accrued amount of ECL during 2019 amounted to EUR 2,6 million (0,8). Reversals decreased during 2019 amounting to EUR 4,3 million (4,7) due to sales of receivables. The amount of net losses (EUR 14 million) enlarged during the year 2019 but were within the risk appetite defined by the S-Bank Board of Directors. Relative to the size of the on-balance-sheet loans and advances (excluding the cash balances at central banks and other on demand deposits), the percentage of net credit losses is very low.

**Figure 19: NPL ratio**

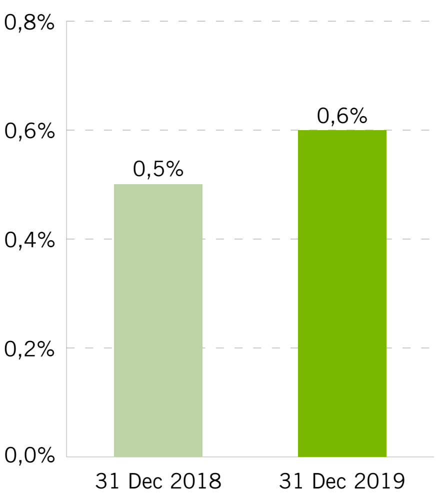



**Figure 20: Forbone exposures**

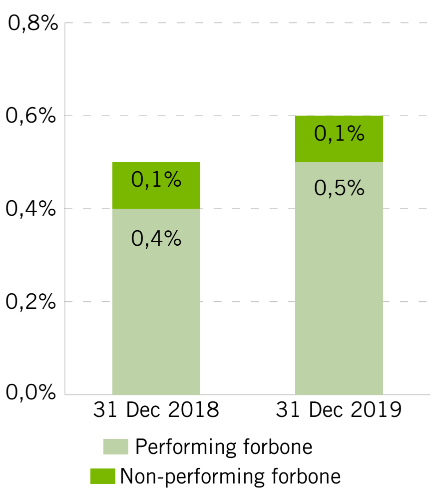
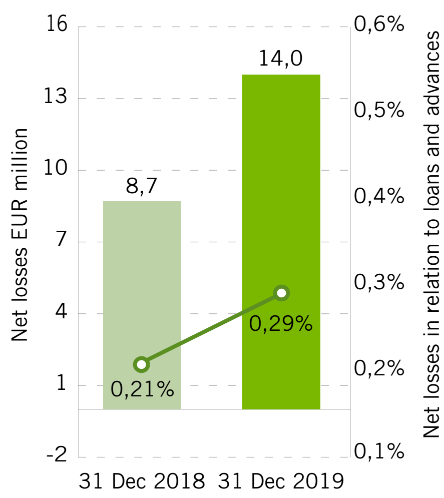



**Figure 21: Realised net losses (EUR m), including the ECLs accrued during 2019**



## 8.2.6 COUNTERPARTY CREDIT RISKS

The amount of S-Bank's counterparty credit risk (CCR) is marginal. The total minimum capital requirement for counterparty credit risk capital under the Pillar 1 requirements (EUR 0,0 million) is included as a part of the minimum credit risk capital requirement (Table 8). The requirement is derived from the risk-weighted exposures of the derivatives (EUR 1,6 million) and the risk-weighted exposure amounts related to CVA (EUR 3,1 million).

According to the CRR, CCR may arise from a derivative contract on the occasion where the counterparty is not likely to meet their contractual obligations and the contract's market value is positive. Derivative contracts are also prone to the risk of a credit valuation adjustment (CVA), which refers to an adjustment of the fair value (or price) of derivative instruments to account for counterparty credit risk. The CVA framework includes counterparty credit spreads as well as on the market risk factors that drive the derivative's values and, therefore, exposure.

S-Bank uses the mark-to-market method for determining the CCR exposures. Derivative contracts are used to hedge a specific balance sheet item, position or cash flow against future value changes. S-Bank uses derivatives solely for hedging purposes (more information in chapters 11.2 and 11.2.1.)

S-Bank uses ISDA (International Swaps and Derivatives Association) and CSA (Credit Support Annex) agreements with its counterparties that have derivative contracts. These agreements are used to reduce counterparty risks. The agreements specify the general terms and conditions related to derivatives and the collateral application methods between the counterparties. Further information on derivative monitoring is presented in section 11.2.4. When calculating the maximum amount of counterparty credit risk related to financial instruments, the open position includes cash and cash equivalents, investments, deposits and other financing transactions, such as derivative contracts. The limits set for counterparties are discussed in section 5.1.

Table 13 presents the derivative contracts and their division for hedging and non-hedging purposes as distributed in hedge accounting. It also depicts the remaining maturity of the derivative contracts. The majority of the derivatives fall into the 1-5 years maturity class.

**Table 13: Derivative contracts and remaining maturity breakdown**

| EUR million | 31 Dec 2019 Nominal value | 31 Dec 2019 Positive fair values | 31 Dec 2019 Negative fair values | 31 Dec 2018 Nominal value | 31 Dec 2018 Positive fair values | 31 Dec 2018 Negative fair values |
|---|---|---|---|---|---|---|
| **Hedge accounting** | | | | | | |
| **Interest rate derivatives** | | | | | | |
| Interest rate swaps | 631,2 | 0,0 | -15,9 | 746,2 | 0,0 | -11,3 |
| **Hedge accounting total** | 631,2 | 0,0 | -15,9 | 746,2 | 0,0 | -11,3 |
| **Items outside hedge accounting** | | | | | | |
| **Interest rate swaps** | | | | | | |
| Bought options | 50,0 | 0,0 | 0,0 | 200,0 | 0,2 | 0,0 |
| Sold options | 125,0 | 0,0 | -0,8 | 150,0 | 0,0 | -0,8 |
| Interest rate swaps | 110,0 | 0,0 | 0,0 | 50,0 | 0,0 | -0,5 |
| **Items outside hedge accounting total** | **285,0** | **0,0** | **-0,8** | **400,0** | **0,0** | **-1,3** |
| **Derivatives total** | **916,2** | **0,0** | **-16,7** | **1 146,2** | **0,0** | **-12,5** |

| Maturities of derivatives, EUR million | 31 Dec 2019 less than 1 year | 31 Dec 2019 1-5 years | 31 Dec 2019 More than 5 years | 31 Dec 2019 Total | 31 Dec 2018 less than 1 year | 31 Dec 2018 1-5 years | 31 Dec 2018 More than 5 years | 31 Dec 2018 Total |
|---|---|---|---|---|---|---|---|---|
| **Hedge accounting** | | | | | | | | |
| Interest rate swaps | 50,0 | 574,0 | 7,2 | **631,2** | 94,0 | 562,2 | 90,0 | **746,2** |
| **Hedge accounting total** | | | | | | | | |
| **Items outside hedge accounting** | | | | | | | | |
| Interest rate swaps | 125,0 | 160,0 | 0,0 | **285,0** | 100,0 | 270,0 | 30,0 | **400,0** |
| **Derivatives total** | **175,0** | **734,0** | **7,2** | **916,2** | **194,0** | **832,2** | **120,0** | **1 146,2** |

In 2019, S-Bank transferred to clear over-the-counter (OTC) derivative contracts through central counterparty. The arrangement is due to the obligation to centrally clear certain classes of over-the-counter (OTC) derivatives through a central counterparty according to amended European Market Structure Regulation (EMIR). The objective of this revision is to reduce systemic risk and risks related to individual counterparties. Clearing derivative contracts through a qualifying central counterparty has reduced the capital requirement of counterparty credit risk (CCR).

S-Bank does not have any collateral in its possession related to derivatives and there is no collateral used in Securities Financing Transactions (SFTs).

S-Bank does not have an international credit rating. Hence, S-Bank's collateral requirements are not influenced by a credit rating. The wrong-way risk as specified in Article 291 of the CRR does not apply to S-Bank.

Further numerical information concerning counterparty credit risk can be found in chapter 8.3.4.

### 8.2.7 CREDIT RISK MONITORING AND REPORTING

The banking business unit is responsible for credit risk management and the regular monitoring of the balance sheet, credit portfolios, product development and customer segment- specific development. Assessed reports include e.g. information on achieving the set objectives and actualised risk levels, follow-up on different credit risk grades, the performance of credit risk models, development of non-performing loans and expected credit losses, risk concentrations and collateral values in addition to the consistency of the credit management process.

The Risk Control function monitors and ensures that the business and support units operate in accordance with the principles and limits set in the risk and credit risk strategies. The Risk Control function reports regularly on S-Bank's credit risk profile and the sufficiency of risk management procedures in accordance with chapter 6.2.

## 8.3 EBA DISCLOSURES

The following subsections present the qualitative and quantitative disclosures prepared in line with the EBA's disclosure requirements (EBA/GL/2016/11 and EBA7GL/2018/10).

### 8.3.1 GENERAL INFORMATION ON CREDIT RISK

Table 14 illustrates the net values of on-balance-sheet and off-balance-sheet credit risk exposures. The total credit portfolio decreased during 2019 by approximately 3 % as compared to 2018. The amount of household customers portfolio augmented (especially exposures secured by mortgages on immovable properties and retail exposures) while the investing activities reduced as compared to the previous year (e.g. regional governments or local authorities, institutions etc.).

**Table 14: Total and average net amount of exposures (EU CRB-B)**

| | Exposure classes, EUR million | 31 Dec 2019 | | 31 Dec 2018 | |
|---|---|---|---|---|---|
| | | a | b | a | b |
| | | Net value of exposures at the end of the period | Average net exposures over the period | Net value of exposures at the end of the period | Average net exposures over the period |
| 16 | Central governments or central banks | 576,1 | 320,0 | 463,2 | 272,7 |
| 17 | Regional governments or local authorities | 116,4 | 306,7 | 488,1 | 431,0 |
| 18 | Public sector entities | 0,0 | 10,0 | 5,0 | 6,6 |
| 21 | Institutions | 289,5 | 398,9 | 436,2 | 403,5 |
| 22 | Corporates | 956,6 | 951,2 | 1 013,1 | 1 063,4 |
| 24 | Retail | 2 789,0 | 2 763,5 | 2 672,7 | 2 470,4 |
| 26 | Secured by mortgages on immovable property | 3 170,8 | 3 035,0 | 2 806,3 | 2 689,7 |
| 28 | Exposures in default | 22,9 | 19,5 | 17,0 | 13,5 |
| 29 | Items associated with particularly high risk | 0,0 | 0,0 | 0,0 | 0,0 |
| 30 | Covered bonds | 425,4 | 437,8 | 465,3 | 448,5 |
| 32 | Collective investments undertakings | 27,3 | 26,5 | 24,7 | 27,4 |
| 33 | Equity exposures | 0,5 | 0,5 | 0,5 | 0,3 |
| 34 | Other exposures | 58,5 | 64,8 | 43,8 | 23,8 |
| **35** | **Total standardised approach** | **8 433,1** | **8 334,4** | **8 435,9** | **7 850,9** |

Table 15 provides a breakdown of on-balance-sheet and off-balance-sheet exposures by geographical areas and exposure classes.

### Table 15: Geographical breakdown of exposures (EU CRB-C)

| | | b | a | k | j | n |
|---|---|---|---|---|---|---|
| **Exposure classes 31 Dec 2019, EUR million** | | **Finland** | **Nordic countries** | **Other EU member countries** | **Other countries** | **Total** |
| 7 | Central governments or central banks | 576,1 | 0,0 | 0,0 | 0,0 | 576,1 |
| 8 | Regional governments or local authorities | 78,6 | 16,1 | 0,0 | 21,7 | 116,4 |
| 9 | Public sector entities | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 12 | Institutions | 117,7 | 125,5 | 34,2 | 12,2 | 289,5 |
| 13 | Corporates | 888,4 | 67,6 | 0,6 | 0,0 | 956,6 |
| 14 | Retail | 2 785,9 | 0,5 | 1,3 | 1,3 | 2 789,0 |
| 15 | Secured by mortgages on immovable property | 3 168,1 | 0,9 | 1,4 | 0,5 | 3 170,8 |
| 16 | Exposures in default | 22,8 | 0,0 | 0,0 | 0,0 | 22,9 |
| 18 | Covered bonds | 129,1 | 176,0 | 0,0 | 120,4 | 425,4 |
| 20 | Collective investments undertakings | 19,4 | 0,0 | 0,0 | 7,9 | 27,3 |
| 21 | Equity exposures | 0,4 | 0,0 | 0,1 | 0,0 | 0,5 |
| 22 | Other exposures | 58,5 | 0,0 | 0,0 | 0,0 | 58,5 |
| **23** | **Total standardised approach** | **7 845,1** | **386,5** | **37,6** | **163,9** | **8 433,1** |

| | | b | a | k | j | n |
|---|---|---|---|---|---|---|
| **Exposure classes 31 Dec 2018, EUR million** | | **Finland** | **Nordic countries** | **Other EU member countries** | **Other countries** | **Total** |
| 7 | Central governments or central banks | 463,2 | 0,0 | 0,0 | 0,0 | 463,2 |
| 8 | Regional governments or local authorities | 450,5 | 16,2 | 0,0 | 21,3 | 488,1 |
| 9 | Public sector entities | 5,0 | 0,0 | 0,0 | 0,0 | 5,0 |
| 12 | Institutions | 198,6 | 158,8 | 51,3 | 27,4 | 436,2 |
| 13 | Corporates | 957,2 | 54,2 | 0,9 | 0,8 | 1 013,1 |
| 14 | Retail | 2 671,0 | 0,3 | 0,6 | 0,8 | 2 672,7 |
| 15 | Secured by mortgages on immovable property | 2 804,3 | 0,6 | 0,9 | 0,4 | 2 806,3 |
| 16 | Exposures in default | 17,0 | 0,0 | 0,0 | 0,0 | 17,0 |
| 18 | Covered bonds | 124,7 | 217,4 | 0,0 | 123,2 | 465,3 |
| 20 | Collective investments undertakings | 19,3 | 0,0 | 0,0 | 5,4 | 24,7 |
| 21 | Equity exposures | 0,4 | 0,0 | 0,1 | 0,0 | 0,5 |
| 22 | Other exposures | 43,8 | 0,0 | 0,0 | 0,0 | 43,8 |
| **23** | **Total standardised approach** | **7 755,1** | **447,6** | **53,9** | **179,4** | **8 435,9** |

Table 16 provides a breakdown of exposures by industry and exposure classes. The table includes all industries and exposure classes determined as significant. Industries and exposure classes that have been deemed insignificant are included in row “Other exposures” or column “Other services, total”. Approximately 65 % (59 %) of S-Bank’s credit exposures do not have an industry category; this column contains mainly household customers’ credits. There have been no significant changes in the industry distribution of exposures as compared to 2018.

Table 16: Concentration of exposures by industry (EU CRB-D)

| Exposure classes 31 Dec 2019, EUR million | | c Manufacturing | d Electricity, gas, steam and air conditioning supply | f Construction | g Wholesale and retail trade | h Transport and storage | m Professional, scientific and technical activities | v Financial and insurance activities | l Real estate activities | n Administrative and support service activities | o Public administration and defence, compulsory social security | s Other services, total | w No Industry | u **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 7 | Central governments or central banks | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 563,9 | 0,0 | 0,0 | 12,2 | 0,0 | 0,0 | **576,1** |
| 8 | Regional governments or local authorities | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 113,3 | 3,1 | 0,0 | **116,4** |
| 9 | Public sector entities | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | **0,0** |
| 12 | Institutions | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 289,5 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | **289,5** |
| 13 | Corporates | 100,3 | 60,7 | 35,8 | 221,9 | 28,9 | 29,5 | 76,4 | 362,3 | 20,2 | 0,0 | 20,7 | 0,0 | **956,6** |
| 14 | Retail | 0,1 | 0,0 | 1,0 | 0,3 | 0,4 | 2,3 | 5,6 | 4,4 | 1,1 | 0,0 | 2,6 | 2 771,1 | **2 789,0** |
| 15 | Secured by mortgages on immovable property | 0,0 | 0,0 | 0,1 | 0,0 | 0,0 | 0,0 | 47,8 | 490,9 | 0,1 | 0,0 | 0,0 | 2 632,0 | **3 170,8** |
| 16 | Exposures in default | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 22,9 | **22,9** |
| 18 | Covered bonds | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 425,4 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | **425,4** |
| 20 | Collective investments undertakings | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 17,6 | 9,7 | 0,0 | 0,0 | 0,0 | 0,0 | **27,3** |
| 21 | Equity exposures | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,3 | 0,0 | 0,0 | 0,0 | 0,2 | 0,0 | **0,5** |
| 22 | Other exposures | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 40,0 | 0,0 | 0,0 | 0,0 | 0,0 | 18,5 | **58,5** |
| **23** | **Total standardised approach** | **100,4** | **60,7** | **36,8** | **222,2** | **29,3** | **31,8** | **1 466,6** | **867,4** | **21,3** | **125,6** | **26,6** | **5 444,5** | **8 433,1** |

| | Exposure classes 31 Dec 2018, EUR million | c<br>Manufacturing | d<br>Electricity, gas, steam and air conditioning supply | f<br>Construction | g<br>Wholesale and retail trade | h<br>Transport and storage | m<br>Professional, scientific and technical activities | v<br>Financial and insurance activities | l<br>Real estate activities | n<br>Administrative and support service activities | o<br>Public administration and defence, compulsory social security | s<br>Other services, total | w<br>No Industry | u<br>**Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 7 | Central governments or central banks | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 439,6 | 0,0 | 0,0 | 23,6 | 0,0 | 0,0 | **463,2** |
| 8 | Regional governments or local authorities | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 484,3 | 3,8 | 0,0 | **488,1** |
| 9 | Public sector entities | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 5,0 | 0,0 | 0,0 | **5,0** |
| 12 | Institutions | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 436,2 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | **436,2** |
| 13 | Corporates | 111,2 | 53,7 | 40,7 | 366,6 | 22,8 | 20,5 | 76,8 | 257,4 | 38,4 | 0,0 | 25,1 | 0,0 | **1 013,1** |
| 14 | Retail | 0,1 | 0,0 | 2,0 | 4,3 | 0,4 | 2,6 | 6,5 | 5,1 | 0,8 | 0,0 | 2,3 | 2 648,6 | **2 672,7** |
| 15 | Secured by mortgages on immovable property | 0,0 | 0,0 | 0,1 | 0,0 | 0,0 | 0,0 | 49,6 | 489,8 | 0,1 | 0,0 | 0,1 | 2 266,6 | **2 806,3** |
| 16 | Exposures in default | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 17,0 | **17,0** |
| 18 | Covered bonds | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 465,3 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | **465,3** |
| 20 | Collective investments undertakings | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 16,2 | 8,5 | 0,0 | 0,0 | 0,0 | 0,0 | **24,7** |
| 21 | Equity exposures | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,3 | 0,0 | 0,0 | 0,0 | 0,2 | 0,0 | **0,5** |
| 22 | Other exposures | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 28,8 | 0,0 | 0,0 | 0,0 | 0,0 | 15,0 | **43,8** |
| **23** | **Total standardised approach** | **111,3** | **53,8** | **42,8** | **371,0** | **23,2** | **23,2** | **1 519,3** | **760,8** | **39,3** | **512,9** | **31,4** | **4 947,1** | **8 435,9** |

Table 17 illustrates the distribution of net on-balance-sheet exposures by residual maturity and exposure classes. In a divergence from the tables presented above, this table does not include off-balance-sheet exposures. Approximately 61 % of exposures have a residual maturity of more than five years, which is common for residential mortgages as well as other loans to the household customers (e.g. consumption and student loans included in the retail exposure).

**Table 17: Maturity of exposures (EU CRB-E)**

| | | a | b | c | d | e | f |
|---|---|---|---|---|---|---|---|
| **Exposure classes 31 Dec 2019, EUR million** | | Net exposure value | | | | | |
| | | **On demand** | **<= 1 year** | **> 1 years <= 5 years** | **> 5 years** | **No stated maturity** | **Total** |
| 7 | Central governments or central banks | 563,9 | 0,0 | 12,2 | 0,0 | 0,0 | 576,1 |
| 8 | Regional governments or local authorities | 0,0 | 23,1 | 93,3 | 0,0 | 0,0 | 116,4 |
| 9 | Public sector entities | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 12 | Institutions | 4,8 | 94,2 | 190,0 | 0,4 | 0,0 | 289,5 |
| 13 | Corporates | 23,3 | 71,7 | 255,2 | 222,4 | 0,0 | 572,6 |
| 14 | Retail | 0,6 | 56,0 | 144,4 | 847,3 | 288,7 | 1 337,0 |
| 15 | Secured by mortgages on immovable property | 2,0 | 43,0 | 191,3 | 2 905,2 | 0,0 | 3 141,5 |
| 16 | Exposures in default | 0,2 | 0,7 | 1,6 | 15,8 | 4,1 | 22,5 |
| 18 | Covered bonds | 0,0 | 38,7 | 386,7 | 0,0 | 0,0 | 425,4 |
| 20 | Collective investments undertakings | 0,0 | 0,0 | 0,0 | 27,1 | 0,0 | 27,1 |
| 21 | Equity exposures | 0,0 | 0,0 | 0,0 | 0,0 | 0,5 | 0,5 |
| 22 | Other exposures | 0,0 | 55,0 | 3,5 | 0,0 | 0,0 | 58,5 |
| **23** | **Total standardised approach** | **594,9** | **382,3** | **1 278,3** | **4 018,2** | **293,4** | **6 567,2** |
| **24** | **Total** | **594,9** | **382,3** | **1 278,3** | **4 018,2** | **293,4** | **6 567,2** |

| | | a | b | c | d | e | f |
|---|---|---|---|---|---|---|---|
| **Exposure classes 31 Dec 2018, EUR million** | | Net exposure value | | | | | |
| | | **On demand** | **<= 1 year** | **> 1 years <= 5 years** | **> 5 years** | **No stated maturity** | **Total** |
| 7 | Central governments or central banks | 439,6 | 0,0 | 1,1 | 22,5 | 0,0 | 463,2 |
| 8 | Regional governments or local authorities | 0,0 | 370,8 | 92,3 | 25,1 | 0,0 | 488,1 |
| 9 | Public sector entities | 0,0 | 5,0 | 0,0 | 0,0 | 0,0 | 5,0 |
| 12 | Institutions | 15,6 | 82,8 | 336,1 | 1,6 | 0,0 | 436,2 |
| 13 | Corporates | 6,9 | 170,7 | 156,2 | 208,0 | 0,0 | 541,9 |
| 14 | Retail | 0,6 | 57,7 | 157,4 | 663,5 | 264,4 | 1 143,6 |
| 15 | Secured by mortgages on immovable property | 1,5 | 72,1 | 263,3 | 2 449,5 | 0,0 | 2 786,3 |
| 16 | Exposures in default | 0,3 | 0,9 | 1,3 | 11,5 | 2,9 | 16,8 |
| 18 | Covered bonds | 0,0 | 56,2 | 391,6 | 17,4 | 0,0 | 465,3 |
| 20 | Collective investments undertakings | 0,0 | 0,0 | 0,0 | 24,7 | 0,0 | 24,7 |
| 21 | Equity exposures | 0,0 | 0,0 | 0,0 | 0,0 | 0,5 | 0,5 |
| 22 | Other exposures | 0,0 | 43,8 | 0,0 | 0,0 | 0,0 | 43,8 |
| **23** | **Total standardised approach** | **464,5** | **860,1** | **1 399,3** | **3 423,8** | **267,8** | **6 415,4** |
| **24** | **Total** | **464,5** | **860,1** | **1 399,3** | **3 423,8** | **267,8** | **6 415,4** |

## 8.3.2 CREDIT QUALITY AND NON-PERFORMING LOANS

Table 18 illustrates the defaulted and non-defaulted exposures as well as the credit risk adjustments and credit losses. Defaulted exposures remained at a very low level. Specific credit risk adjustments (ECL) and accumulated write-offs increased in line with the growth of loan portfolios. The last column of the table shows the net values corresponding to the accounting values in financial statements. Hence, this definition differs from the net asset value used in capital requirement calculations.

**Table 18: Credit quality of exposures by exposure class and instrument (EU CR1-A)**

| Exposure classes 31 Dec 2019, EUR million | | a | b | c | d | e | f | g |
|---|---|---|---|---|---|---|---|---|
| | | Gross carrying values of | | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment of the period | Net values |
| | | Defaulted exposures | Non-defaulted exposures | | | | | |
| 37 | Loans and advances | 26,3 | 5 373,2 | 15,2 | 0,0 | 15,5 | 13,6 | 5 384,2 |
| 38 | Debt securities | 0,0 | 1 112,6 | 0,0 | 0,0 | 0,0 | 0,0 | 1 112,6 |
| | Other | 0,0 | 117,1 | 0,0 | 0,0 | 0,0 | 0,0 | 117,1 |
| | **On-balance-sheet amount, total** | **26,3** | **6 602,9** | **15,2** | **0,0** | **15,5** | **13,6** | **6 614,0** |
| 39 | **Off-balance-sheet amount, total** | **0,3** | **1 865,6** | **1,2** | **0,0** | **0,0** | **0,5** | **1 864,7** |
| | **Total** | **26,6** | **8 468,5** | **16,5** | **0,0** | **15,5** | **14,1** | **8 478,7** |

| Exposure classes 31 Dec 2018, EUR million | | a | b | c | d | e | f | g |
|---|---|---|---|---|---|---|---|---|
| | | Gross carrying values of | | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment of the period | Net values |
| | | Defaulted exposures | Non-defaulted exposures | | | | | |
| 37 | Loans and advances | 19,4 | 4 652,8 | 12,8 | 0,0 | 12,8 | 12,8 | 4 659,4 |
| 38 | Debt securities | 0,0 | 1 698,8 | 0,0 | 0,0 | 0,0 | 0,0 | 1 698,8 |
| | Other | 0,0 | 90,6 | 0,0 | 0,0 | 0,0 | 0,0 | 90,6 |
| | **On-balance-sheet amount, total** | **19,4** | **6 442,3** | **12,8** | **0,0** | **12,8** | **12,8** | **6 448,9** |
| 39 | **Off-balance-sheet amount, total** | **0,2** | **2 020,3** | **0,8** | **0,0** | **0,0** | **0,8** | **2 019,7** |
| | **Total** | **19,6** | **8 462,6** | **13,6** | **0,0** | **12,8** | **13,6** | **8 468,5** |

Table 19 provides an overview of the quality of forborne exposures. Total amount of forborne on- and off-balance-sheet exposures increased by EUR 10,2 million during 2019.

Table 20 provides an ageing analysis of gross carrying amount of on- and off-balance-sheet past-due exposures. The NPL ratio, representing the amount of non-performing exposure in relation to loans and advances (excluding the cash balances at central banks and other demand deposits) amounts to 0,6 % (0,5%).

Table 21 provides an overview of gross carrying amount of non-performing exposures and related impairments, provisions and valuation adjustments by portfolio and exposure class. The amount of collateral and financial guarantees received in proportion to non-performing exposures reflects the volume of household customers' consumption loans.

### Table 19: Credit quality of forborne exposures (CQ 1)

| Exposure classes 31 Dec 2019, EUR million | | a | b | c | d | e | f | g | h |
|---|---|---|---|---|---|---|---|---|---|
| | | Gross carrying amount/nominal amount of exposures with forbearance measures | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | Collateral received and financial guarantees received on forborne exposures | |
| | | Performing forborne | Non-performing forborne | Of which defaulted | Of which impaired | On performing forborne exposures | On non-performing forborne exposures | | Of which collateral and financial guarantees received on non-performing exposures with forbearance measures |
| 1 | **Loans and advances** | 25,9 | 5,4 | 5,3 | 5,3 | -0,3 | -0,9 | 23,2 | 2,6 |
| 2 | Central banks | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 3 | General governments | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 4 | Credit institutions | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 5 | Other financial corporations | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 6 | Non-financial corporations | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 7 | Households | 25,9 | 5,4 | 5,3 | 5,3 | -0,3 | -0,9 | 23,2 | 2,6 |
| 8 | Debt Securities | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 9 | **Loan commitments given** | 0,1 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| **10** | **Total** | **26,0** | **5,5** | **5,3** | **5,3** | **-0,3** | **-0,9** | **23,2** | **2,6** |

### Table 20: Credit quality of performing and non-performing exposures by past due dates (CQ 3)

| | Exposure classes 31 Dec 2019, EUR million | a | b | c | d | e | f | g | h | i | j | k | l |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Gross carrying amount/nominal amount | | | | | | | | | | | |
| | | Performing exposures | | | Non-performing exposures | | | | | | | | |
| | | | Not past due or past due ≤ 30 days | Past due > 30 days ≤ 90 days | | Unlikely to pay that are not past due or are past due ≤ 90 days | Past due > 90 days ≤ 180 days | Past due > 180 days ≤ 1 year | Past due > 1 year ≤ 2 years | Past due > 2 years ≤ 5 years | Past due > 5 years ≤ 7 years | Past due > 7 years | Of which defaulted |
| **1** | **Loans and advances** | 5371,1 | 5353,3 | 17,9 | 28,4 | 5,4 | 13,0 | 4,7 | 2,7 | 2,2 | 0,5 | 0,0 | 26,3 |
| 2 | Central banks | 563,9 | 563,9 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 3 | General governments | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 4 | Credit institutions | 33,7 | 33,7 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 5 | Other financial corporations | 59,1 | 59,1 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 6 | Non-financial corporations | 768,2 | 768,2 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 7 | *Of which SMEs* | 245,4 | 245,4 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 8 | Households | 3946,2 | 3928,3 | 17,9 | 28,4 | 5,4 | 13,0 | 4,7 | 2,7 | 2,2 | 0,5 | 0,0 | 26,3 |
| **9** | **Debt securities** | 1112,6 | 1112,6 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 10 | Central banks | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 11 | General governments | 125,6 | 125,6 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 12 | Credit institutions | 677,5 | 677,5 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 13 | Other financial corporations | 38,8 | 38,8 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 14 | Non-financial corporations | 270,8 | 270,8 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| **15** | **Off-balance-sheet exposures** | 1865,5 | | | 0,5 | | | | | | | | 0,3 |
| 16 | Central banks | 0,0 | | | 0,0 | | | | | | | | 0,0 |
| 17 | General governments | 0,0 | | | 0,0 | | | | | | | | 0,0 |
| 18 | Credit institutions | 0,0 | | | 0,0 | | | | | | | | 0,0 |
| 19 | Other financial corporations | 33,7 | | | 0,0 | | | | | | | | 0,0 |
| 20 | Non-financial corporations | 368,3 | | | 0,0 | | | | | | | | 0,0 |
| 21 | Households | 1463,5 | | | 0,5 | | | | | | | | 0,3 |
| **22** | **Total** | **8349,3** | **6465,9** | **17,9** | **28,8** | **5,4** | **13,0** | **4,7** | **2,7** | **2,2** | **0,5** | **0,0** | **26,6** |

**Table 21: Performing and non-performing exposures and related provisions (CQ 4)**

| | Exposure classes 31 Dec 2019, EUR million | a | b | c | d | e | f | g | h | i | j | k | l | m | n | o |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Gross carrying amount/nominal amount | | | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | | | | | Accumulated partial write-off | Collateral and financial guarantees received | |
| | | Performing exposures | | | Non-performing exposures | | | Performing exposures – accumulated impairment and provisions | | | Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | | | On performing exposures | On non-performing exposures |
| | | | Of which stage 1 | Of which stage 2 | | Of which stage 2 | Of which stage 3 | | Of which stage 1 | Of which stage 2 | | Of which stage 2 | Of which stage 3 | | | |
| **1** | **Loans and advances** | 5 371,1 | 4 845,1 | 526,0 | 28,4 | 1,8 | 26,0 | -11,3 | -1,7 | -9,5 | -4,0 | -0,2 | -3,8 | 0,0 | 3 758,1 | 13,0 |
| 2 | Central banks | 563,9 | 563,9 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 3 | General governments | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 4 | Credit institutions | 33,7 | 33,7 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 5 | Other financial corporations | 59,1 | 57,7 | 1,4 | 0,0 | 0,0 | 0,0 | -0,1 | -0,1 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 46,6 | 0,0 |
| 6 | Non-financial corporations | 768,2 | 731,8 | 36,4 | 0,0 | 0,0 | 0,0 | -0,6 | -0,3 | -0,4 | 0,0 | 0,0 | 0,0 | 0,0 | 687,0 | 0,0 |
| 7 | *Of which SMEs* | 245,4 | 225,0 | 20,4 | 0,0 | 0,0 | 0,0 | -0,1 | 0,0 | -0,1 | 0,0 | 0,0 | 0,0 | 0,0 | 230,4 | 0,0 |
| 8 | Households | 3 946,2 | 3 458,0 | 488,2 | 28,4 | 1,8 | 26,0 | -10,6 | -1,4 | -9,2 | -4,0 | -0,2 | -3,8 | 0,0 | 3 024,5 | 13,0 |
| **9** | **Debt securities** | 1 112,6 | 1 112,6 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 10 | Central banks | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 11 | General governments | 125,6 | 125,6 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 12 | Credit institutions | 677,5 | 677,5 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 13 | Other financial corporations | 38,8 | 38,8 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 14 | Non-financial corporations | 270,8 | 270,8 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| **15** | **Off-balance-sheet exposures** | 1 865,5 | 1 753,5 | 112,0 | 0,5 | 0,1 | 0,3 | -1,2 | -0,2 | -1,1 | 0,0 | 0,0 | 0,0 | | 165,8 | 0,0 |
| 16 | Central banks | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | | 0,0 | 0,0 |
| 17 | General governments | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | | 0,0 | 0,0 |
| 18 | Credit institutions | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | | 0,0 | 0,0 |
| 19 | Other financial corporations | 33,7 | 32,9 | 0,8 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | | 0,0 | 0,0 |
| 20 | Non-financial corporations | 368,3 | 345,7 | 22,7 | 0,0 | 0,0 | 0,0 | -0,5 | 0,0 | -0,5 | 0,0 | 0,0 | 0,0 | | 118,9 | 0,0 |
| 21 | Households | 1 463,5 | 1 374,9 | 88,5 | 0,5 | 0,1 | 0,3 | -0,7 | -0,1 | -0,6 | 0,0 | 0,0 | 0,0 | | 47,0 | 0,0 |
| **22** | **Total** | 8 349,3 | 7 711,3 | 638,0 | 28,8 | 1,9 | 26,3 | -12,5 | -1,9 | -10,6 | -4,0 | -0,2 | -3,8 | 0,0 | 3 923,9 | 13,1 |

Table 22 illustrates the credit quality of S-Bank's on- and off-balance-sheet exposures by geographical location. Distribution of defaulted exposures and accumulated write-offs are consistent with overall distribution of S-Bank's exposures. All non-performing exposures are located in Finland since they are household customers' loans.

**Table 22: Quality of non-performing exposures by geography (CQ 5)**

| | | a | b | c | d | e | f | g |
|---|---|---|---|---|---|---|---|---|
| | | **Gross carrying/nominal amount** | | | | | | |
| | | | **Of which non-performing** | | **Of which subject to impairment** | | | |
| **Exposure classes 31 Dec 2019, EUR million** | | | | Of which defaulted | | **Accumulated impairment** | **Provisions on off-balance-sheet com-mitments and financial guarantees given** | **Accumulated negative changes in fair value due to credit risk on non-performing exposures** |
| **1** | **On-balance-sheet exposures** | 6 512,1 | 28,4 | 26,3 | 6 420,9 | -15,2 | | 0,0 |
| 2 | Finland | 5 930,7 | 28,4 | 26,3 | 5 864,0 | -15,2 | | 0,0 |
| 3 | Nordic countries | 384,3 | 0,0 | 0,0 | 367,8 | 0,0 | | 0,0 |
| 4 | Other EU member countries | 33,6 | 0,0 | 0,0 | 33,6 | 0,0 | | 0,0 |
| 7 | Other countries | 163,5 | 0,0 | 0,0 | 155,6 | 0,0 | | 0,0 |
| **8** | **Off-balance-sheet exposures** | 1 866,0 | 0,5 | 0,3 | | | -1,2 | |
| 9 | Finland | 1 864,8 | 0,5 | 0,3 | | | -1,2 | |
| 10 | Nordic countries | 0,2 | 0,0 | 0,0 | | | 0,0 | |
| 11 | Other EU member countries | 0,5 | 0,0 | 0,0 | | | 0,0 | |
| 14 | Other countries | 0,4 | 0,0 | 0,0 | | | 0,0 | |
| **15** | **Total** | **8 378,1** | **28,8** | **26,6** | **6 420,9** | **-15,2** | **-1,2** | **0,0** |

Loan collateral is not obtained for S-Bank's possession. If the exposure is non-performing, the collateral may be sold by the customer or a distraint executor to cover for the remaining debt.

Table 23 shows a breakdown of the credit quality of loans and advances to non-financial corporations and related impairments, provisions and valuation adjustments by industry.

**Table 23: Credit quality of loans and advances by industry (CQ 6)**

| | | a | b | c | d | e | f |
|---|---|---|---|---|---|---|---|
| | | **Gross carrying amount** | | | | | |
| | | | **Of which non-performing** | | **Of which loans and advances subject to impairment** | | |
| **31 Dec 2019, EUR million** | | | | Of which defaulted | | **Accumulated impairment** | **Accumulat-ed negative changes in fair value due to credit risk on non-performing exposures** |
| 3 | Manufacturing | 0,1 | 0,0 | 0,0 | 0,1 | 0,0 | 0,0 |
| 4 | Electricity, gas, steam and air conditioning supply | 33,3 | 0,0 | 0,0 | 33,3 | -0,2 | 0,0 |
| 6 | Construction | 0,3 | 0,0 | 0,0 | 0,3 | 0,0 | 0,0 |
| 7 | Wholesale and retail trade | 23,3 | 0,0 | 0,0 | 23,3 | 0,0 | 0,0 |
| 11 | Financial and insurance actvities | 5,6 | 0,0 | 0,0 | 5,6 | 0,0 | 0,0 |
| 12 | Real estate activities | 696,3 | 0,0 | 0,0 | 696,3 | -0,5 | 0,0 |
| 13 | Professional, scientific and technical activities | 6,3 | 0,0 | 0,0 | 6,3 | 0,0 | 0,0 |
| 14 | Administrative and support service activities | 0,9 | 0,0 | 0,0 | 0,9 | 0,0 | 0,0 |
| 19 | Other services | 2,1 | 0,0 | 0,0 | 2,1 | 0,0 | 0,0 |
| **20** | **Total** | **768,2** | **0,0** | **0,0** | **768,2** | **-0,6** | **0,0** |

Table 24 identifies the changes in the stock of specific credit risk adjustments held against loans and debt securities that are defaulted or impaired.

**Table 24: Changes in the stock of specific credit risk adjustments (EU CR2-A)**

| | **31 Dec 2019, EUR million** | a<br>Accumulated specific credit risk adjustment | b<br>Accumulated general credit risk adjustment |
|---|---|---|---|
| 1 | **Opening balance** | **14,5** | **0,0** |
| 2 | Changes due to change in credit risk (net) | 1,1 | 0,0 |
| 3 | Increases due to origination and acquisition | 7,8 | 0,0 |
| 4 | Decreases due to derecognition | -4,6 | 0,0 |
| 5 | Decrease in allowance account due to write-offs | -1,7 | 0,0 |
| 6 | **Closing balance** | **17,1** | **0,0** |
| 7 | Recoveries of previously written-off amounts recorded directly to the statement of profit or loss | 0,0 | 0,0 |
| 8 | Amounts written-off directly to the statement of profit or loss | 0,0 | 0,0 |

| | **31 Dec 2018, EUR million** | a<br>Accumulated specific credit risk adjustment | b<br>Accumulated general credit risk adjustment |
|---|---|---|---|
| 1 | **Opening balance** | **14,1** | **0,0** |
| 2 | Changes due to change in credit risk (net) | 1,6 | 0,0 |
| 3 | Increases due to origination and acquisition | 1,7 | 0,0 |
| 4 | Decreases due to derecognition | -1,8 | 0,0 |
| 5 | Decrease in allowance account due to write-offs | -1,2 | 0,0 |
| 6 | **Closing balance** | **14,5** | **0,0** |
| 7 | Recoveries of previously written-off amounts recorded directly to the statement of profit or loss | 0,0 | 0,0 |
| 8 | Amounts written-off directly to the statement of profit or loss | 0,0 | 0,0 |

Table 25 identifies the changes in the stock of defaulted loans and debt securities.

**Table 25: Changes in the stock of defaulted and impaired loans and debt securities (EU CR2-B)**

| | **31 Dec 2019, EUR million** | a<br>Gross carrying value defaulted exposures |
|---|---|---|
| 1 | **Opening balance** | 19,6 |
| 2 | Loans and debt securities that have defaulted or impaired since the last reporting period | 41,6 |
| 3 | Returned to non-defaulted status | -13,7 |
| 4 | Amounts written off | -15,4 |
| 5 | Other changes | -5,5 |
| 6 | **Closing balance** | 26,6 |

| | **31 Dec 2018, EUR million** | a<br>Gross carrying value defaulted exposures |
|---|---|---|
| 1 | **Opening balance** | 12,4 |
| 2 | Loans and debt securities that have defaulted or impaired since the last reporting period | 28,4 |
| 3 | Returned to non-defaulted status | -4,0 |
| 4 | Amounts written off | -12,7 |
| 5 | Other changes | -4,5 |
| 6 | **Closing balance** | 19,6 |

## 8.3.3 CREDIT RISK MITIGATION

Table 26 illustrates information on exposures secured by collateral and guarantees used as credit risk mitigants in terms of calculating the risk-weighted exposure amounts (RWAs). Exposures secured by collateral mostly includes immovable property, being S-Bank's largest category of collateral. In comparison to 2018, the amount of exposures secured by immovable property has increased in line with the strong growth of residential mortgages granted. The Finnish Government is the most significant individual guarantor. The other guarantors mainly consists of insurance guarantees covering residential mortgages. Both guarantee categories have augmented during 2019 due to the growth of residential mortgages and student loans.

**Table 26: CRM techniques – overview (EU CR3)**

| | **Exposure value 31 Dec 2019, EUR million** | a | b | c | d | e |
|---|---|---|---|---|---|---|
| | | Exposures unsecured - Carrying amount | Exposures secured - Carrying amount | Exposures secured by collateral | Exposures secured by financial guarantees | Exposures secured by credit derivatives |
| 1 | Total loans | 3 338,6 | 3 911,4 | 3 397,7 | 513,6 | 0,0 |
| 2 | Total debt securities | 1 112,9 | 0,0 | 0,0 | 0,0 | 0,0 |
| **3** | **Total exposures** | **4 451,5** | **3 911,4** | **3 397,7** | **513,6** | **0,0** |
| 4 | Of which defaulted | 10,8 | 12,0 | 10,4 | 1,6 | 0,0 |

| | **Exposure value 31 Dec 2018, EUR million** | a | b | c | d | e |
|---|---|---|---|---|---|---|
| | | Exposures unsecured - Carrying amount | Exposures secured - Carrying amount | Exposures secured by collateral | Exposures secured by financial guarantees | Exposures secured by credit derivatives |
| 1 | Total loans | 3 316,8 | 3 363,0 | 2 963,5 | 399,5 | 0,0 |
| 2 | Total debt securities | 1 698,8 | 0,0 | 0,0 | 0,0 | 0,0 |
| **3** | **Total exposures** | **5 015,7** | **3 363,0** | **2 963,5** | **399,5** | **0,0** |
| 4 | Of which defaulted | 8,4 | 8,6 | 7,9 | 0,7 | 0,0 |

Table 27 presents information regarding credit risk management (CRM) techniques at the end of the financial period. On-balance sheet exposures amount to approximately 78 % of all credit risk exposures (EUR 8,4 billion) before Credit Conversion Factor (CCF) and Credit Risk Mitigation (CRM). The total RWA density has increased by approximately 1,9 percentage points as compared to 2018.

**Table 27: Credit risk exposure and CRM effects (EU CR4)**

| | **Exposure classes 31 Dec 2019, EUR million** | **Exposures before CCF and CRM** | | **Exposures post CCF and CRM** | | **RWAs and RWA density** | |
|---|---|---|---|---|---|---|---|
| | | On-balance-sheet amount | Off-balance-sheet amount | On-balance-sheet amount | Off-balance-sheet amount | RWAs | RWA density |
| 1 | Central governments or central banks | 576,1 | 0,0 | 901,9 | 6,1 | 0,0 | 0,0 % |
| 2 | Regional governments or local authorities | 116,4 | 0,0 | 116,5 | 0,0 | 0,6 | 0,5 % |
| 3 | Public sector entities | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 19,8 % |
| 6 | Institutions | 285,8 | 0,0 | 288,8 | 0,0 | 93,8 | 32,5 % |
| 7 | Corporates | 572,6 | 384,1 | 630,1 | 52,0 | 583,4 | 85,5 % |
| 8 | Retail | 1 337,0 | 1 452,0 | 950,6 | 16,0 | 722,8 | 74,8 % |
| 9 | Secured by mortgages on immovable property | 3 141,5 | 29,4 | 3 141,5 | 6,7 | 1 088,4 | 34,6 % |
| 10 | Exposures in default | 22,5 | 0,3 | 22,5 | 0,0 | 28,6 | 126,8 % |
| 12 | Covered bonds | 425,4 | 0,0 | 425,4 | 0,0 | 42,5 | 10,0 % |
| 14 | Collective investments undertakings | 27,1 | 0,3 | 27,1 | 0,1 | 27,2 | 100,0 % |
| 15 | Equity | 0,5 | 0,0 | 0,5 | 0,0 | 0,5 | 100,0 % |
| 16 | Other items | 58,5 | 0,0 | 58,5 | 0,0 | 21,9 | 37,5 % |
| **17** | **Total** | **6 563,4** | **1 866,0** | **6 563,4** | **81,0** | **2 609,9** | **39,3 %** |

| Exposure classes 31 Dec 2018, EUR million | | Exposures before CCF and CRM | | Exposures post CCF and CRM | | RWAs and RWA density | |
|---|---|---|---|---|---|---|---|
| | | On-balance-sheet amount | Off-balance-sheet amount | On-balance-sheet amount | Off-balance-sheet amount | RWAs | RWA density |
| 1 | Central governments or central banks | 463,2 | 0,0 | 722,4 | 4,7 | 0,0 | 0,0 % |
| 2 | Regional governments or local authorities | 488,1 | 0,0 | 488,2 | 0,0 | 0,8 | 0,2 % |
| 3 | Public sector entities | 5,0 | 0,0 | 5,0 | 0,0 | 1,0 | 20,0 % |
| 6 | Institutions | 430,6 | 0,0 | 418,5 | 0,0 | 133,1 | 31,8 % |
| 7 | Corporates | 541,9 | 471,2 | 585,0 | 42,0 | 551,2 | 87,9 % |
| 8 | Retail | 1 143,6 | 1 529,1 | 853,3 | 11,7 | 646,2 | 74,7 % |
| 9 | Secured by mortgages on immovable property | 2 786,3 | 19,9 | 2 786,3 | 4,8 | 974,1 | 34,9 % |
| 10 | Exposures in default | 16,8 | 0,2 | 16,8 | 0,0 | 21,3 | 126,7 % |
| 12 | Covered bonds | 465,3 | 0,0 | 465,3 | 0,0 | 46,5 | 10,0 % |
| 14 | Collective investments undertakings | 24,7 | 0,0 | 24,7 | 0,0 | 24,7 | 100,0 % |
| 15 | Equity | 0,5 | 0,0 | 0,5 | 0,0 | 0,5 | 100,0 % |
| 16 | Other items | 43,8 | 0,0 | 43,8 | 0,0 | 18,8 | 42,9 % |
| **17** | **Total** | **6 409,9** | **2 020,4** | **6 409,9** | **63,2** | **2 418,1** | **37,4 %** |

Table 28 presents the breakdown of on- and off-balance-sheet exposure classes and risk weights after the deduction of CRM and CCF.

S-Bank uses ratings disclosed by External Credit Assessment Institutions (ECAI's) such as Standard & Poor's, Moody's Investors Service and Fitch Ratings to determine applicable risk weights for central governments or central banks, regional governments, public sector entities, credit institutions, corporates and collective investments undertakings. The last column in the table represents the exposures for which an external credit institution's credit rating is unavailable.

Most of S-Bank's exposures fall into the 35 % risk weight category (EUR 3,2 billion). These are the mortgages secured by immovable properties.

**Table 28: Exposures by risk weight under the standardised approach (EU CR5)**

| Exposure classes 31 Dec 2019, EUR million | | Risk weight | | | | | | | | | | Total | Of which unrated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 0 % | 2 % | 10 % | 20 % | 35 % | 50 % | 75 % | 100 % | 150 % | 250 % | | |
| 1 | Central governments or central banks | 908,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 908,0 | 0,0 |
| 2 | Regional governments or local authorities | 113,4 | 0,0 | 0,0 | 3,1 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 116,5 | 3,1 |
| 3 | Public sector entities | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 6 | Institutions | 2,8 | 26,4 | 0,0 | 127,3 | 0,0 | 136,0 | 0,0 | 0,0 | 0,0 | 0,0 | 292,6 | 3,5 |
| 7 | Corporates | 0,0 | 0,0 | 0,0 | 64,0 | 0,0 | 93,9 | 0,0 | 524,2 | 0,0 | 0,0 | 682,1 | 417,1 |
| 8 | Retail | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 966,6 | 0,0 | 0,0 | 0,0 | 966,6 | 966,6 |
| 9 | Secured by mortgages on immovable property | 0,0 | 0,0 | 0,0 | 0,0 | 3 148,1 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 3 148,1 | 3 148,1 |
| 10 | Exposures in default | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 10,4 | 12,1 | 0,0 | 22,5 | 22,5 |
| 12 | Covered bonds | 0,0 | 0,0 | 425,4 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 425,4 | 0,0 |
| 14 | Collective investments undertakings | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 27,2 | 0,0 | 0,0 | 27,2 | 27,2 |
| 15 | Equity | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,5 | 0,0 | 0,0 | 0,5 | 0,5 |
| 16 | Other items | 40,0 | 0,0 | 0,0 | 0,1 | 0,0 | 0,0 | 0,0 | 16,1 | 0,0 | 2,3 | 58,5 | 58,5 |
| **17** | **Total** | **1 064,2** | **26,4** | **425,4** | **194,4** | **3 148,1** | **229,9** | **966,6** | **578,5** | **12,1** | **2,3** | **6 648,1** | **4 647,3** |

| Exposure classes 31 Dec 2018, EUR million | | Risk weight 0 % | 2 % | 10 % | 20 % | 35 % | 50 % | 75 % | 100 % | 150 % | 250 % | Total | Of which unrated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Central governments or central banks | 727,1 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 727,1 | 0,0 |
| 2 | Regional governments or local authorities | 484,4 | 0,0 | 0,0 | 3,8 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 488,2 | 3,8 |
| 3 | Public sector entities | 0,0 | 0,0 | 0,0 | 5,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 5,0 | 0,0 |
| 6 | Institutions | 11,2 | 0,0 | 0,0 | 239,0 | 0,0 | 173,8 | 0,0 | 0,0 | 0,0 | 0,0 | 424,0 | 2,8 |
| 7 | Corporates | 0,0 | 0,0 | 0,0 | 38,6 | 0,0 | 96,8 | 0,0 | 484,6 | 7,0 | 0,0 | 627,0 | 419,3 |
| 8 | Retail | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 865,1 | 0,0 | 0,0 | 0,0 | 865,1 | 865,1 |
| 9 | Secured by mortgages on immovable property | 0,0 | 0,0 | 0,0 | 0,0 | 2 791,1 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 2 791,1 | 2 791,1 |
| 10 | Exposures in default | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 7,8 | 9,0 | 0,0 | 16,8 | 16,8 |
| 12 | Covered bonds | 0,0 | 0,0 | 465,3 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 465,3 | 0,0 |
| 14 | Collective investments undertakings | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 24,7 | 0,0 | 0,0 | 24,7 | 24,7 |
| 15 | Equity | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,5 | 0,0 | 0,0 | 0,5 | 0,5 |
| 16 | Other items | 28,8 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 12,4 | 0,0 | 2,6 | 43,8 | 43,8 |
| 17 | **Total** | **1 251,5** | **0,0** | **465,3** | **286,5** | **2 791,1** | **270,6** | **865,1** | **530,0** | **16,0** | **2,6** | **6 478,7** | **4 167,9** |

## 8.3.4 COUNTERPARTY CREDIT RISKS

Clearing derivative contracts through a qualifying central counterparty has reduced the capital requirement of counterparty credit risk.

Table 29 presents a review of exposures to which the counterparty credit risk framework is applied. The replacement cost is the current exposure value, meaning the market value greater than zero under the mark-to-market method. The table does not include CVA charges or exposures cleared through CCPs. Potential future credit risk is calculated based on the values of the underlying assets, using the special percentages laid down in Article 274 of the CRR. Clearing derivative contracts through a qualifying central counterparty has reduced the capital requirement of counterparty credit risk.

**Table 29: Analysis of CCR exposure by approach (EU CCR1)**

| 31 Dec 2019, EUR million | | Replacement cost/current market value | Potential future credit exposure | EAD post CRM | RWAs |
|---|---|---|---|---|---|
| 1 | Mark to market | 0,0 | 0,3 | 0,3 | 0,1 |
| 11 | Total | | | | 0,1 |

| 31 Dec 2018, EUR million | | Replacement cost/current market value | Potential future credit exposure | EAD post CRM | RWAs |
|---|---|---|---|---|---|
| 1 | Mark to market | 0,2 | 5,3 | 5,5 | 1,6 |
| 11 | Total | | | | 1,6 |

Table 30 discloses the carrying values of cash collaterals posted by S-Bank in relation to the ISDAs and CSAs. Cash collaterals have been posted to cover any counterparty credit risks related to derivatives. S-Bank's cash collaterals are unsegregated, i.e. they are not held in a bankruptcy-remote manner.

### Table 30: Composition of collateral for exposures to CCR (EU CCR5B)

| 31 Dec 2019, EUR thousands | c | d |
|---|---|---|
| | Collateral used in derivative transactions | |
| | Fair value of posted collateral | |
| | Segregated | Unsegregated |
| Derivative contracts | - | 22,9 |
| **Total** | **-** | **22,9** |

| 31 Dec 2018, EUR thousands | c | d |
|---|---|---|
| | Collateral used in derivative transactions | |
| | Fair value of posted collateral | |
| | Segregated | Unsegregated |
| Derivative contracts | - | 13,8 |
| **Total** | **-** | **13,8** |

Table 31 presents exposure values and RWAs of transaction subject to capital requirements for CVAs.

### Table 31: CVA capital charge (EU CCR2)

| | 31 Dec 2019, EUR millions | a<br>**Exposure value** | b<br>**RWAs** |
|---|---|---|---|
| 4 | All portfolios subject to the standardised method | 0,3 | 0,1 |
| **5** | **Total subject to the CVA capital charge** | **0,3** | **0,1** |

| | 31 Dec 2018, EUR millions | a<br>**Exposure value** | b<br>**RWAs** |
|---|---|---|---|
| 4 | All portfolios subject to the standardised method | 5,5 | 3,1 |
| **5** | **Total subject to the CVA capital charge** | **5,5** | **3,1** |

Table 32 discloses exposures of centrally cleared derivatives. In 2019 S-Bank transferred to clear over-the-counter (OTC) derivative contracts through central counterparties. Since the chosen clearing house is a qualified CCP, there are no exposures to non-QCCPs.

### Table 32: Exposures to CCPs (EU CCR8)

| | 31 Dec 2019, EUR millions | a<br>**EAD post CRM** | b<br>**RWAs** |
|---|---|---|---|
| **1** | **Exposures to QCCPs (total)** | | **0,1** |
| 2 | Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which | 3,5 | 0,1 |
| 3 | (i) OTC derivatives | 3,5 | 0,1 |
| 7 | Segregated initial margin | 0,0 | |
| 8 | Non-segregated initial margin | 0,0 | 0,0 |

Following table provides a breakdown of counterparty credit risk by risk weights.

### Table 33: CCR exposures by regulatory portfolio and risk (EU CCR3)

| | Exposure classes 31 Dec 2019, EUR million | Risk weight | | | Total | Of which unrated |
|---|---|---|---|---|---|---|
| | | 2 % | 20 % | 50 % | | |
| 6 | Institutions | 3,5 | | 0,3 | 3,7 | |
| **11** | **Total** | **3,5** | | **0,3** | **3,7** | |

| | Exposure classes 31 Dec 2018, EUR million | Risk weight | | | Total | Of which unrated |
|---|---|---|---|---|---|---|
| | | 2 % | 20 % | 50 % | | |
| 6 | Institutions | | 3,8 | 1,7 | 5,5 | |
| **11** | **Total** | | **3,8** | **1,7** | **5,5** | |

# 9 OPERATIONAL RISKS

## 9.1 HIGHLIGHTS 2019 AND OVERVIEW

*Operational risk refers to the possibility of losses arising from unclear or inadequate processes, deficient systems, staff or external factors. Operational risks are classified as internal and external fraud, problems in working conditions and occupational safety, damage to physical assets, damage from IT system disruptions and outages and process-related problems.*

**S-Bank's operational risk profile is materially impacted by system failures and disruptions, fraud in addition to possible deficiencies with external service providers. The primary objective of S-Bank's operational risk management framework is to manage reputational risk and to secure continuous operations in both the short and long term. Losses attributable to operational risks realised in 2019 were very low in comparison to the regulatory capital requirement reserved for them.**

- Operational risk accounts for 10 % of S-Bank's total REAs. The basic indicator approach is used for calculating the capital requirement for operational risk.
- In 2019 solely operational risk losses were EUR 821 thousand (633 in 2018). The losses related to compliance risks (penalty payment of EUR 980 000) are included in the S-Bank's operational risk profile. Hence, total operational risk losses totalled to EUR 1,8 million. In order to facilitate comparability, following figures represent basic operational risks.
    - 65 % (56 %) of the net operational risk losses are due to individual events with a loss value less than EUR 10 thousand.
    - 70 % (47 %) of operational risk losses are caused by external fraud. S-Bank continues to work against fraud on various preventative initiatives.

## 9.2 MANAGEMENT OF OPERATIONAL RISK

The primary objective of S-Bank's operational risk management is to manage reputational risk and to secure business continuity in both the short and long term. Operational risk management ensures that S-Bank´s values and strategy are implemented in the business and support units. Operational risk management covers all material risks related to business operations. The consequences of realised operational risks may result in financial losses or may lead to the deterioration of S-Bank's reputation.

Risk management process is implemented in all S-Bank Group's organisational levels by identifying, measuring, monitoring, assessing and reporting S-Bank´s material risks. In addition, the risk management process ensures that internal control measures are functional, appropriate, cost-effective and adequate. Risk management is also integrated into S-Bank´s corporate governance, decision making and procedures.

The Operational Risk Control function is independent from S-Bank's business operations and supervises and assesses the scope, and adequacy and effectiveness of S-Bank's operational risk management in a comprehensive manner. The Operational Risk Control function supports the implementation of risk management within the organisation and ensures that all risks are identified and assessed. Moreover, the function develops risk management guidelines and tools, together with the business operations and support functions.

S-Bank's business and support units identify the operational risks related to their own operations. The identified risks are assessed, and the probabilities and consequences of their occurrence are determined. Risk assessments specify the methods used in managing operational risk; i.e. controls for the limitation of potential losses by reducing the probability of their realisation, or the amount of the loss caused by damage. In addition, the risk assessments are updated whenever the processes or the operating environment change, at least once a year.

New products, services and counterparties are approved in accordance with an approval process before their implementation. The approval process aims to ensure that products and services have been planned with due diligence, that all changes to internal control and risk management required have been implemented, and that the documentation is appropriate and adequate. The process ensures that an appropriate target market and sales procedures have been defined. The same approval process is also used when existing products are modified.

S-Bank mitigates potential operational risks by maintaining an insurance cover for damages of property or losses that may be caused by criminal activities or misuse, for example. Substantial disturbances in S-Bank's operations are taken into consideration in business continuity planning.

## 9.3 OPERATIONAL RISK MONITORING AND REPORTING

S-Bank monitors and supervises operations on a continuous basis at various organisational levels. Every employee is responsible for observing the implementation of operational risk management within their sphere of responsibility and reporting on deviations and incidents related to operational risks.

S-Bank has an operating model and reporting system for the management of materialised operational incidents. An incident report is filled in those situations and events that restrict normal everyday operations or breach regulatory requirements or S-Bank's guidelines. Incidents also include any circumstances attributable to contracting parties or subcontractors which have a deteriorating impact on S-Bank's operations. The report details the reasons that led to the event, assessments of their impact and potential costs. When necessary, the incident report includes information about measures that have been taken or planned to prevent similar events in the future.

The Operational Risk Control function reports regularly to S-Bank's Board of Directors, the Risk and Audit Committee, the Risk Committee, the CEO and the Group's Management Team and the authorities on the most significant operational risks that have occurred in various business and support units.

# 10 COMPLIANCE RISKS

## 10.1 HIGHLIGHTS AND OVERVIEW

*Compliance risk refers to a risk that arises from non-compliance of regulatory requirements and ethical principles. Compliance risks include conduct risks in relation to customer and decision processes, corporate culture, risks related to non-compliance of regulatory requirements, juridical risks, risks related to conflicts of interest and unethical behavior as well as risks in relation to anti-money laundering and terrorist financing. Compliance risks are non-financial risks and often overlapping with operational risks.*

**S-Bank's compliance risk profile is materially impacted by sanctions and fines. The primary objective of S-Bank's compliance risk management framework is to manage reputational risk and to secure compliance with regulatory requirements in both the short and long term.**

- In December 2019 the FIN-FSA imposed a penalty payment of EUR 980 000 on S-Bank Ltd because its risk-based approach had not been sufficiently comprehensive to meet the requirements of the former Act on Detecting and Preventing Money Laundering and Terrorist Financing (503/2008) nor had it obtained adequate customer due diligence data. At the same time, the FIN-FSA also issued a public warning to FIM Asset Management Ltd because it had not obtained adequate customer due diligence data. The shortcomings on customer due diligence processes and S-Bank's risk-based approach occurred in 2014-2017. S-Bank Ltd and FIM Asset Management Ltd have made continuous improvements in order to comply with the tightened anti-money laundering requirements. The companies have developed the existing customer due diligence processes and their risk-based approach to comply with the regulatory requirements of the Fourth and Fifth Anti-Money Laundering Directives. Based on the inspection findings, the FIN-FSA has no reason to suspect that money laundering offences referred to in the Criminal Code have been committed by S-Bank Ltd or FIM Asset Management Ltd.

## 10.2 MANAGEMENT OF COMPLIANCE RISKS

S-Bank's risk strategy states that the bank's activities and operations must comply with the regulatory requirements in force. The management of S-Bank Group's compliance risks is set out in Compliance Policy, which is a policy drafted and maintained by the Compliance function and regularly approved by S-Bank's Board of Directors. Although management of compliance risks is a responsibility of every staff member, ultimately S-Bank's CEO together with the Board of Directors are responsible for ensuring that the bank's business is compliant with regulatory requirements.

S-Bank has various processes in place for the management of compliance risks. These include e.g. processes to approve new products and ensure adherence to requirements set out in S-Bank's policies, procedures and ethical standards, continuous AML and sanctions monitoring processes as well as ongoing compliance training. From a compliance perspective, the aim of enhanced product approval process is to ensure that all new products and services launched by S-Bank comply with the regulatory requirements. S-Bank's policies and procedures form the risk management framework. The policies that cover management of compliance risks include policies related to AML and counter-terrorist financing, conflicts of interest, customer complaints practices, data protection, internal controls, fit & proper requirements and insider trading guidelines. The Compliance function is responsible for updating and providing training on compliance policies and procedures on a regular basis.

Management of compliance risks is an ongoing process based on risk-assessments. All of S-Bank's business and support units are required to regularly identify their compliance risks and controls in accordance with the group-wide risk assessment methodology. Any requirements to improve the existing controls are also identified as part the risk assessment process.

Furthermore, the execution of Compliance function's risk-based annual monitoring plan approved by the Board of Directors is crucial in ensuring management of compliance risks. Whenever compliance risks are identified as a part of the ongoing monitoring work, Compliance team has the authority to provide recommendations to business and support units to ensure and improve compliance with regulatory requirements. Compliance recommendations are documented and followed up regularly to ensure they're implemented as planned.

## 10.3 COMPLIANCE RISK MONITORING AND REPORTING

Business and support units are required to report any compliance risks that occur through the group-wide operational risk reporting tool. S-Bank also has a whistle blowing channel and procedure which allows anonymous internal reporting of any potential misconduct, unethical or illegal behaviour.

The Compliance function has an important role in continuously assessing compliance risks and reporting them to the Board of Directors, the Risk and Audit Committee, the Risk Committee, the CEO and the senior management on the most significant compliance risks that have occurred.

# 11 MARKET RISKS

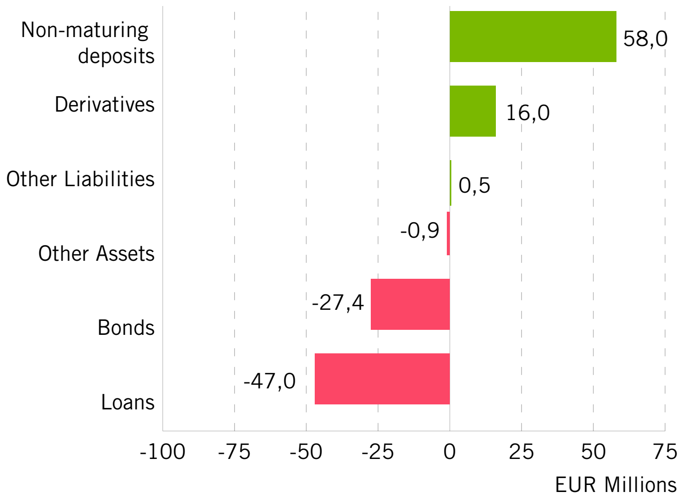
## 11.1 HIGHLIGHTS 2019 AND OVERVIEW

*Market risk is the risk of losses arising from changes in market values of financial assets and liabilities resulting from changes in market prices, rates or volatilities.*

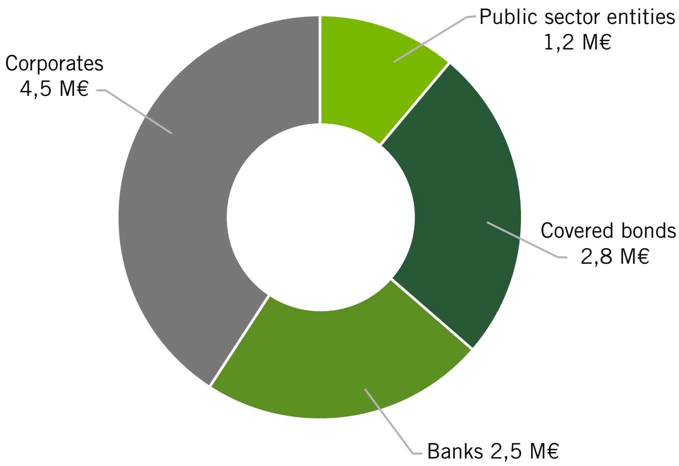
**S-Bank's market risks are mainly comprised of spread risk and interest rate risk in the banking book (IRRBB) attributable to the structural interest rate risk in the balance sheet and investment operations of the Treasury unit. S-Bank is not significantly exposed to other market risks, which include equity risks, real estate risks and exchange rate risks. The market risk profile is controlled with conservative risk appetite.**

- S-Bank does not have a trading book. As S-Bank's market risks arise from the banking book, these are – in accordance with the Pillar 1 requirements and methods – included in the regulatory capital requirements for credit risk. In addition, market risk is measured with internal market model as part of the Pillar 2 and ICAAP process.
- In 2019, the total value of the Treasury's investment portfolio decreased by EUR 464,3 million to EUR 1649,5 million (-22 %), which was mainly driven by selling positions in public sector and bank bonds. The risk profile of the portfolio relative to its size, remained stable in 2019.
- S-Bank's earnings-based interest rate (IR) risk increased and economic value -based IR risk decreased significantly, mainly driven by changes in modeling of core deposits.
    - IRRBB (+100 bps parallel shift, earnings-based risk) increased by EUR 7,5 million to EUR 35,2 million (+27 %).
    - IRRBB (+100 bps parallel shift, economic value (EV)) decreased by EUR 30,2 million to EUR -0,7 million (-98 %).
    - IR risk of the treasury portfolio (+100 bps parallel shift) decreased by EUR 4,0 million to EUR -13,4 million (-23 %). Interest rate sensitivity in relation to size of the portfolio has remained stable.
- S-Bank's spread risk is caused by fixed- and floating-rate bonds and money market instruments classified and measured at fair value through other comprehensive income in the Treasury's portfolio. The risk profile for spread risk remained stable in 2019. Bond spread risk calculation is specified in Spread risks -section.

**IRRBB EV risk, +100 bps scenario, total EUR -0,7 million**




**Bond spread risk 2019, total EUR 11,0 million**




## 11.2 MANAGEMENT OF MARKET RISK

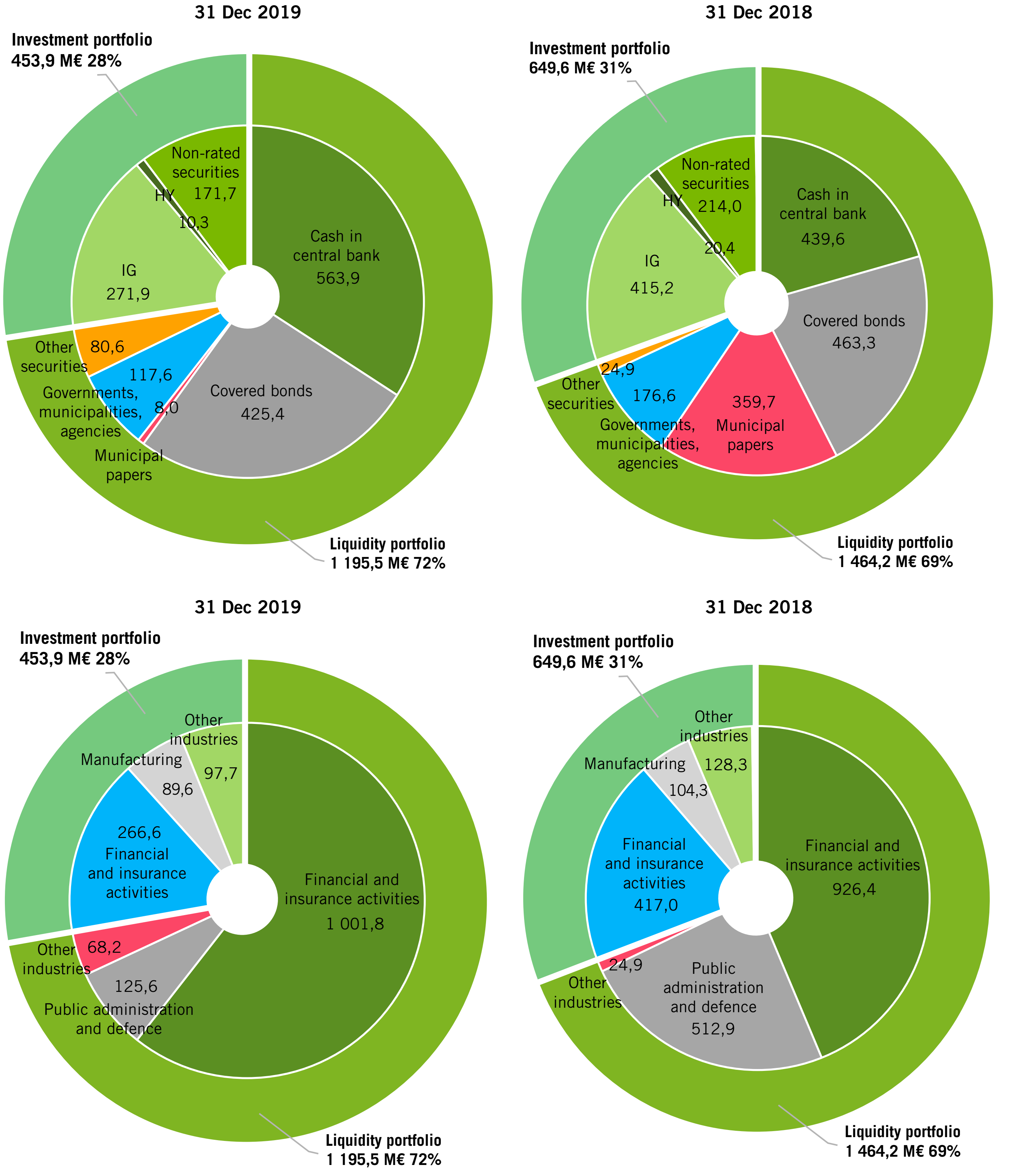
S-Bank's market risk arises from spread risk and interest rate risk in the banking book attributable to the structural IR risk in the balance sheet and investment operations of the Treasury unit. S-Bank is not significantly exposed to other market risks, which include equity risks, real estate risks and exchange rate risks.

Market risk in S-Bank's internal Pillar 2 capital review covers IR risks in the banking book, spread risk, equity risk, currency risk and real estate risks. Diversification effects between the categories of market risks are taken into account as a part of the total Pillar 2 capital requirement for market risk.

S-Bank's market risk management is based on a conservative risk appetite and the Board of Directors has set risk limits for each market risk type. The purpose is also to optimise returns on equity within the scope of the set risk appetite. Market risk concentrations and single name exposures are also managed through a limit framework. Limits are monitored and reported daily. Proactive monitoring of the external business environment is also an essential part of market risk management. Plain vanilla IR derivatives are used in hedging of interest rate risk in the Treasury portfolio.

The Treasury unit is responsible for managing market risk and Treasury acts as the Group's internal bank and internal hedging counterparty for business operations. Treasury's strategic goals are set in S-Bank's risk strategy and risk appetite, then integrated into Treasury's annual investment plan. Figure 22 illustrates the structure of the treasury portfolio (total EUR 1649,5 million) as distributed by classification and by industry. In 2019, the size of the overall portfolio decreased as investment portfolio was used to finance lending growth. Assets also shifted from municipal papers into central bank reserves and position of bank bonds in investment portfolio decreased.

**Figure 22: Distribution of Treasury portfolio by classification and concentration by industry**



## 11.2.1 INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

Majority of S-Bank's Pillar 2 market risk arises from IRBBB, that is viewed both as the structural interest rate risk in balance sheet and as the interest rate risk of instruments (assets and liabilities classified and measured at fair value through other comprehensive income) in the Treasury portfolio.

The structural IR risk in the balance sheet is caused by differences in interest rate fixings and maturities of financial assets and liabilities. Therefore, the future Net Interest Income (NII) of S-Bank and the net present value of the balance sheet (Economic Value-based risk, EV) are not entirely foreseeable. In addition to the structural IR risk arising from mismatches in repricing profiles of deposit and lending operations, a significant part of the IR risk arises from the instruments in Treasury portfolio.

Economic value -based measure analyses the IR sensitivity of the net present value of all IR sensitive instruments over their remaining life until maturity. Earnings based analysis measures the sensitivity of expected future profitability of the bank resulting from IR movements over a specified time frame.

IR risk is managed by planning the balance sheet structure, such as the maturity and IR fixings of assets and liabilities, and by hedging the risk with IR derivatives. S-Bank applies hedge accounting for the hedged positions as described in the notes of the financial statement. The Board of Directors has set a limit both for S-Bank's EV and for NII interest rate risks. Table 34 presents the breakdown of financial assets and liabilities by IR fixings.

**Table 34: Breakdown of financial assets and liabilities by interest rate fixing**

| Financial assets and liabilities 31 Dec 2019, EUR million | 0–3 months | 3– 12 months | 1–5 years | 5–10 years | More than 10 years | Total |
|---|---|---|---|---|---|---|
| Cash | 603,9 | 0,0 | 0,0 | 0,0 | 0,0 | 603,9 |
| Debt securities eligible for refinancing with central banks | 77,0 | 80,7 | 621,7 | 7,8 | 0,0 | 787,2 |
| Receivables from credit institutions | 33,7 | 0,0 | 0,0 | 0,0 | 0,0 | 33,7 |
| Receivables from the public and public-sector entities | 2 027,8 | 2 668,3 | 73,6 | 10,9 | 0,0 | 4 780,6 |
| Debt securities | 37,0 | 36,4 | 188,9 | 31,5 | 0,0 | 293,8 |
| Derivatives | 0,4 | 0,0 | 0,0 | 0,0 | 0,0 | 0,4 |
| **Financial assets total** | **2 779,8** | **2 785,3** | **884,1** | **50,3** | **0,0** | **6 499,6** |
| Liabilities to credit institutions | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Liabilities to the public and public-sector entities | 5 997,0 | 0,9 | 3,0 | 0,0 | 0,0 | 6 000,8 |
| Subordinated debt | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 50,0 |
| Derivatives | 9,3 | 5,8 | 2,0 | 0,0 | 0,0 | 17,1 |
| **Financial liabilities total** | **6 006,3** | **56,6** | **4,9** | **0,0** | **0,0** | **6 067,9** |
| **Financial assets and liabilities, total** | **-3 226,5** | **2 728,7** | **879,2** | **50,3** | **0,0** | **431,7** |

| Financial assets and liabilities 31 Dec 2018, EUR million | 0–3 months | 3– 12 months | 1–5 years | 5–10 years | More than 10 years | Total |
|---|---|---|---|---|---|---|
| Cash | 468,4 | 0,0 | 0,0 | 0,0 | 0,0 | 468,4 |
| Debt securities eligible for refinancing with central banks | 188,8 | 68,4 | 661,0 | 84,3 | 0,0 | 1 002,5 |
| Receivables from credit institutions | 27,8 | 0,0 | 0,0 | 0,0 | 0,0 | 27,8 |
| Receivables from the public and public-sector entities | 1 760,6 | 2 348,5 | 59,8 | 17,7 | 0,3 | 4 187,0 |
| Debt securities | 318,4 | 164,3 | 165,6 | 17,1 | 0,0 | 665,4 |
| Derivatives | 0,6 | 0,0 | 0,0 | 0,0 | 0,0 | 0,6 |
| **Financial assets total** | **2 764,8** | **2 581,2** | **886,5** | **119,1** | **0,3** | **6 351,9** |
| Liabilities to credit institutions | 0,3 | 0,0 | 0,0 | 0,0 | 0,0 | 0,3 |
| Liabilities to the public and public-sector entities | 5 879,5 | 0,8 | 3,4 | 0,0 | 0,0 | 5 883,8 |
| Subordinated debt | 0,0 | 50,0 | 0,0 | 0,0 | 0,0 | 50,0 |
| Derivatives | 4,6 | 2,1 | 6,4 | 0,0 | 0,0 | 13,1 |
| **Financial liabilities total** | **5 884,5** | **52,9** | **9,8** | **0,0** | **0,0** | **5 947,2** |
| **Financial assets and liabilities, total** | **-3 119,7** | **2 528,3** | **876,7** | **119,1** | **0,3** | **404,7** |

IRRBB is also monitored by means of IR gap analysis, in which assets and liabilities are grouped into different time periods based on their IR repricings and maturities. The impacts of IR changes are monitored with the NII and with EV methods for the entire balance sheet. Furthermore, market risks are analysed by means of allocation distribution, sensitivity analyses and stress tests scenarios.

IR sensitivity is measured with several scenarios, including different parallel and non-parallel interest rate curve shifts. Interest rate risk resulting from these sensitivities are limited and used for internal Pillar 2 capital requirement calculations.

The results of the IRRBB sensitivity analyses are presented in Table 35. The figures illustrate the effect of parallel changes in the market interest rate curve applied to the balance sheet at all IR curve maturities. Results are divided further to balance sheet items having the most significant contribution on the IRRBB. The change in EV risk in non-maturing deposits is due to the change in modeling of core deposits in 2019. Average maturity of stable core deposits has been lengthened. The increase in EV risk in loans is driven by the general change in market IR and by the change of modeling of IR floors in the shock scenarios.

### Table 35: Interest rate risk sensitivity analyses

| **Economic value (EV), EUR million** | **31 Dec 2019** | **31 Dec 2018** |
|---|---|---|
| **Total +100 bps** | **-0,7** | **-31,0** |
| Loans | -47,0 | -26,0 |
| Bonds | -27,4 | -34,0 |
| Other assets | -0,9 | -0,7 |
| Total assets | -75,3 | -60,7 |
| Non-maturing deposits | 58,0 | 9,6 |
| Other liabilities | 0,5 | 0,5 |
| Total liabilities | 58,6 | 10,1 |
| Derivatives | 16,0 | 19,6 |
| **Total -100 bps** | **67,7** | **102,4** |
| Loans | 100,9 | 97,4 |
| Bonds | 18,0 | 37,4 |
| Other assets | 0,4 | 0,7 |
| Total assets | 119,4 | 135,5 |
| Non-maturing deposits | -40,5 | -9,8 |
| Other liabilities | -0,4 | -0,5 |
| Total liabilities | -40,9 | -10,3 |
| Derivatives | -10,8 | -22,8 |

| **Net interest income (NII) "Earnings-based" risk, EUR million** | **31 Dec 2019** | **31 Dec 2018** |
|---|---|---|
| **Total +100 bps** | **35,2** | **27,7** |
| Loans | 24,6 | 21,8 |
| Bonds | 2,4 | 3,3 |
| Other assets | 6,2 | 6,4 |
| Total assets | 33,2 | 31,6 |
| Non-maturing deposits | -1,2 | -6,5 |
| Other liabilities | -0,6 | -0,1 |
| Total liabilities | -1,8 | -6,6 |
| Derivatives | 3,8 | 2,8 |
| **Total -100 bps** | **-14,3** | **-16,0** |
| Loans | -5,4 | -4,8 |
| Bonds | -1,2 | -2,5 |
| Other assets | -4,8 | -4,3 |
| Total assets | -11,3 | -11,6 |
| Non-maturing deposits | 0,0 | 0,0 |
| Other liabilities | 0,1 | 0,2 |
| Total liabilities | 0,1 | 0,2 |
| Derivatives | -3,1 | -4,6 |

IR sensitivities of the Treasury portfolio are presented in Table 36. Applied shock is a parallel shift of one percent in market interest rates across the curve. For the price risk, fair valued items as well as fixed rate loans in Treasury are included as a part of the analysis. Size of Treasury portfolio is measured at fair value. Size of portfolio has decreased in 2019 due to selling of public sector and bank bonds.

**Table 36: Interest rate risk sensitivity analysis in the banking book, Treasury portfolio price risk**

| **Price risk, Treasury's portfolio, EUR million** | **31 Dec 2019** | | | **31 Dec 2018** | | |
|---|---|---|---|---|---|---|
| Interest rate shock | Portfolio | Sensitivity | Sensitivity % | Portfolio | Sensitivity | Sensitivity % |
| +100 bps | 1 649,5 | -13,4 | -0,8 % | 2 113,7 | -17,4 | -0,8 % |
| -100 bps | | 13,9 | 0,8 % | | 18,0 | 0,9 % |

## 11.2.2 SPREAD RISKS

S-Bank's spread risk is caused by fixed- and floating-rate bond instruments that are classified and measured at fair value through other comprehensive income in the Treasury's investment portfolio. Spread risk is primarily related to the credit quality of the specific bond issuer and secondarily to the general market assessment of credit risk. The spread risk limit structure is based on a conservative approach and Treasury's investment strategy is focused on issuers and instruments with investment grade ratings and high market liquidity.

Risk exposures and the internal Pillar 2 capital requirement for spread risk are calculated daily in accordance with S-Bank's internal market risk model. The measurement of spread risk is based on historically observed stressed volatility levels of spreads. The internal market risk model uses a 12-month horizon and a 99,5 % confidence level. Furthermore, the internal Pillar 2 capital requirement for spread risk is also calculated according to the metrics and parameters of the internal market risk model.

The Board of Directors has set a limit on credit spread risk. Single name counterparty limits are defined by evaluating the credit risk of counterparties, mainly by using the credit ratings provided by External Credit Assessment Institutions (ECAI's). The amount of spread risk is monitored regularly as a part of daily and monthly risk reporting.

## 11.2.3 OTHER MARKET RISKS

S-Bank has insignificant exposures in equity and real estate risks. These risks may materialise directly because of fluctuations in market prices. S-Bank's equity and real estate risks arise from Treasury operations aiming to diversify the market risks in the portfolio. Management and limitation of these risks is based on simple allocation limits that are monitored as a part of the daily and monthly risk reporting.

The exchange risk may arise if the Treasury function invests in bonds that are denominated in foreign currencies or in connection with foreign currency accounts. Permitted currencies are specified in the foreign-exchange risk limits that are monitored as a part of the regular risk reporting. The exchange rate risk limits are very small and below the threshold of generating any regulatory Pillar 1 capital requirement for S-Bank.

## 11.2.4 MARKET RISK MONITORING AND REPORTING

S-Bank's Treasury function monitors market risk daily and the banking business unit is responsible for the operational measuring, monitoring, and reporting of market risks in compliance with the organisation's agreed upon internal procedures.

The Risk Control function also monitors market risk exposures daily. In addition, the Risk Control function assesses the management of S-Bank's market risks and the functionality as well as usage of the applied internal market risk models. The key aspects of market risks, the effectiveness of risk management and the impact of risks on capital adequacy are reported within organisation in accordance with chapter 6.2.

# 12 LIQUIDITY RISKS

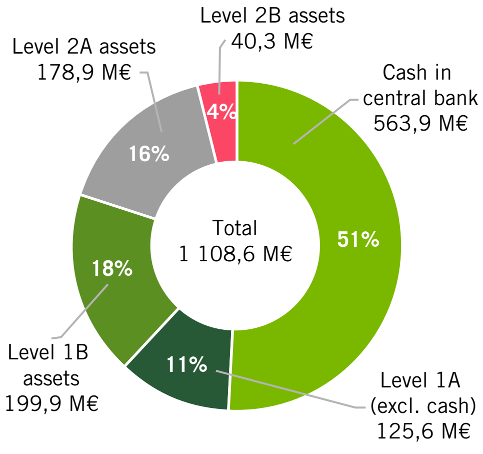
## 12.1 HIGHLIGHTS 2019 AND OVERVIEW

*Liquidity risk is defined as the risk that the bank is unable to meet its payment obligations in due time or that it will be forced to fund its liquidity obligations at an unfavourable cost. Liquidity risk arises from the difference between the maturities of cash in- and outflows. Generally, the role of banks in maturity conversion, in which short-term deposits are used for long-term lending, exposes banks to liquidity risk.*

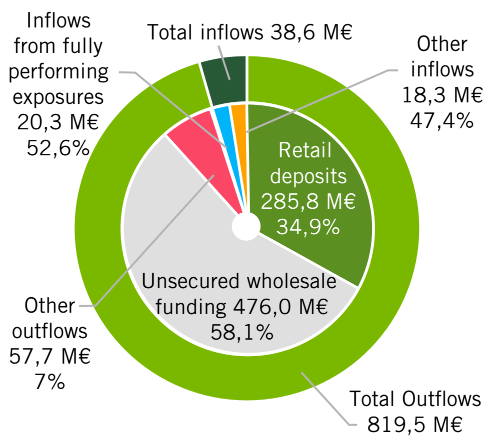
**S-Bank is exposed to liquidity risk in customer lending, funding and Treasury operations. S-Bank's liquidity position is strong, and the liquidity risk appetite is conservative, supported by active risk management and monitoring measures. The Treasury function's main objective is to ensure that the liquidity position is continuously above the minimum regulatory requirements and the internal targets.**

- The Liquidity Coverage Ratio (LCR), which measures the adequacy of liquid assets under stressed conditions within the next 30 days, remained at a robust level at 142 % (156 %).
  - At year-end the liquidity buffer was EUR 1108,6 (1385,9) billion and net outflows were EUR 780,9 million (886,3).
- The Net Stable Funding Ratio (NSFR), which is defined as the available stable funding relative to the required stable funding, was 145 % (148 %).
- S-Bank's funding is primarily based on its household customer deposit base, and thus the main sources of funding are the deposit- and savings accounts of its household customers.
- S-Bank is continuing preparations for further diversification of funding resources.

**Composition of LCR buffer (Buffer value)**




**Weighted LCR in- and outflows, net 780,9 M€**




## 12.2 MANAGEMENT OF LIQUIDITY RISK

The principles and risk appetite of liquidity risk management are defined in S-Bank's risk strategy and other liquidity risk management-specific guidelines.

S-Bank may incur liquidity risk due to bank- or market-specific issues, which include the following:

- a withdrawal of deposits in different customer segments
- an increase in the utilisation rate of (committed) credit lines and limits
- an increase in S-Bank's collateral requirements
- an increase in S-Bank's own funding costs
- a decrease in securities' mark-to-market prices in the liquidity portfolio due to a weakened market environment.

S-Bank measures its liquidity position and adequacy in accordance with parameters and indicators defined by the authorities and with an internal liquidity risk model. The limits and calculation parameters applied in internal modelling comply with the risk appetite. S-Bank has set internal limits to ensure that the liquidity position is continuously above the minimum regulatory requirements. As part of the liquidity strategy, S-Bank has a continuity plan for preserving an adequate liquidity position in a stressed market environment. The plan defines the policies and operating models used to ensure the adequacy of the liquidity buffers in exceptional conditions.

As part of the annual ICLAAP-process (described in section 7), S-Bank's assesses comprehensively its liquidity risk profile through various stress test within internal modelling.

Liquidity risk management in S-Bank is based on ensuring that the amount of S-Bank's unencumbered, liquid assets exceed the liquidity net outflows in normal and stressed market environments in the short (0–2 days), medium (0–30 days) and long (more than 30 days) term. The adequacy of the liquidity reserve is primarily ensured with a strict and conservative limit structure and asset quality requirements.

Liquidity risk concentrations are linked to customer segments and the liquidity portfolio. Liquidity concentration risks related to potential liquidity outflows of different customer segments are managed by using segment-specific liquidity outflow factors. The outflow factors are conservatively evaluated in the internal liquidity risk model parametrisation. In addition to these internal metrics, the outflow factors set in CRR are used daily, when calculation the daily current and forecasted LCR and assessing the adequacy of the liquidity portfolio. The size and quality of the liquidity portfolio is continuously assessed and balanced, considering possible changes in the liquidity outflow factors. Furthermore, any concentrations in the liquidity portfolio are restricted with the limit structure. In addition, S-Bank has pledged securities to the central bank and against this collateral, S-Bank is able to get short-term funding, if necessary. In normal market environment, additional short-term funding can be obtained by issuing certificate of deposits (CD) as defined in S-Bank's CD programme.

The main objectives of liquidity management also include collateral management, i.e. ensuring that S-Bank has an adequate amount of eligible liquid securities at its disposal to cover the collateral required by various business operations. Furthermore, the minimum requirements for liquidity management include meeting the central bank's minimum reserve obligation, the regulatory Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) requirements.

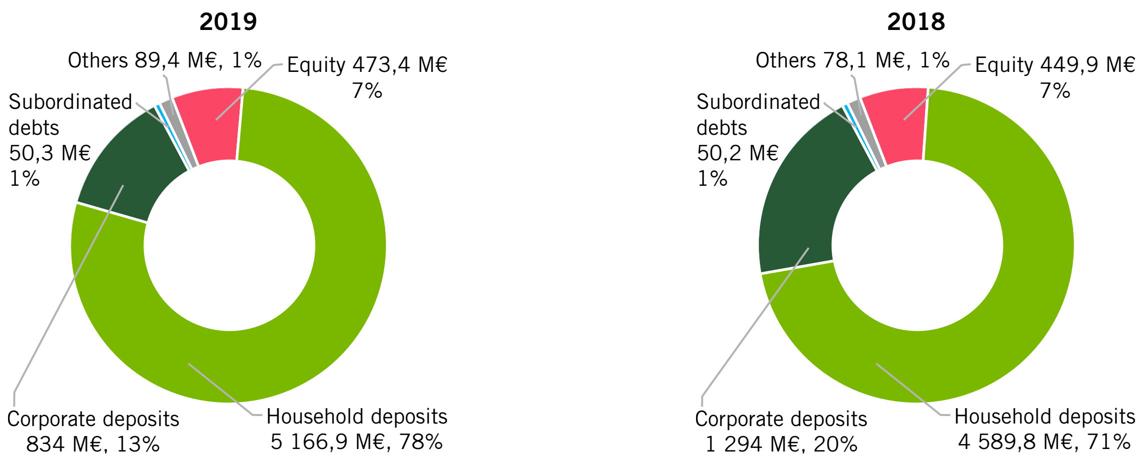
Liquidity risk management in S-Bank emphasises the proactive monitoring and anticipation of the external business environment and consequent changes in various credit spreads observable in the financial markets. Applying a stricter liquidity risk appetite is appropriate if liquidity in the market is considered stressed. The LCR measures liquidity risk over a 30-day stress period and the NSFR is used to measure structural liquidity risk. NSFR is defined as the available stable funding relative to the required stable funding. Available stable funding is defined as the portion of capital and liabilities expected to be reliable over the horizon, which extends to one year.

Operational day-to-day management of S-Bank's liquidity risk has been delegated to the Treasury unit, which is responsible for the operational execution of the risk appetite pursuant to S-Bank's risk strategy, taking into consideration S-Bank's business model, risk limit structure and the Treasury's liquidity strategy.

## 12.2.1 FUNDING

S-Bank's funding is primarily based on the deposit base and thus the main sources of funding are the deposit- and savings accounts of its household customers. S-Bank's loan to deposit ratio was 80 % on December 31st 2019 (72 %). Other sources of funding include the Treasury's wholesale market deposits from companies and other credit institutions as well as certificates of deposits. Figure 23 illustrates the structure of S-Bank's funding. Even though the structure of S-Bank's funding is focused on household customer deposits, the funding is highly decentralised, mostly because the average deposit among S-Bank's household customers is very low. Total amount of household deposits has been growing steadily throughout 2019.

**Figure 23: Structure of S-Bank's funding, total 6 614 M€ (6 462 M€)**



To ensure the availability of market-based funding at competitive price also in the coming years, S-Bank is continuing preparations for further diversification of its funding resources.

### 12.2.2 LIQUIDITY RISK MONITORING AND REPORTING

The Treasury and Risk Control functions monitor and assess S-Bank's liquidity exposures on the basis of the reports submitted to them and then report on the situation to S-Bank's management on a regular basis. Key liquidity risk exposures in the short and medium run are reported on a daily basis. In addition, the Risk Control function assesses the management of S-Bank's liquidity risks as well as the effectiveness and use of the liquidity risk models. The key aspects of liquidity risk are reported within organisation in accordance with chapter 6.2.

## 12.3 KEY LIQUIDITY RISK INDICATORS

Table 37 illustrates the change in the liquidity buffer (defined as in (EU) 2015/61) based on information at the end of the reporting period, while Table 38 presents the liquidity buffer as averages of month-end over 12-months preceding the end of each quarter in 2019. The main change in 2019 in composition of LCR buffer comes from a shift of assets from regional governments into central bank reserves.

**Table 37: Liquidity (LCR) by balance sheet items, including CRR hair-cuts**

| Liquidity coverage ratio (LCR) | 31 Dec 2019 | | 31 Dec 2018 | |
|---|---|---|---|---|
| | Market value | Buffer value | Market value | Buffer value |
| **Level 1a** | **689,5** | **689,5** | **954,7** | **954,7** |
| Assets from regional governments or local authorities | 113,3 | 113,3 | 494,4 | 494,4 |
| Funds from central administrations | 12,2 | 12,2 | 20,7 | 20,7 |
| Central bank reserves available for withdrawal | 563,9 | 563,9 | 439,6 | 439,6 |
| **Level 1b** | **214,9** | **199,9** | **259,1** | **241,0** |
| Extremely high-quality covered bonds | 214,9 | 199,9 | 259,1 | 241,0 |
| **Level 2A** | **210,5** | **178,9** | **209,2** | **177,8** |
| High-quality covered bonds (Third Country, CQS1) | 120,4 | 102,3 | 123,2 | 104,7 |
| High-quality covered bonds (CQS2) | 90,1 | 76,6 | 81,0 | 68,9 |
| Corporate bonds (CQS1) | 0,0 | 0,0 | 5,0 | 4,3 |
| **Level 2b** | **80,6** | **40,3** | **24,9** | **12,5** |
| Corporate bonds (CQS2/3) | 80,6 | 40,3 | 24,9 | 12,5 |
| **Total** | **1195,5** | **1108,6** | **1447,9** | **1385,9** |
| **Liquidity out flows** | | **819,5** | | **931,8** |
| **Liquidity inflows** | | **38,6** | | **45,5** |
| **Liquidity coverage ratio (%)** | | **142 %** | | **156 %** |

#### Table 38: LCR disclosure template (EU LIQ1)

| Scope of consolidation (consolidated)<br>Currency and units (EUR million) | | Total unweighted value (average) | | | | Total weighted value (average) | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Quarter ending on (DD Month YYYY) | 31 March 2019 | 30 June 2019 | 30 Sept 2019 | 31 Dec 2019 | 31 March 2019 | 30 June 2019 | 30 Sept 2019 | 31 Dec 2019 |
| | Number of data points used in the calculation of averages | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 |
| **HIGH-QUALITY LIQUID ASSETS** | | | | | | | | | |
| 1 | Total high-quality liquid assets (HQLA) | | | | | 1 086,4 | 1 098,1 | 1 074,8 | 1 052,2 |
| **CASH – OUTFLOWS** | | | | | | | | | |
| 2 | Retail deposits and deposits from small business customers, of which: | 4 455,7 | 4 620,6 | 4 788,6 | 4 948,3 | 243,2 | 253,0 | 262,9 | 272,1 |
| 3 | Stable deposits | 4 125,3 | 4 264,5 | 4 408,7 | 4 549,3 | 206,3 | 213,2 | 220,4 | 227,5 |
| 4 | Less stable deposits | 70,8 | 78,5 | 84,8 | 89,4 | 10,6 | 11,8 | 12,7 | 13,4 |
| 5 | Unsecured wholesale funding | 1 063,8 | 1 035,9 | 976,3 | 856,1 | 546,8 | 561,2 | 558,1 | 513,8 |
| 6 | Operational deposits (all counterparties) | 229,1 | 173,9 | 124,7 | 68,3 | 57,3 | 43,5 | 31,2 | 17,1 |
| 7 | Non-operational deposits (all counterparties) | 834,7 | 862,1 | 851,6 | 787,8 | 489,6 | 517,7 | 527,0 | 496,7 |
| 8 | Unsecured debt | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 9 | Secured wholesale funding | | | | | | | | |
| 10 | Additional requirements | 220,7 | 230,5 | 247,5 | 265,1 | 25,9 | 26,9 | 31,0 | 37,7 |
| 11 | Outflows related to derivative exposures and other collateral requirements | 5,5 | 5,5 | 8,2 | 14,0 | 5,5 | 5,5 | 8,2 | 14,0 |
| 12 | Outflows related to loss of funding on debt products | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 13 | Credit and liquidity facilities | 215,1 | 225,0 | 239,3 | 251,1 | 20,4 | 21,4 | 22,8 | 23,7 |
| 14 | Other contractual funding obligations | 27,8 | 30,0 | 34,6 | 34,3 | 0,0 | 2,1 | 3,8 | 3,8 |
| 15 | Other contingent funding obligations | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 16 | **TOTAL CASH OUTFLOWS** | | | | | 815,9 | 843,2 | 855,8 | 827,4 |
| **CASH – INFLOWS** | | | | | | | | | |
| 18 | Inflows from fully performing exposures | 120,5 | 119,4 | 128,7 | 124,1 | 66,8 | 68,3 | 75,4 | 74,7 |
| 19 | Other cash inflows | 7,2 | 9,1 | 8,1 | 7,5 | 7,2 | 9,1 | 8,1 | 7,5 |
| 20 | **TOTAL CASH INFLOWS** | 127,6 | 128,5 | 136,8 | 131,6 | 73,9 | 77,4 | 83,5 | 82,2 |
| 20 c | **Inflows subject to 75% cap** | 127,6 | 128,5 | 136,8 | 131,6 | 73,9 | 77,4 | 83,5 | 82,2 |
| | | | | | | | | | **TOTAL ADJUSTED VALUE** |
| 21 | **LIQUIDITY BUFFER** | | | | | 1 086,4 | 1 098,1 | 1 074,8 | 1 030,0 |
| 22 | **TOTAL NET CASH OUTFLOWS** | | | | | 742,0 | 765,8 | 772,3 | 748,5 |
| **23** | **LIQUIDITY COVERAGE RATIO (%)** | | | | | **147 %** | **143 %** | **139 %** | **138 %** |

Table 39 illustrates the development of the NSFR, which is defined as the available stable funding relative to the required stable funding. Available stable funding is defined as the portion of capital and liabilities expected to be reliable over the horizon, which extends to one year. Calculation of required stable funding for performing residential mortgages has been further refined during 2019. The 2018 figures are updated accordingly.

#### Table 39: Net stable funding ratio (NSFR)

| Net Stable Funding Ratio (NSFR), EUR million | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| Available stable funding | **5 648,4** | **5 296,6** |
| Required stable funding | **3 892,2** | **3 574,4** |
| Net Stable Funding Ratio (NSFR) | **145 %** | **148 %** |

The total amount of the available stable funding, including CRR-haircuts, exceeded the amount of the required stable funding nearly 1.5-times as of 31 December 2019. The ratio has remained relatively stable compared to the previous year (Table 39).

## 12.4 ASSET ENCUMBRANCE

Table 40 illustrates the information on asset encumbrance in compliance with regulation (EU) 2017/2295. S-Bank does not hold any collateral related to derivatives. Hence, the template is only used to report S-Bank's assets.

### Table 40: Asset encumbrance (EU) 2017/2295

**Template A – Encumbered and unencumbered assets**

| | | Carrying amount of encumbered assets | | Fair value of encumbered assets | | Carrying amount of unencumbered assets | | Fair value of unencumbered assets | |
|---|---|---|---|---|---|---|---|---|---|
| | | | of which notionally eligible EHQLA* and HQLA** | | of which notionally eligible EHQLA and HQLA | | of which EHQLA and HQLA | | of which EHQLA and HQLA |
| | | 010 | 030 | 040 | 050 | 060 | 080 | 090 | 100 |
| **010** | **Assets of the reporting institution** | 173,0 | | | | 5 801,4 | | | |
| 030 | Equity instruments | 0,0 | | | | 0,2 | | | |
| 040 | Debt securities | 158,1 | | 158,1 | | 1 510,6 | | 1 510,6 | |
| 050 | of which: covered bonds | 10,0 | | 10,0 | | 444,7 | | 444,7 | |
| 060 | of which: asset-backed securities | 0,0 | | 0,0 | | 0,0 | | 0,0 | |
| 070 | of which: issued by general governments | 16,2 | | 16,2 | | 461,5 | | 461,5 | |
| 080 | of which: issued by financial corporations | 142,0 | | 142,0 | | 689,7 | | 689,7 | |
| 090 | **of which: issued by non-financial corporations** | 0,0 | | 0,0 | | 356,3 | | 356,3 | |
| 120 | Other assets | 3,9 | | | | 83,1 | | | |

**Template B – Collateral received**

| | | | | Unencumbered | |
|---|---|---|---|---|---|
| | | Fair value of encumbered collateral received or own debt securities issued | | Fair value of collateral received or own debt securities issued available for encumbrance | |
| | | | of which notionally eligible EHQLA and HQLA | | of which EHQLA and HQLA |
| | | 010 | 030 | 040 | 060 |
| **130** | **Collateral received by the reporting institution** | 0,0 | | 0,0 | |
| **250** | **Total assets, collateral received and own debt securities issued** | 187,7 | | | |

**Template C – Sources of encumbrance**

| | | Matching liabilities, contingent liabilities or securities lent | Assets, collateral received and own debt securities issued other than covered bonds and asset-backed securities (ABSs) encumbered |
|---|---|---|---|
| | | 010 | 030 |
| **010** | **Carrying amount of selected financial liabilities** | 19,5 | 22,6 |
| 011 | of which: over-the-counter (OTC) derivatives | 19,5 | 22,6 |

**TEMPLATE D – ACCOMPANYING NARRATIVE INFORMATION**

The tables above present information on asset encumbrance and debts related to encumbered assets. The figures are given as a median for the quarters of 2019. Assets are considered encumbered if they have been pledged or given as collateral, or if they guarantee a transaction included in the balance sheet. Other assets that are not freely available to the Group are also considered encumbered. In most cases, the encumbered assets are related to derivatives and collateral connected to trading. Of the unencumbered other assets, intangible and tangible assets, accrued income and tax liabilities, among others, cannot be used as collateral.

* Extremely High Liquidity Assets (EHQLA)
** High-quality liquid assets (HQLA)

# 13 RISK DECLARATION AND STATEMENT

Based on the continuous risk reporting it receives, and by approving this report, the Board of Directors considers that this report provides external stakeholders with a comprehensive view of S-Bank’s risk management and risk profile associated with its’ business strategy (EU Capital Requirements Regulation (CRR 575/2013, Article 435 (1f)). Based on the same grounds, the Board of Directors declares that the risk management systems put in place to be adequate with regards to S-Bank´s risk profile and strategy (CRR, Article 435(1e)). Also, the Board of Directors considers that the information disclosed in this report has been prepared in accordance with the agreed internal control processes.

**Jari Annala**
Chairman of the Board

**Jari Eklund**
Vice Chairman of the Board

**Juha Ahola**
Board member

**Heli Arantola**
Board member

**Erik Valros**
Board member

**Olli Vormisto**
Board member

**Veli-Matti Liimatainen**
Board member

**Pekka Ylihurula**
Chief Executive Officer (CEO)

# 14 DISCLOSURE INDEX

The table below provides information on where (in the different publications of S-Bank Group) information required by the different articles in Part Eight of that regulation can be found.

| Articles of CRR (575/2013) | | | Disclosure requirement | Section in CAR 2018 report / other reference |
|---|---|---|---|---|
| **435** | | | **Risk management objectives and policies** | |
| **1** | a) | | the strategies and processes to manage those risks | Chapters 5, 7, 8, 9, 10, 11, 12. |
| | b) | | the structure and organisation of the relevant Risk Control function including information on its authority and statute, or other appropriate arrangements | Chapter 6.1 |
| | c) | | the scope and nature of risk reporting and measurement systems | Chapter 6.2 and risk specific information in chapters 8.2.7, 9.3, 9.3, 11.2.4, 12.2.2 |
| | d) | | the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants | Chapters 5, and risk specific information in chapters 7, 8, 9, 10, 11, 12 |
| | e) | | a declaration approved by the management body on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy | Chapter 13 |
| | f) | | a concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy. This statement shall include key ratios and figures providing external stakeholders with a comprehensive view of the institution's management of risk, including how the risk profile of the institution interacts with the risk tolerance set by the management body | Chapter 1 and 13 |
| **2** | a) | | the number of directorships held by members of the management body | S-Bank’s website: www.s-pankki.fi > S-Pankki yrityksenä > Johto ja hallinto |
| | b) | | the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise | S-Bank’s website: www.s-pankki.fi > S-Pankki yrityksenä > Johto ja hallinto > Selvitys S-Pankin hallinto- ja ohjausjärjestelmistä |
| | c) | | the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved; | S-Bank’s website: www.-s-pankki.fi > S-Pankki yrityksenä > Johto ja hallinto > Selvitys S-Pankin hallinto- ja ohjausjärjestelmistä |
| | d) | | whether or not the institution has set up a separate risk committee and the number of times the risk committee has met; | S-Bank’s website: www.s-pankki.fi > S-Pankki yrityksenä > Johto ja hallinto > Selvitys S-Pankin hallinto- ja ohjausjärjestelmistä |
| | e) | | the description of the information flow on risk to the management body. | Chapter 6.2 |
| **436** | | | **Scope of application** | |
| | a) | | the name of the institution to which the requirements of this Regulation apply | Chapter 2 |
| | b) | | an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are: | Chapter 2 and Table 2: Outline of the differences in the scopes of consolidation (EU LI3) |
| | | i) | fully consolidated; | Table 2: Outline of the differences in the scopes of consolidation (EU LI3) |

| | | | | |
|---|---|---|---|---|
| | | ii) | proportionally consolidated; | Not applicable. |
| | | iii) | deducted from own funds; | Not applicable. |
| | | iv) | neither consolidated nor deducted; | Not applicable. |
| | c) | | any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries; | Not applicable. |
| | d) | | the aggregate amount by which the actual own funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries | Not applicable. |
| | e) | | if applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9. | Not applicable. |
| **437** | | | **Own funds** | |
| **1** | a) | | a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution | Chapter 7.3, Table 3: S-Banks own funds summary and Table 4: S-Bank's own funds (EU 1423/2013) |
| | b) | | a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution; | Annex 1: Terms and conditions of issued instruments |
| | c) | | the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments | Annex 1: Terms and conditions of issued instruments |
| | d) | | separate disclosure of the nature and amounts of the following: | |
| | | i) | each prudential filter applied pursuant to Articles 32 to 35; | Chapter 7.3 and Table 4: S-Bank's own funds (EU 1423/2013) |
| | | ii) | each deduction made pursuant to Articles 36, 56 and 66; | Chapter 7.3 and Table 4: S-Bank's own funds (EU 1423/2013) |
| | | iii) | items not deducted in accordance with Articles 47, 48, 56, 66 and 79; | Chapter7.3 and Table 4: S-Bank's own funds (EU 1423/2013) |
| | e) | | a description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply | Not applicable. |
| | f) | | where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in this Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated. | Not applicable. S-Bank does not use other elements of own fund calculation than described in CRR 575/2013. |
| **438** | | | **Capital requirements** | |
| | a) | | a summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities. | Chapter 7 |
| | b) | | upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process including the composition of the additional own funds requirements based on the supervisory review process as referred to in point (a) of Article 104(1) of Directive 2013/36/EU | Additional own funds requirements based on supervisory review process are described in Chapter 7.4.<br><br>Results of S-Bank's results on internal capital assessment process are provided upon request. |
| | c) | | for institutions calculating the risk-weighted exposure amounts in accordance with Chapter 2 of Part Three, Title II, 8 % of the risk-weighted exposure amounts for each of the exposure classes specified in Article 112 | Chapter 7.5 and Table 8: Overview of RWAs (EU OV1) |
| | d) | | for institutions calculating risk-weighted exposure amounts in accordance with Chapter 3 of Part Three, Title II, 8 % of the risk-weighted exposure amounts for each of the exposure classes specified in Article 147 | Not applicable. S-Bank does not use IRB-Approach. |
| | e) | | own funds requirements calculated in accordance with points (b) and (c) of Article 92(3,) i.e capital requirements for market risk | S-Bank does not have a trading book. Therefore, there is no regulatory Pillar 1 capital requirement for market risk. Chapter 7.5 and Table 8: Overview of RWAs (EU OV1) |
| | f) | | own funds requirements calculated in accordance with Part Three, Title III, Chapters 2, 3 and 4 and disclosed separately, i.e. capital requirements for operational risk | Chapter 7.5 and Table 8: Overview of RWAs (EU OV1) |
| **439** | | | **Exposure to counterparty credit risk** | |

| | | | |
|---|---|---|---|
| | a) | a discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures | Chapter 8.2.6 and 8.3.4 |
| | b) | a discussion of policies for securing collateral and establishing credit reserves | Chapter 8.2.6. S-Bank does not have credit reserves. |
| | c) | a discussion of policies with respect to wrong-way risk exposures | Chapter 8.2.6. The wrong-way risk does not apply to S-Bank. |
| | d) | a discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating | Chapter 8.2.6. S-Bank does not have credit rating. |
| | e) | gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure. Net derivatives credit exposure is the credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements | Chapter 8.2.6 and 8.3.4.<br><br>Table 29: Analysis of CCR exposure by approach (EU CCR1), Table 30: Composition of collateral for exposures to CCR (EU CCR5B), Table 31: CVA capital charge (EU CCR2), Table 32: Exposures to CCPs (EU CCR8), Table 33: CCR exposures by regulatory portfolio and risk (EU CCR3). Capital requirements for counterparty credit risk are presented in Table 8: Overview of RWAs (EU OV1) |
| | f) | measures for exposure value under the methods set out in Part Three, Title II, Chapter 6, Sections 3 to 6 whichever method is applicable | Chapter 8.2.6 and 8.3.4 |
| | g) | the notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure | Not applicable. S-Bank does not use credit derivative hedges. |
| | h) | the notional amounts of credit derivative transactions, segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group | Not applicable. S-Bank does not use credit derivative hedges. |
| | i) | the estimate of < if the institution has received the permission of the competent authorities to estimate >. | Not applicable. |
| **440** | | **Capital buffers** | |
| | a) | the geographical distribution of its credit exposures relevant for the calculation of its countercyclical capital buffer | Chapter 7.4, Table 5: Geographical breakdown of credit exposures relevant for the calculation of countercyclical capital buffer and capital requirement (1555/2015) and Table 6: Amount of institution-specific countercyclical capital buffer. |
| | b) | the amount of its institution specific countercyclical capital buffer | Chapter 7.4, Table 5: Geographical breakdown of credit exposures relevant for the calculation of countercyclical capital buffer and capital requirement (1555/2015) and Table 6: Amount of institution-specific countercyclical capital buffer. |
| **441** | | **Indicators of global systemic importance** | Not applicable. S-Bank is not identified as a G-SII. |
| **442** | | **Credit risk adjustments** | |
| | a) | the definitions for accounting purposes of 'past due' and 'impaired' | Chapter 8.2.5 |
| | b) | a description of the approaches and methods adopted for determining specific and general credit risk adjustments | Chapter 8.2.5 |
| | c) | the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes | Chapter 8.2.4 and 8.3.3. Table 14: Total and average net amount of exposures (EU CRB-B) |
| | d) | the geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate | Chapter 8.2.3 and 8.3.1.<br><br>Table 15: Geographical breakdown of exposures (EU CRB-C) |
| | e) | the distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate; | Chapter 8.1 and 8.3.1.Table 16: Concentration of exposures by industry (EU CRB-D) |
| | f) | the residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate | Chapter 8.3.1. and Table 17: Maturity of exposures (EU CRB-E) |

| | | | |
|---|---|---|---|
| g) | | by significant industry or counterparty type, the amount of | |
| | i) | impaired exposures and past due exposures, provided separately | Chapter 8.3.2 and Table 18: Credit quality of exposures by exposure class and instrument (EU CR1-A) and Table 23: Credit quality of loans and advances by industry (CQ 6 |
| | ii) | specific and general credit risk adjustments | Chapter 8.3.2 and Table 18: Credit quality of exposures by exposure class and instrument (EU CR1-A) |
| | iii) | charges for specific and general credit risk adjustments during the reporting period | Chapter 8.3.2 and Table 18: Credit quality of exposures by exposure class and instrument (EU CR1-A) |
| h) | | the amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas including, if practical, the amounts of specific and general credit risk adjustments related to each geographical area | Chapter 8.3.2 and Table 20: Credit quality of performing and non-performing exposures by past due dates (CQ 3), Table 21: Performing and non-performing exposures and related provisions (CQ 4) and Table 22: Quality of non-performing exposures by geography (CQ 5) |
| i) | | the reconciliation of changes in the specific and general credit risk adjustments for impaired exposures, shown separately. The information shall comprise: | Chapter 8.3.2 Table 24: Changes in the stock of specific credit risk adjustments (EU CR2-A) and Table 25: Changes in the stock of defaulted and impaired loans and debt securities (EU CR2-B) |
| | i) | a description of the type of specific and general credit risk adjustments | Chapter 8.2.5, Chapter 8.3.2 Table 24: Changes in the stock of specific credit risk adjustments (EU CR2-A) and Table 25: Changes in the stock of defaulted and impaired loans and debt securities (EU CR2-B) |
| | ii) | the opening balances | Chapter 8.3.2 Table 24: Changes in the stock of specific credit risk adjustments (EU CR2-A) and Table 25: Changes in the stock of defaulted and impaired loans and debt securities (EU CR2-B) |
| | iii) | the amounts taken against the credit risk adjustments during the reporting period | Chapter 8.3.2 Table 24: Changes in the stock of specific credit risk adjustments (EU CR2-A) and Table 25: Changes in the stock of defaulted and impaired loans and debt securities (EU CR2-B) |
| | iv) | the amounts set aside or reversed for estimated probable losses on exposures during the reporting period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between credit risk adjustments | Chapter 8.3.2 Table 24: Changes in the stock of specific credit risk adjustments (EU CR2-A) and Table 25: Changes in the stock of defaulted and impaired loans and debt securities (EU CR2-B) |
| | v) | the closing balances | Chapter 8.3.2 Table 24: Changes in the stock of specific credit risk adjustments (EU CR2-A) and Table 25: Changes in the stock of defaulted and impaired loans and debt securities (EU CR2-B) |
| **443** | | **Unencumbered assets** | Chapter 12.4 and Table 40: Asset encumbrance (EU) 2017/2295 |
| **444** | | **Use of ECAIs** | |
| a) | | the names of the nominated ECAIs and ECAs and the reasons for any changes | Chapter 8.3.3 |
| b) | | the exposure classes for which each ECAI or ECA is used | Chapter 8.3.3 |
| c) | | a description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book | Chapter 8.3.3 and Table 28: Exposures by risk weight under the standardised approach (EU CR5) |
| d) | | the association of the external rating of each nominated ECAI or ECA with the credit quality steps prescribed in Part Three, Title II, Chapter 2, taking into account that this information needs not be disclosed if the institution complies with the standard association published by EBA | Not applicable. S-Bank complies with the standard association published by EBA. |
| e) | | the exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in Part Three, Title II, Chapter 2 as well as those deducted from own funds | Chapter 8.3.3, Table 28: Exposures by risk weight under the standardised approach (EU CR5) |

| | | | |
|---|---|---|---|
| **445** | | **Exposure to market risk**<br><br>The institutions calculating their own funds requirements in accordance with points (b) and (c) of Article 92(3) shall disclose those requirements separately for each risk referred to in those provisions. In addition, the own funds requirement for specific interest rate risk of securitisation positions shall be disclosed separately. | Chapter 11 |
| **446** | | **Operational risk**<br><br>Institutions shall disclose the approaches for the assessment of own funds requirements for operational risk that the institution qualifies for; a description of the methodology set out in Article 312(2), if used by the institution, including a discussion of relevant internal and external factors considered in the institution's measurement approach, and in the case of partial use, the scope and coverage of the different methodologies used. | Chapter 9 |
| **447** | | **Exposures in equities not included in the trading book** | |
| | a) | the differentiation between exposures based on their objectives, including for capital gains relationship and strategic reasons, and an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices | Notes to the financial statements (Group note 1: Accounting policies). |
| | b) | the balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value | Notes to the financial statements (Group note 14: Fair values and carrying amounts of financial assets and liabilities) |
| | c) | the types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures | Not applicable. |
| | d) | the cumulative realised gains or losses arising from sales and liquidations in the period; and | Notes to the financial statements (Group note 5: Net income from investment activities) |
| | e) | the total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in the original or additional own funds. | Not applicable. |
| **448** | | **Exposure to interest rate risk on positions not included in the trading book** | |
| | a) | the nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk | Chapter 11, 11.2.1 and 11.2.4 |
| | b) | the variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency | Chapter 11.2.1, Table 35: Interest rate risk sensitivity analyses and Table 36: Interest rate risk sensitivity analysis in the banking book, Treasury portfolio price risk |
| **449** | | **Exposure to securitisation positions** | Not applicable. S-Bank does not have securitisation positions. |
| **450** | | **Remuneration policy** | |
| **1** | a) | information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders | S-Bank's website: www.s-pankki.fi > S-Pankki yrityksenä > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät |
| | b) | information on link between pay and performance | S-Bank's website: www.s-pankki.fi > S-Pankki yrityksenä > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät |
| | c) | the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria | S-Bank's website: www.s-pankki.fi > S-Pankki yrityksenä > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät |
| | d) | the ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU | S-Bank's website: www.s-pankki.fi > S-Pankki yrityksenä > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät |
| | e) | information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based | S-Bank's website: www.s-pankki.fi > S-Pankki yrityksenä > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät |

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|---|---|---|---|
| | f) | the main parameters and rationale for any variable component scheme and any other non-cash benefits; | S-Bank's website: www.s-pankki.fi > S-Pankki yrityksenä > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät |
| | g) | aggregate quantitative information on remuneration, broken down by business area | S-Bank's website: www.s-pankki.fi > S-Pankki yrityksenä > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät |
| | h) | aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution, indicating the following | S-Bank's website: www.s-pankki.fi > S-Pankki yrityksenä > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät |
| | i) | the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries | S-Bank's website: www.s-pankki.fi > S-Pankki yrityksenä > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät |
| | ii) | the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types | S-Bank's website: www.s-pankki.fi > S-Pankki yrityksenä > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät |
| | iii) | the amounts of outstanding deferred remuneration, split into vested and unvested portions | S-Bank's website: www.s-pankki.fi > S-Pankki yrityksenä > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät |
| | iv) | the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments | S-Bank's website: www.s-pankki.fi > S-Pankki yrityksenä > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät |
| | v) | new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments | S-Bank's website: www.s-pankki.fi > S-Pankki yrityksenä > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät |
| | vi) | the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person | S-Bank's website: www.s-pankki.fi > S-Pankki yrityksenä > Johto ja hallinto > S-Pankin palkitsemisjärjestelmät |
| | i) | the number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500 000 and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million | Not applicable. |
| | j) | upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management. | Not applicable. |
| **2** | | For institutions that are significant in terms of their size, internal organisation and the nature, scope and the complexity of their activities, the quantitative information referred to in this Article shall also be made available to the public at the level of members of the management body of the institution. | Not applicable. |
| **451** | | **Leverage** | |
| | a) | the leverage ratio and how the institution applies Article 499(2) and (3) | Chapter 7.6 and Table 9: CRR Leverage ratio (EU) 2016/200 |
| | b) | a breakdown of the total exposure measure as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements | Chapter 7.6 and Table 9: CRR Leverage ratio (EU) 2016/200 |
| | c) | where applicable, the amount of derecognised fiduciary items in accordance with Article 429(11) | Chapter 7.6 and Table 9: CRR Leverage ratio (EU) 2016/200 |
| | d) | a description of the processes used to manage the risk of excessive leverage | Chapter 7.6 and Table 9: CRR Leverage ratio (EU) 2016/200 |
| | e) | a description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers | Chapter 7.6 and Table 9: CRR Leverage ratio (EU) 2016/200 |
| **452** | | **Use of the IRB Approach to credit risk** | Not applicable. S-Bank does not use IRB-Approach. |
| **453** | | **Use of credit risk mitigation techniques** | |
| | **a)** | the policies and processes for, and an indication of the extent to which the entity makes use of, on- and off- balance sheet netting | Chapter 8.2.4 and 8.3.3 |
| | **b)** | the policies and processes for collateral valuation and management | Chapter 8.2.4 and 8.3.3 |
| | **c)** | a description of the main types of collateral taken by the institution | Chapter 8.2.4 and 8.3.3 |
| | **d)** | the main types of guarantor and credit derivative counterparty and their creditworthiness | Chapter 8.2.4 and 8.3.3. S-Bank does not use credit derivatives. |

| | | | |
|---|---|---|---|
| | **e)** | information about market or credit risk concentrations within the credit mitigation taken; | Chapter 8.2.4 and 8.3.3 |
| | **f)** | for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, but not providing own estimates of LGs or conversion factors in respect of the exposure class, separately for each exposure class, the total exposure value (after, where applicable, on- or off-balance sheet netting) that is covered — after the application of volatility adjustments — by eligible financial collateral, and other eligible collateral; | Not applicable. S-Bank does not use IRB-Approach. |
| | **g)** | for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, separately for each exposure class, the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees or credit derivatives. For the equity exposure class, this requirement applies to each of the approaches provided in Article 155 | Not applicable. S-Bank does not use IRB-Approach. |
| **454** | | **Use of the Advanced Measurement Approaches to operational risk** | Not applicable. S-Bank uses basic indicator approach for calculation of operational risk. |
| **455** | | **Use of Internal Market Risk Models** | Not applicable. S-Bank uses standardised approach for calculation of market risk. |

# 15 ANNEX 1: TERMS AND CONDITIONS OF ISSUED INSTRUMENTS

| 31 Dec. 2018 | Carrying amount * | Notional value | Interest rate | Maturity |
|---|---|---|---|---|
| Debenture I/2015 | 16,020 | 16,000 | 12-month Euribor + 1.5% annual interest | 1 Dec. 2025 |
| Debenture I/2016 | 26,239 | 26,000 | 12-month Euribor + 1.8% annual interest | 30 Jun. 2026 |
| Debenture I/2017 | 8,005 | 8,000 | 12-month Euribor + 1.8% annual interest | 18 Dec. 2027 |

Terms of debenture loans:

The issuer reserves the right to call the loans before maturity. The issuer or a company within the same group of companies may only call a minor part of a loan before maturity without the approval of the Finnish Financial Supervisory Authority. A condition for calling the loans is that they can be resold to a new investor within a short period of time. The noteholders do not have the right to demand premature repayment of the loans.

Debenture loans are subordinated to the bank's other debt obligations. In capital adequacy calculations, loans on debenture terms are grouped under Tier 2 capital in accordance with the CRR regulation.

*) Includes transferred interest.

| Model of the key features of equity instruments | Debenture I/2015 | Debenture I/2016 | Debenture I/2017 |
|---|---|---|---|
| Issuer | S-Bank Ltd | S-Bank Ltd | S-Bank Ltd |
| Unique identifier (ISIN) | FI4000185418 | FI4000210877 | FI4000292735 |
| Governing law of the instrument | Finnish law | Finnish law | Finnish law |
| **Regulation** | | | |
| Transitional CRR rules | Tier 2 (T2) capital | Tier 2 (T2) capital | Tier 2 (T2) capital |
| Post-transitional CRR rules | Tier 2 (T2) capital | Tier 2 (T2) capital | Tier 2 (T2) capital |
| Eligible at solo or consolidated/subconsolidated/solo and consolidated/ sub-consolidation group | Solo and consolidated | Solo and consolidated | Solo and consolidated |
| Instrument type | | | |
| Amount recognised in regulatory capital (EUR million, on the last reporting date) | 16 | 26 | 8 |
| Nominal amount of instrument (EUR million) | 16 | 26 | 8 |
| Issue price | 100% | 100% | 100% |
| Redemption price | 100% | 100% | 100% |
| Accounting classification | Liability at amortised cost | Liability at amortised cost | Liability at amortised cost |

| | | | |
|---|---|---|---|
| Original date of issuance | 1 Dec. 2015 | 30 Jun. 2016 | 18 Dec. 2017 |
| Perpetual or dated | Dated | Dated | Dated |
| Original maturity date | 1 Dec. 2025 | 30 Jun. 2026 | 18 Dec. 2027 |
| Issuer call subject to prior supervisory approval | Yes | Yes | Yes |
| Optional call date, contingent call dates, and redemption amount | The debenture will be repaid based on its nominal value in equal instalments annually on 1 December, with the first instalment being paid on 1 Dec. 2021 and the last on 1 Dec. 2025. The issuer reserves the right to repay the debenture before the maturity date. The repayment can take place no earlier than five (5) years after the issuance of the loan, unless the Financial Supervision Authority grants permission for repayment earlier than in five (5) years. | The debenture will be repaid based on its nominal value in equal instalments annually on 30 June, with the first instalment being paid on 30 Jun. 2022 and the last on 30 Jun. 2026. The issuer reserves the right to repay the debenture before the maturity date. The repayment can take place no earlier than five (5) years after the issuance of the loan, unless the Financial Supervision Authority grants permission for repayment earlier than in five (5) years. | The debenture will be repaid based on its nominal value in equal instalments annually on 18 December, with the first instalment being paid on 18 Dec. 2022 and the last on 18 Dec. 2027. The issuer reserves the right to repay the debenture before the maturity date. The repayment can take place no earlier than five (5) years after the issuance of the loan, unless the Financial Supervision Authority grants permission for repayment earlier than in five (5) years. |
| Subsequent call dates, if applicable | See above | See above | See above |
| **Coupons/dividends** | | | |
| Fixed or floating dividend/coupon | Floating coupon | Floating coupon | Floating coupon |
| Coupon rate and any related indices | 12-month Euribor + 1.5% annual interest | 12-month Euribor + 1.8% annual interest | 12-month Euribor + 1.8% annual interest |
| Existence of a dividend stopper | No | No | No |
| Fully discretionary, partly discretionary or mandatory (in terms of timing) | Mandatory | Mandatory | Mandatory |
| Fully discretionary, partly discretionary or mandatory (in terms of quantity) | Mandatory | Mandatory | Mandatory |
| Existence of step up or other incentive to redeem | No | No | No |
| Non-cumulative or cumulative | Non-cumulative | Non-cumulative | Non-cumulative |
| Convertible or non-convertible | Non-convertible | Non-convertible | Non-convertible |
| If convertible, conversion trigger(s) | Not applicable | Not applicable | Not applicable |
| If convertible, fully or partially | Not applicable | Not applicable | Not applicable |
| If convertible, conversion rate | Not applicable | Not applicable | Not applicable |
| If convertible, mandatory or optional conversion | Not applicable | Not applicable | Not applicable |
| If convertible, specify instrument type convertible into | Not applicable | Not applicable | Not applicable |
| If convertible, specify issuer of instrument it converts into | Not applicable | Not applicable | Not applicable |
| Write-down features | Not applicable | Not applicable | Not applicable |
| If write-down, write-down trigger(s) | Not applicable | Not applicable | Not applicable |
| If write-down, full or partial | Not applicable | Not applicable | Not applicable |
| If write-down, permanent or temporary | Not applicable | Not applicable | Not applicable |
| If temporary write-down, description of write-up mechanism | Not applicable | Not applicable | Not applicable |

| | | | |
|---|---|---|---|
| Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Debentures are subordinated debt instruments that belong to the T2 instruments referred to in Article 63 of the European Parliament and the Council regulation (EU) No. 575/2013, provided that the requirements set by the Article and other requirements are met. Debentures are subordinated to the issuer's other commitments. Debentures cannot be used for setting off counterclaims. | Debentures are subordinated debt instruments that belong to the T2 instruments referred to in Article 63 of the European Parliament and the Council regulation (EU) No. 575/2013, provided that the requirements set by the Article and other requirements are met. Debentures are subordinated to the issuer's other commitments. Debentures cannot be used for setting off counterclaims. | Debentures are subordinated debt instruments that belong to the T2 instruments referred to in Article 63 of the European Parliament and the Council regulation (EU) No. 575/2013, provided that the requirements set by the Article and other requirements are met. Debentures are subordinated to the issuer's other commitments. Debentures cannot be used for setting off counterclaims. |
| Non-compliant transitioned features | No | No | No |
| If yes, specify non-compliant features | Not applicable | Not applicable | Not applicable |

# 16 ANNEX 2: LIST OF FIGURES

# 17 ANNEX 3: LIST OF TABLES

S-Bank