CAPITAL AND RISK MANAGEMENT REPORT 2022

S-BANK

CONTENT

1 INTRODUCTION

Part Eight of the Capital Requirements Regulation (EU) No 575/2013 sets out the requirements on disclosure of information (Pillar 3) concerning institutions' risks, risk management and capital adequacy. EBA has introduced implementing technical standards (ITS) specifying uniform disclosure formats for comprehensive and comparable information.

S-Bank Group (hereinafter "S-Bank") complies with these disclosure requirements and publishes this Capital and Risk management report with the uniform Pillar 3 disclosure tables in Excel format (S-Bank Capital Adequacy Tables) on S-Bank's website in conjunction with the financial statements once a year. Relevant information and required tables on risks are disclosed semi-annually. For the Capital and Risk management report 2022, S-Bank has changed the disclosure format of the quantitative tables specified by the EBA. S-Bank Capital Adequacy Tables can be found from 2022 onwards in Excel format on S-Bank's website. This report contains qualitative information on S-Bank's risk management and capital adequacy and summarises the year 2022.

Disclosure index demonstrating where the information required by CRR Articles 435 to 451 and Information not disclosed due to non-materiality, proprietary or confidential nature or not applicable to S-Bank Group can be found from S-Bank Capital Adequacy Tables on S-Bank's website.

2 RISK DECLARATION AND STATEMENT

Together with this report, 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.

By approving this report and the S-Bank Capital Adequacy Tables and based on the continuous reporting it receives, the Board of Directors considers that this report provides external stakeholders a comprehensive view of S-Bank's risk management and risk profile associated with its business strategy ((EU) No 575/2013, Article 435 (1f)). Based on the same grounds, the Board of Directors declares that the risk management systems put in place are adequate with regards to S-Bank's risk profile and strategy (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.

This report or the S-Bank Capital Adequacy Tables has not been externally audited. However, figures presented in this report are based on Annual Report 2022, which has been audited. The figures presented in S-Bank Capital Adequacy Tables are based on regulatory reporting to the banking supervisors. The report and regulatory reporting are subject to the internal review and control processes as defined in S-Bank's disclosure policy. Material in this report applies to S-Bank's consolidated figures as of 31 December 2022 if not otherwise stated.

3 SUMMARY OF YEAR 2022

The year 2022 was defined by significant changes in the external operating environment. Russia's war of aggression in Ukraine, high inflation, the energy crisis, the unprecedented rise of interest rates and stock market uncertainty have affected the daily lives of consumers and the operations of businesses and banks. Towards the end of the year, the demand for new housing loans slowed down and the strong growth in household deposits in recent years levelled off in the Finnish market as a whole.

3.1 S-BANK'S RISK POSITION IN 2022

Strong capital position

S-Bank's capital position has remained strong throughout the year. At the end of the year, the total capital ratio of S-Bank was 16.3 per cent (16.3), which was 4.3 percentage points above the regulatory requirement. The internal target level, set by the board, is 150 bps above the regulatory requirement. The development of own funds was affected positively by the operating profit due to the growth in net interest income. However, own funds were negatively affected by a decrease in the fair value reserve. S-Bank's operating profit for the year 2022 amounted to EUR 44.7 million (24.8), which was the best result in S-Bank's history. S-Bank is adequately capitalised to ensure continuity of its operations even under stressed conditions.

Credit risk position and strong credit quality

The growth of the secured and unsecured portfolio of household customer credits continued, although at a slightly slower pace in the latter part of the year. Total lending increased by 10.0 per cent and the growth was balanced across main lending portfolios.

The total amount of ECL provision increased by EUR 1.9 million to EUR 22.5 million (20.6) during the financial year. The coverage ratio of the total portfolio increased to 0.23 per cent (0.22) and remained within the risk appetite defined by S-Bank's Board in its credit risk strategy.

The enhancements implemented in the forbearance identification process and the stricter recovery criteria caused an increase in reported forbearance measures and non-performing loans, as expected. In addition, the increase in the level of costs has contributed to the growth of forbearance measures. The carrying amount of performing forborne exposures in relation to loans and advances was at the level of 2.0 per cent (1.6). The corresponding ratio of non-performing forborne exposures was 0.4 per cent (0.2). The NPL ratio, which describes non-performing exposures in relation to loans and advances, rose to 0.9 per cent (0.6).

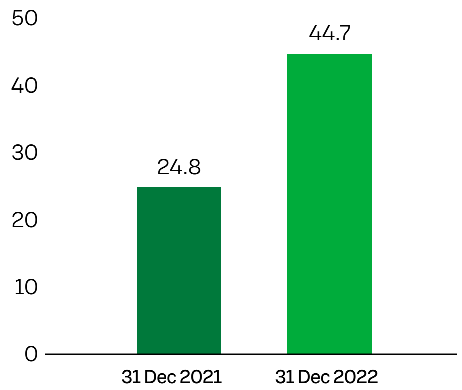
Strong liquidity position and new funding

In June S-Bank issued an increase of EUR 50 million in the original amount of its bond (tap issue). The tap issue concerns the Senior Preferred MREL Eligible Notes in the original amount of EUR 170 million, maturing on 4 April 2025. The purpose of the tap issue was to prepare for the upcoming full MREL requirement. In December S-Bank amended its note issuance programme to cover additional tier 1 capital notes.

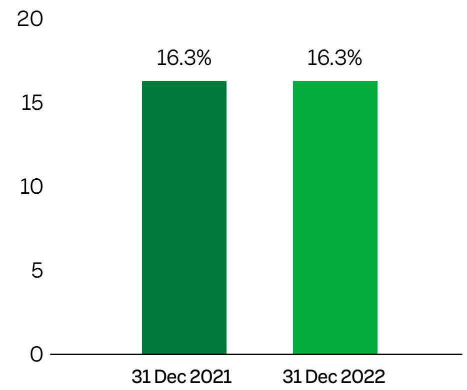
On 26 January 2023, credit rating agency Standard & Poor's (S&P) published a report where it affirmed S-Bank's long-term rating of BBB. The credit rating of long-term borrowing is BBB, that of short-term borrowing is A-2, and the outlook is stable. Also, S&P assigned resolution counterparty ratings (RCRs) for S-Bank for the first time. The credit rating of long-term borrowing is BBB+ and that of short-term borrowing is A-2.

The main source of S-Bank's funding is customer deposits, that grew 4.9 per cent (9.1) during 2022. S-Bank's liquidity position has maintained robust, LCR ratio being 164.4 per cent (149.9) and NSFR ratio 151.4 per cent (151.1) at the year end.

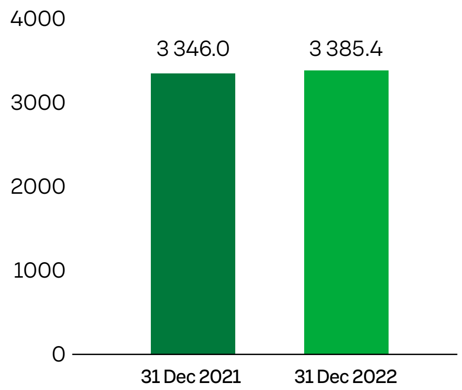
Operating profit (EUR m)



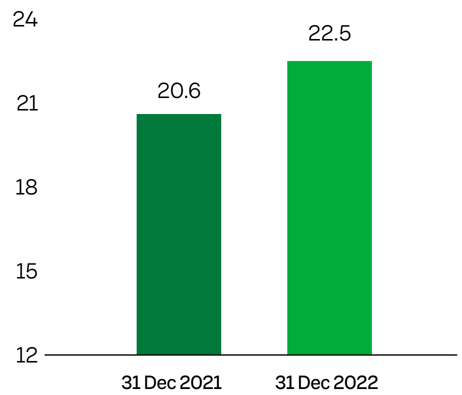
Total capital ratio (%)



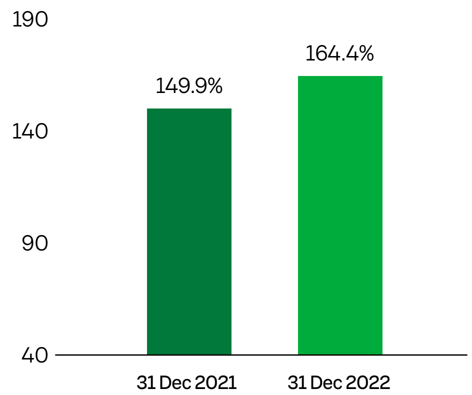
Total REA (EUR m)



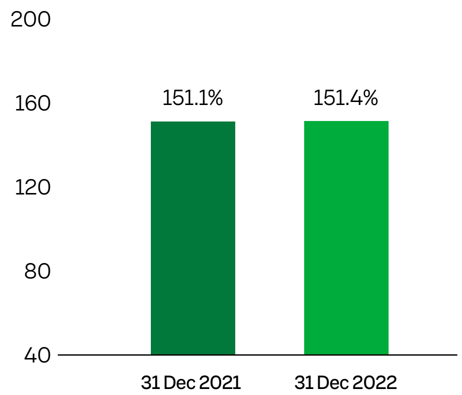
ECL (EUR m)



LCR (%)



NSFR ratio (%)



3.2 KEY CHANGES AND DEVELOPMENT DURING 2022

During 2022, the main tasks of risk management was to maintain and further improve risk management practices considering the changes in the market environment. Risk appetite framework and respective risk appetite indicators were evaluated and calibrated, and the related internal policies on risk management practices were updated according to the annual plan.

During the Q3 of 2022 the Compliance and Operational risk control team was split into two separate teams in order to support the growing business more efficiently and enable growth in both new teams.

3.2.1 Compliance risk

During 2022 S-Bank's Code of Conduct was compiled in cooperation of S-Bank's personnel and management. However, the Code of Conduct does not contain any new guidance. Moreover, it combines S-Bank's most essential standards of behaviour that are based on the policies and procedures approved by the board. The purpose of Code of Conduct is to ensure that the behaviour of S-Bank's personnel and business partners is in accordance with S-Bank's values. The Code of Conduct contains guidance, among other things, on Know Your Customer (KYC), Anti-money laundering (AML) and combating the financing of terrorism (CTF), prevention and management of conflicts of interest, data protection and data security, anti-bribery and corruption, S-Bank's values and whistleblowing.

Due to the current situation in Ukraine and its implications to the sanction's regime, S-Bank continues to have an increased focus on sanctions screening. However, due to S-Bank's customer base, the implications have been limited. S-Bank also put on hold all payments to and from Russia and Belarus in the spring of 2022.

3.2.2 Operational risk

The start of Russia's war of aggression in February and its implications to the energy markets in Europe, S-Bank has prepared for disturbances in electricity delivery in Finland. These precautions should ensure uninterrupted delivery of banking services to S-Bank's customers.

During 2022, a rare system malfunction affected authentication with online banking IDs. This problem was exploited by a very small group of individuals logging into the online bank as another customer, making unauthorised payments and logging into third-party online services. A few hundred customers were affected, and the malfunction was corrected as soon as it was detected. Various scam messages also circulated during the 2022, claiming to be from S-Bank and other banks. Unfortunately, also our customers occasionally fell victim to these phishing campaigns. In order to prevent misuse, we took a number of measures in the autumn that will further strengthen the security of our services and prevent criminal activity.

3.2.3 Credit risk management

In 2022, credit risk reporting was complemented with BI reporting and improvements were achieved in terms of data quality, coverage and robust use of data regarding e.g., loan origination and collateral management. Credit risk reporting capabilities were further enhanced in connection with the database solutions developed to track lifetime customer journey. Credit risk management unit is leading a project to validate debt collection practices and improve the efficacy of the management of non-performing loans as a part of larger push to improve data quality across credit risk area.

During the first half of the year, S-Bank updated its criteria for identifying significant increase in credit risk based on statistical analysis, which decreased the amount of receivables classified in stage 2. In addition, a new macro model was introduced to assess the impact of macroeconomic forecasts on expected credit losses. The updates in calculation methods reduced ECL provision by approximately EUR 2.1 million, including related changes in management judgement.

Forward-looking information is complemented by a management judgement, which takes into account the uncertainty related to model parameters and assumptions as well as model risk. The changes in management judgement during the financial year contributed to the growth in the ECL provision by approximately EUR 1.6 million. The management judgement was updated, as increases in interest expenses and prices are expected to weaken the financial standing of customer households.

3.2.4 Liquidity and Market risk management

Strong increase in market interest rates during the year gave rise to more frequent internal interest rate risk reporting and the interest income risk was reported on a weekly basis for the second half of the year. Positive interest rates environment brought forth also modelling and parametric assumptions of the interest rate risk measurement, which were further developed during the year.

S-Bank has BBB rating for long-term funding and A-2 for short-term funding with stable outlook from Standard & Poor's (S&P). There were no changes in S-Bank's credit rating during the year.

3.3 KEY DEVELOPMENT DUE TO REGULATORY CHANGES

Minimum requirement for own funds and eligible liabilities (MREL)

In the annual decision issued by the Financial Stability Authority on 6 April 2022, the MREL requirement based on total risk exposure amount is 20.34 per cent (20.04) and the requirement based on the total amount of exposures used in the calculation of the leverage ratio is 8.41 per cent (5.91). The requirement based on total risk exposure amount must be met gradually so that the 17.23 per cent requirement entered into force on 1 January 2022 and the full requirement will enter on 1 January 2024. The MREL requirement based on the total amount of exposures used in the calculation of the leverage ratio enters into force in full on 1 January 2024. The requirement of 5.91 per cent, based on the previous decision, is in force until 31 December 2023.

Development of resolvability

S-Bank has continued to improve resolvability according to instructions "Expectation for Banks" by Single Resolution Board and the relevant European Banking Authority (EBA) guidelines. The focus has been in the areas of operational continuity in resolution, access to financial market infrastructures (FMIs), liquidity in resolution, valuation, and bail-in data. Institutions are expected to adapt the guidelines to their processes by 1 January 2024.

Basel IV implementation (2025-)

Based on a proposal for the Banking Package published by the European Commission on 27 October 2021, S-Bank has been analysing the effects of upcoming regulatory changes brought on by the implementation of the Basel IV framework into European legislation. The initial analysis suggests no significant changes taking place in S-Bank's capital position on the expected date of implementation, 1 January 2025, mainly due to preferential risk-weight treatment for exposures secured by real estate and long transitional arrangements for unconditional cancellable commitments.

Recommendation on Debt Service to Income limitation for Mortgage customers

Finnish Financial Supervisory Authority (FSA) gave out a recommendation on 27th of June according to which all debt servicing costs (Debt Service to Income or DSTI) of mortgage borrowers should, as a general rule, be no more than 60 per cent of the loan applicant's net income. Calculation of stressed DSTI is done by using maturity of 25 years and interest rate of at least 6 per cent and all debt servicing costs of the customer should be considered. There are given exceptions with regards to long-term interest-protected and fixed-rate loans. S-Bank's loan origination was mostly conforming to the recommendation, but additional controls are planned. Recommendation enters into force on 1 January 2023.

New standards and guidelines on IRRBB

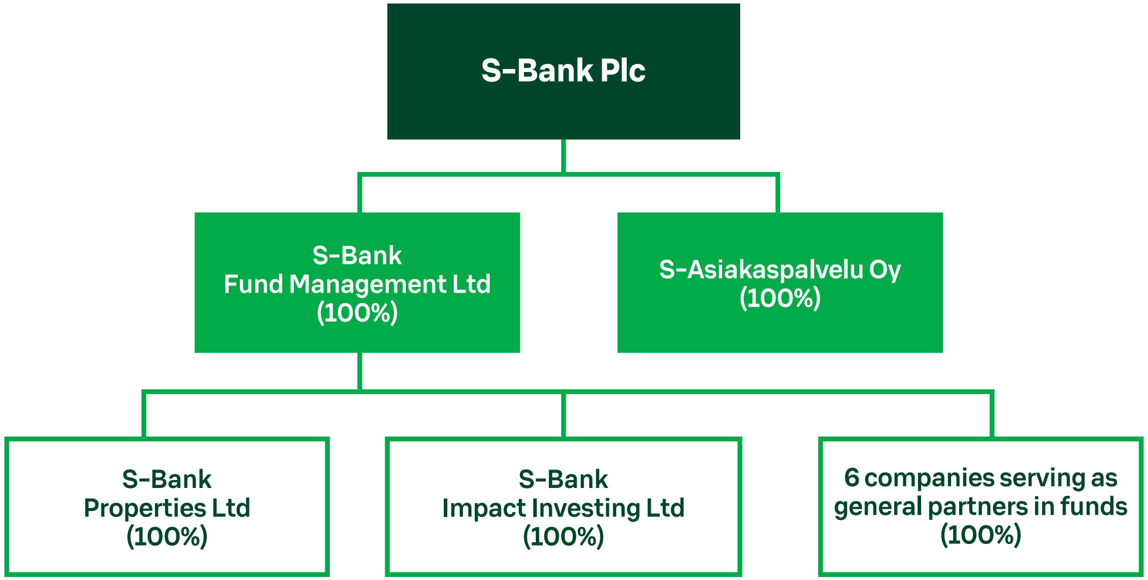
New standards and guidelines on interest rate risks for banking book (IRRBB) and credit spread risk (CSRBB) arising from non-trading book activities were introduced by the EBA and the standards and guidelines will apply gradually from 30 June 2023. Based on the analyses S-Bank will continue to use internal models for calculating its IRRBB and CSRBB risks.

New guidelines on recovery plan indicators

EBA published on 9 November 2021 guidelines on recovery plan indicators (EBA/GL/2021/11). The revised guidelines included an updated minimum list of recovery indicators, as well as additional guidance on the calibration of recovery indicator thresholds. S-Bank has updated its recovery plan in 2022 to ensure compliance with the guidelines.

4 DESCRIPTION OF THE S-BANK GROUP

Corporate structure of S-Bank Group



4.1 CORPORATE STRUCTURE AND CONSOLIDATION

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 primarily on services to household customers and the asset management business. The S-Bank Group includes the parent company S-Bank Plc and all its subsidiaries as presented in following figure. The owners of S-Bank are SOK Corporation and the regional co-operatives belonging to S Group.

S-Bank Plc is the parent company of S-Bank Group. S-Bank is a Finnish bank that wants to make it possible for everyone to have a little more wealth, regardless of how much money they have to start with. This is achieved by offering our three 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 S-Bank Fund Management Ltd.

S-Bank Fund Management Ltd is a wholly owned subsidiary of S-Bank Plc. It manages the S-Bank funds. The company also previously managed the FIM and LocalTapiola funds. In the fourth quarter of 2021, the FIM funds were renamed S-Bank funds and the management of LocalTapiola funds was discontinued as part of a broader corporate transaction.

S-Bank Private Equity Funds Ltd merged with S-Bank Fund Management Ltd on 30 September 2022. As a result of the merger, S-Bank Fund Management Ltd now provide portfolio management services for private equity funds for the group and is responsible for the portfolio management of those non-UCITS funds that invest in real estate, forests and unlisted companies.

S-Asiakaspalvelu Oy is a wholly owned subsidiary of S-Bank Plc. It provides customer service and data processing-related and other services relevant to a credit institution's core operations, in its capacity as a service company as provided for by the Act on Credit Institutions (610/2014).

S-Bank Properties Ltd specialises in property management and offers its services to investors, property owners and tenants. In addition to property portfolio management, property management services and property development, the company focuses on the implementation and management of joint venture projects. S-Bank Fund Management Ltd owns 100 per cent of S-Bank Properties Ltd's share capital.

S-Bank Impact Investing Ltd is a wholly owned subsidiary of S-Bank Fund Management Ltd. The company manages impact investment funds, acts as general partner and manages interventions.

FIM Real Estate Ltd, FIM Infrastructure Mezzanine Debt Fund GP Oy, FIM Infrastructure Mezzanine Debt Fund III GP Oy, FIM Private Debt Fund I GP Oy, FIM SIB Oy, S-Pankki Vaikuttavuus I GP Oy serve as general partners in funds managed by S-Bank Fund Management Ltd. These companies have no other business activities and are fully owned by S-Bank Fund Management Ltd.

5 GOVERNANCE OF RISK

The regulatory framework for banks comprises of three Pillars: (1) minimum requirements addressing risk, (2) risk management and supervisory review and (3) market discipline. The framework is implemented through EU-level by 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 local Financial Supervisory Authority. S-Bank is under supervision of Finnish Financial Supervisory Authority (FIN-FSA).

Within the Pillar 3 report and related quantitative tables, S-Bank discloses information concerning risk management assessment methods and processes, description of Risk Appetite Framework and required quantitative information on risks, own funds and key figures. Information on governance arrangements, such as Corporate governance statement, Remuneration policy and related Pillar 3 templates are available on S-Bank's website.

Basel international regulatory framework

Guidelines by the EBA and FSA

Regulation at the EU level and in Finland

Basel framework

Minimum capital requirements

- Regulation and FSA stipulates minimum capital, buffer, liquidity and other requirements
- Standardised approach used for credit risk
- Basic Indicator Approach used for operational risks
- No capital requirement for market risk

PILLAR 1
Capital, buffer and other requirements

Internal capital / liquidity adequacy and assessment process (ICAAP and ILAAP)

- S-Bank assesses that it possesses adequate capital resources in the long term to cover all of its material risks. Assessment includes:
  - Liquidity risk
  - Credit risk
  - Market risk
  - Operational risk
  - Strategic and business risk

Supervisory review and evaluation process (SREP):

- Assessment of business model and it's sustainability
- Assessment of governance and risk management adequacy
- Analysis of capital and buffer adequacy to absorb losses
- Analysis of liquidity and ability to cover short-term cash needs

PILLAR 2
Risk management and supervision

Disclosure Requirements

- S-Bank discloses information concerning, e.g.:
  - Risk management and assessment strategies, processes and methods
  - Risk capacity, appetite and profile
  - Own funds, capital adequacy and liquidity
  - Risk reporting principles

PILLAR 3
Market discipline

5.1 INSTITUTION RISK MANAGEMENT APPROACH (EU OVA)

Disclosure on institutions risk management approach on general level is described in this chapter. The following chapters within this report describe more specifically risk management for each type of risk.

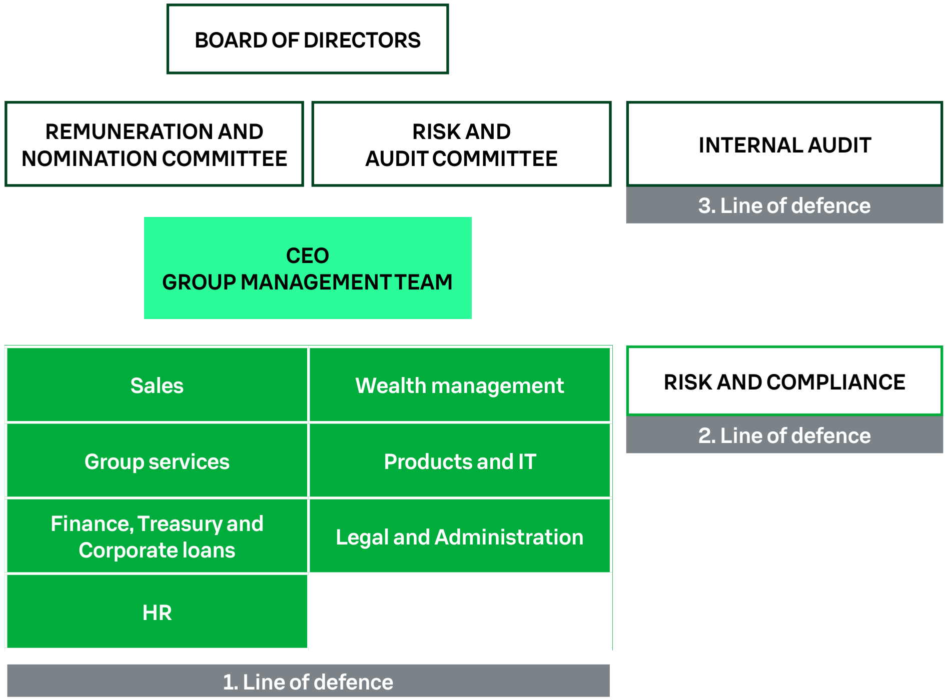
5.1.1 (a) Disclosure of concise risk statement approved by the management body

The risk declaration and statement approved by the management body is disclosed in chapter 2.

5.1.2 (b) Information on the risk governance structure for each type of risk

S-Bank's risk management is built on three lines of defence. The first line of defence consists of S-Bank's business and support units, which conduct business operations in accordance with S-Bank's strategy and business plan. They are responsible for risk-taking, the identification of risks, day-to-day risk management and risk reporting.

S-Bank Group's administrative structure



The second line of defence, Risk and Compliance, consists of the Group-level functions that are independent of business operations.

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

Board of Directors

The parent company's Board of Directors bears overall responsibility for risk management in the S-Bank Group, ensuring that the Group's operations are appropriately organised in compliance with the applicable laws and regulations. The Board confirms the overall risk strategy and defines the risk-bearing capacity, risk appetite and risk management objectives of S-Bank and is responsible for ensuring that the Group has the operating and risk management policies necessary to support and implement them, as well as sufficient internal control.

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. The Board of directors follows risk limits and the development and allocation of capital and makes decisions of financial arrangements and their execution accordingly. All substantial risks, reports concerning compliance with the set limits, main risk management policies and pertinent changes 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 the ICLAAP 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 CEO, assisted by the Group Management Team, is responsible for the practical execution of the Group operations and governance, risk management and internal risk management practices in accordance with the principals set by the Board. CEO, with assistance of the Group Management Team, is responsible for assuring, that risk appetite and risk capacity are considered in the S-Bank's strategy process and operational planning. In addition, they are responsible for achievement of set goals and for managing and controlling any risks that may threaten these goals.

CEO has established committees to prepare and make decisions by executive managers. Most essential committees for Risk Management purposes are Risk Committee, Asset and Liability Committee and Credit Committee.

Risk management committees

The Risk Committee's main duty is to ensure that the information on S-Bank's risks, risk management and capital adequacy provided to the Risk and Audit Committee and to the Board of Directors is sufficient and appropriate to assist them in discharging their duties and responsibilities and in making decisions. The Committee confirms the key risk management strategies, policies, limits, and reports for processing by the Risk and Audit Committee and for approval by the Board of Directors. Risk Committee is a second line of defence committee, where the Chief Risk Officer acts as a chairman.

Asset and Liability Committee's main duty is to ensure capital adequacy, liquidity and to forecast, monitor and manage capital adequacy and balance sheet. Asset and Liability Committee is a first line of defence committee.

Credit Committee is responsible for setting up credit granting targets, processes, methods, and credit risk limits in accordance with the risk appetite set by the Board. Credit Committee makes credit decisions, and it is a first line of defence committee.

Business and support functions

Within the first line of defence, S-Bank has business and support functions, which conduct business operations in accordance with S-Bank's strategy and business plan. The second line of defence is Risk and Compliance and Internal Audit is the third line of defence. The Business and support functions are listed in the diagram S-Bank Group's administrative structure.

The directors of S-Bank's business and support functions take primary responsibility for the risks in their respective areas and for ensuring that their units operate in accordance with S-Bank's guidelines and policies. These business and support functions also bear responsibility for their own risks within the set limits. They are hence responsible for identifying and assessing the risks associated with their operations, and for managing and monitoring them and for carrying out internal control. They must also each ensure that the parameters and conditions of their own operations, and the prerequisites for risk management, are described clearly and adequately.

Independent functions

The Risk Control, Compliance, Operational Risk Control, and Internal Audit are Group-level control functions, that are independent of business operations.

Risk Control is a function tasked with comprehensively monitoring and assessing S-Bank's risk-taking level and the implementation of risk management. The Risk Control function monitors the execution of the overall risk strategy and the total risk exposure, ensuring that the risks taken by S-Bank are proportionate to its risk capacity and the set objectives. The Risk Control function maintains and develops methods for measuring, assessing, and reporting risks, and supports the business functions in identifying and managing risks.

Compliance and Operational risk control assess and monitors S-Bank's compliance with the relevant external regulations, internal policies and the decisions of S-Bank's management. Compliance and Operational risk control are tasked with ensuring that S-Bank has adequate and appropriate policies and procedures to ensure compliance with regulatory requirements and the management of operational risks.

The **Internal Audit** function performs independent reviews and verification activities that focus on the adequacy, functionality and effectiveness of internal control and risk management across the entire Group. These features are evaluated with a risk-oriented approach in accordance with the auditing plan approved annually by the Board of Directors. When conducting audits according to plan, the Internal Audit function bases the auditing criteria on external regulations, internal guidelines and the set objectives. Internal Audit also reviews the Risk and Compliance functions.

5.1.3 (c) Declaration approved by the management body on the adequacy of the risk management arrangements.

The declaration by the management body of the risk management arrangements is disclosed in chapter 2.

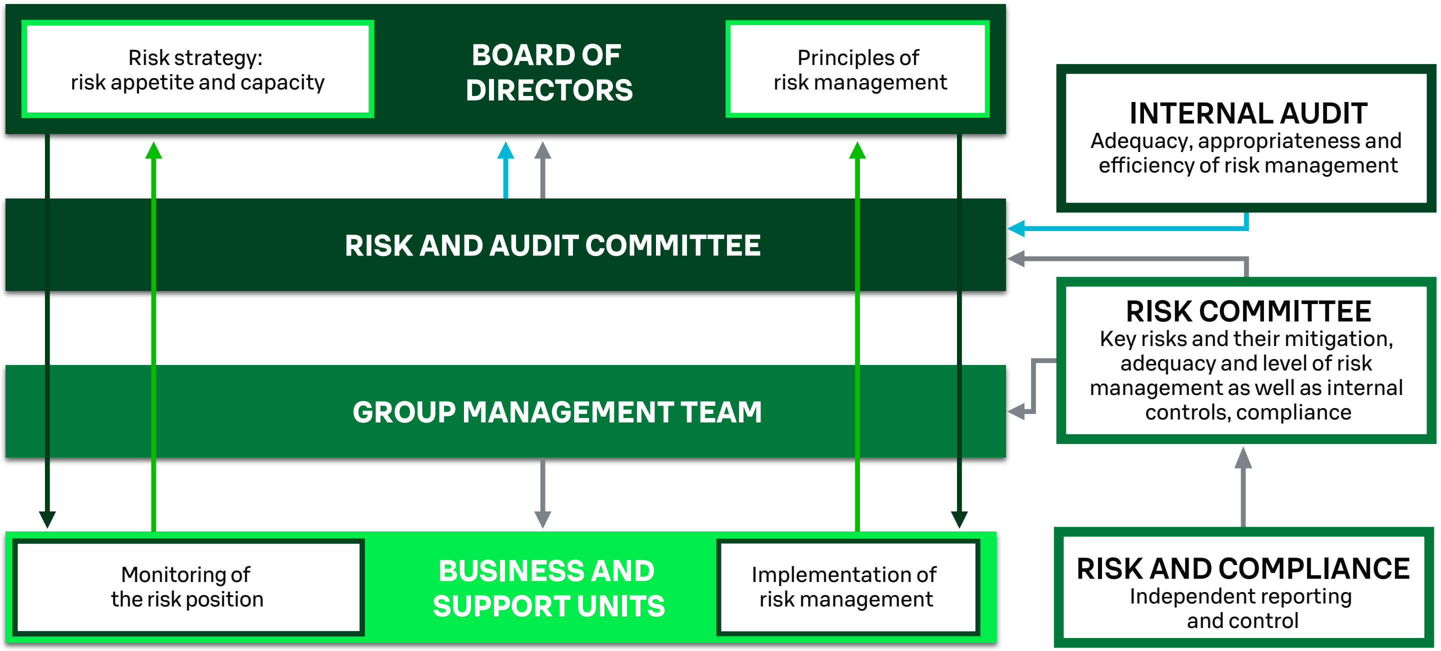
5.1.4 (d) Disclosure on the scope and nature of risk disclosure and/ or measurement systems.

Risks are measured, monitored and reported to ensure that S-Bank's Board and executive management have adequate and essential information on risks and their management. S-Bank's internal risk reporting process includes both financial reporting and regular analyses of the degree to which the Board's objectives have been achieved. Risk-taking in relation to the risk appetite and risk capacity is monitored regularly and assessed, for example, when updating the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) reports and recovery plan, and when processing strategy or making decisions concerning important business projects or investments for S-Bank. Risk reporting and monitoring practices help to communicate the achievement of set goals and maintain a sound risk culture within the organization. Risks are continuously being monitored in S-Bank as part of work duties. It is the responsibility of all employees to follow the execution of risk management within their area of responsibility and to report any deviations and deficiencies in risk management in accordance with agreed procedures.

The Risk Control function is responsible for producing reports on the key risks and the level of risk management for S-Bank's management, the Risk Committee, the Risk and Audit Committee and the Board of Directors. In addition to regular reports, the aforementioned bodies are provided with a separate report and analysis if any major changes or deviations occur that may influence S-Bank's risk position or capital adequacy.

The Internal Audit function evaluates the processes concerning risks and capital management in accordance with an annual auditing plan. Internal Audit regularly reports on audit results, key audit observations, any operational improvement recommendations and compliance with the audit plan to the Risk and Audit Committee and the Board of Directors, as well as to all other relevant bodies in the organisation.

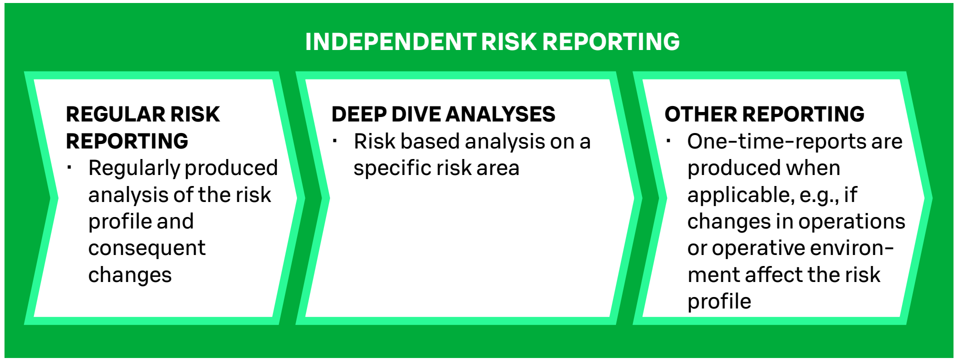
The overall risk reporting in S-Bank



5.1.5 (e) Disclosure of information on the main features of risk disclosure and measurement systems.

Within the Pillar 3 report and related quantitative tables, S-Bank discloses information concerning risk management assessment methods and processes, description of Risk Appetite Framework and required quantitative information on risks, own funds and key figures. Information on governance arrangements such as corporate governance statement, Remuneration policy and related Pillar 3 templates are available on S-Bank's website.

Independent risk reporting



5.1.6 (f) Strategies and processes to manage risks for each separate category of risk and (g) Information on the strategies and processes to manage, hedge and mitigate risks, as well as on the monitoring of the effectiveness of hedges and mitigants.

S-Bank Group has a risk strategy approved by the parent company's Board of Directors that applies to all Group companies and their business and support functions. The risk strategy defines the Group's risk capacity and risk appetite, as well as the risk management objectives and framework within the Group. The risk strategy is fine-tuned by means of risk type-specific principles and procedures. Additionally, the business and support functions maintain more detailed guidelines and descriptions to implement risk management in their own organisations.

Comprehensive risk management is a continuous process integrated into S-Bank's strategy, decision making, processes, 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 and their consequences at an acceptable level.

The objective of risk management is to support the level of profitability, and to maintain the capital adequacy and the liquidity as well as other risk indicators 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 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. The Board of Directors defines annually the quantitative and qualitative aspects of the risk capacity and risk appetite.

Risk capacity determines the maximum levels for risk-taking, business growth and the Group's negative profitability, that can be carried in the short and long term, while considering regulatory minimum requirements and limitations.

Risk appetite reflects the types and levels of approved risks that S-Bank is willing to take in its normal business operations while pursuing its targets. Factors affecting risk appetite are related to the selected strategy, business plan and budget. The starting point for the Bank's risk appetite is to achieve a stable and sufficient return on the Group's equity in the short and long term in accordance with strategy.

The following chapters within this report describe risk management for each separate category of risk and capital management.

Summary of S-Bank’s risk appetite framework 31 Dec 2022

Type of risk	Indicator
Capital risk	· Capital ratios · Economic capital · Leverage ratio · Profitability
Credit risk	· Expected and final credit losses · Indicators for asset quality · Concentration risk · Distribution of credit portfolio by segment and product
Market risk	· Interest rate risk in economic value and net interest income · Spread risk · Other market risks
Liquidity risk	· Indicators for short- and medium-term liquidity · Adequacy of stable funding · Asset encumbrance · Structure of funding
Compliance risk	· Regulatory compliance monitoring indicators · Indicators to prevent financial crimes
Operational risk	· Realised operational risks · Continuity management indicators · Indicators of service availability

6 CAPITAL MANAGEMENT

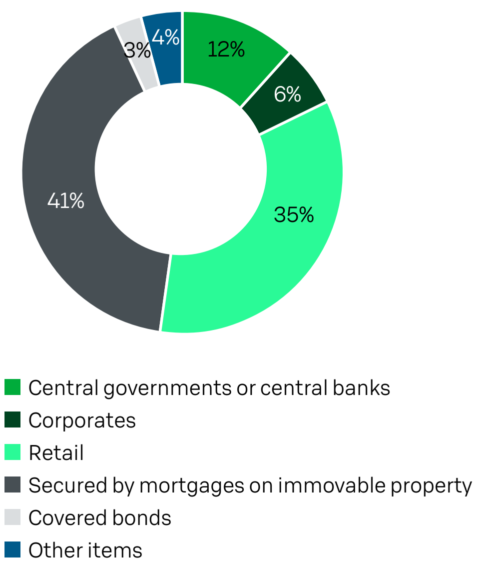
6.1 HIGHLIGHTS 2022 AND OVERVIEW

S-Bank is adequately capitalised and its liquidity position is strong 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 stood at 16.3 per cent (16.3) and CET1 ratio at 13.2 per cent (13.0) on 31 December 2022
  - Total REA increased by EUR 39.4 million to EUR 3.4 billion, mainly due to growth of the risk exposure amount for operational risk, with credit risk increasing only slightly compared to the end of the previous year.
  - Own funds increased during the review period as operating profit grew to an all-time high of EUR 44.7 million and the number of intangible assets decreased. This positive development was partially offset by a macro-driven decrease in the fair value reserve.
- S-Bank's total capital requirement at the end of the reporting period was 12.03 per cent, consisting of the minimum capital requirement (8%), capital conservation buffer (2.5%), Pillar 2 SREP requirement (1.50%) and countercyclical buffer (CCyB) requirement (0.03%). Except a slight increase in the countercyclical capital buffer (CCyB), no changes were made to the capital requirements during 2022.
- Leverage ratio was also strong 4.9 per cent (5.0) and exceeded the binding leverage ratio requirement of 3 per cent.

Distribution of credit risk exposures by exposure classes

The following figure shows the distribution of credit risk exposures before CCF and CRM effects, taking into account both on-balance-sheet exposures (EUR 8.9 billion) and off-balance-sheet exposures (EUR 2.2 billion). Corporate exposures decreased and exposures to central governments and central banks increased during the year, as S-Bank reallocated its investments.



6.2 ICAAP INFORMATION (EU OVC)

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 continuously has the appropriate capital and liquidity position required to achieve its strategic business goals. Furthermore, the aim is to ensure that S-Bank continuously has sufficient capital and liquidity buffers to guard against any unexpected events. Capital and liquidity management are based on a proactive approach that takes into account S-Bank's strategy, business plan and overall risk strategy.

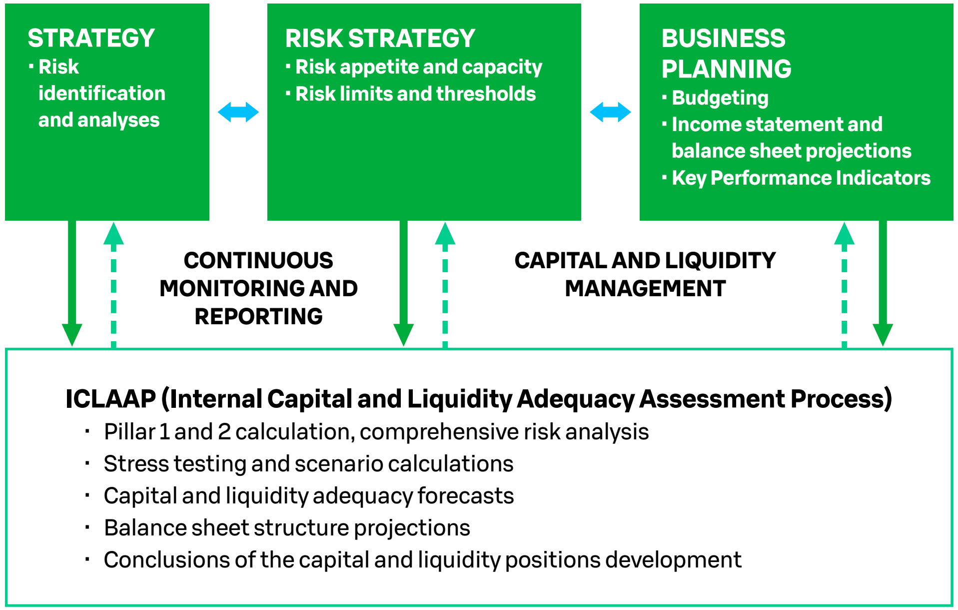
Information on S-Bank's capital position can be found on S-Bank Capital Adequacy Tables on S-Bank's website.

Capital and liquidity management framework and tools are also part of regularly elaborated Recovery Plan that aims to ensure the continuity of S-Bank's core businesses, to avoid adverse effects on financial system and protect public funds. The Recovery 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 planning is aligned with plausible scenarios used for ICAAP and ILAAP stress tests.

(a) Approach to assessing the adequacy of the internal capital

The results of the regularly performed ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) are combined into a comprehensive ICLAAP report which S-Bank compiles 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 business, 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.

Capital and liquidity management framework



ICAAP provides a comprehensive overview of S-Bank's capital and risk positions in various stress scenarios. The process also takes into account business continuity under stressed conditions by laying out a detailed plan for increasing capital adequacy and lowering S-Bank's risk profile. 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. The ICLAAP takes into account all relevant risk types for the bank.

For each of the major risks, the economic capital requirement is quantified as follows:

- the risk measurements already covered by Pillar 1 are reviewed and, where necessary, completed by economic capital adjustments.
- the risks absent from Pillar 1 are subject to a specific calculation of economic capital needs, based on internal approaches.

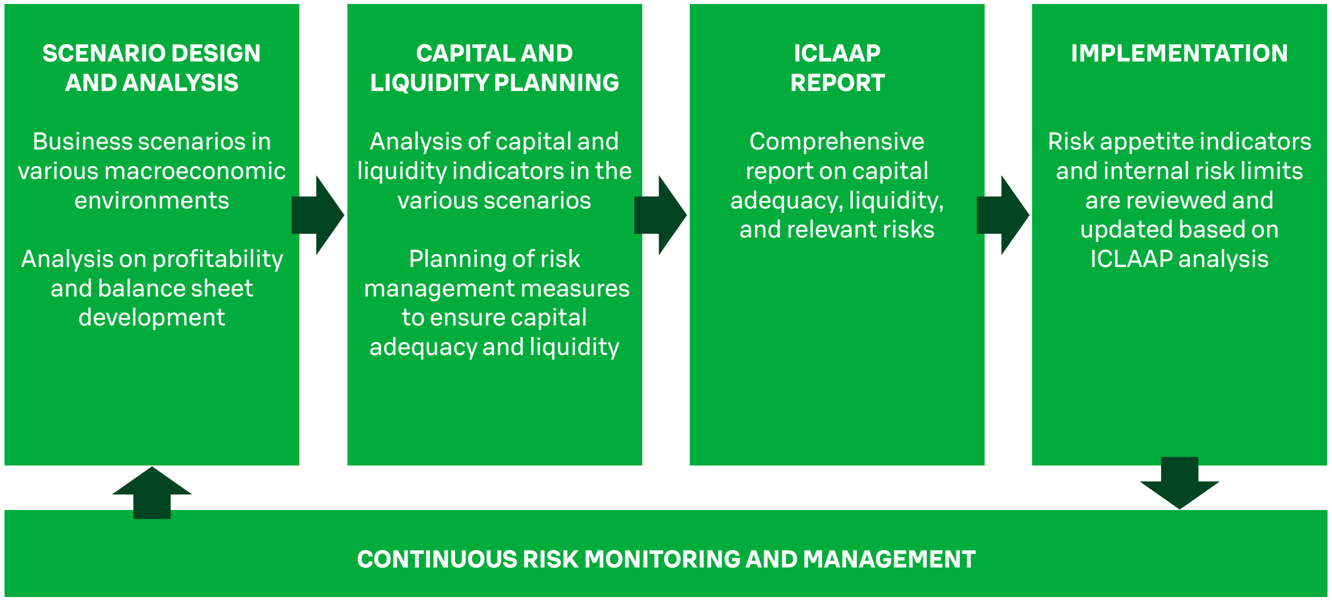
During 2022 all the major risks identified during the risk identification process were taken into account for assessing the economic capital requirement. S-Bank notably measures market risks, business and strategic risk, concentration risk, credit risk, and operational risk. S-Bank ensures that its own funds always cover the economic capital requirement.

6.3 OWN FUNDS

S-Bank's CET1 ratio stood at 13.2 per cent (13.0) and total capital adequacy ratio at 16.3 per cent (16.3) at the end of the reporting period. Total own funds grew from EUR 545.3 million to EUR 552.9 million. In the period under review, own funds were positively affected especially by profit performance, while the deterioration of the fair value reserve due to market uncertainty had a negative impact on own funds. S-Bank's Board of Directors has decided to propose to the Annual General Meeting, to be held on 2023, to decide on a dividend payment of a maximum of EUR 5.0 million from the parent company's distributable assets. The proposal is in line with S-Bank's dividend distribution policy. The amount of foreseeable dividend for 2022 has been deducted from CET 1 capital in accordance with Commission Delegated Regulation (EU) No. 241/2014.

Tier 2 capital consists of four debentures with a total T2-eligible value of EUR 104.8 million (110.5). Two of the debentures have a maturity of over five years and are thus fully eligible as Tier 2 capital. The remaining two debentures have a maturity of less than five years and are therefore being phased out of Tier 2 capital reserves as required by regulations. The main features of regulatory own funds instruments and eligible liabilities instruments are disclosed in table EU CCA within S-Bank Capital Adequacy Tables.

ICLAAP process



6.4 CAPITAL REQUIREMENTS

S-Bank's capital adequacy is on a solid basis and well above the minimum requirements set by the regulators. The capital requirement of 12.03 per cent comprises the minimum requirement of 8%, the capital conservation buffer of 2.5%, the minimum requirement (P2R) of 1.5% set by the FIN-FSA and the institution-specific capital conservation buffers by country for foreign exposures (CCyB) of 0.03%. A slight upwards trend concerning the CCyB has been observed during the latter half of 2022 as national countercyclical buffer rates have been increased by authorities in some of the countries S-Bank has exposures to, mainly in Norway, Sweden, and Denmark. However, these developments have so far had only a minimal effect on S-Bank's CCyB rate, which remains at a near-zero level.

S-Bank's total capital requirement on 31 December 2022 (Pillar 1)

Capital	Minimum capital requirement		Capital conservation buffer		Countercyclical capital buffer		Pillar 2 (SREP) additional capital requirement		Total capital requirement	
	%	EUR million	%	EUR million	%	EUR million	%	EUR million	%	EUR million
CET1	4.5%	152.3	2.5%	84.6	0.03%	1.0	0.84%	28.6	7.87%	266.5
AT1	1.5%	50.8					0.28%	9.5	1.78%	60.3
T2	2.0%	67.7					0.38%	12.7	2.38%	80.4
Total	**8.0%**	**270.8**	**2.5%**	**84.6**	**0.03%**	**1.0**	**1.50%**	**50.8**	**12.03%**	**407.2**

7 CREDIT RISK

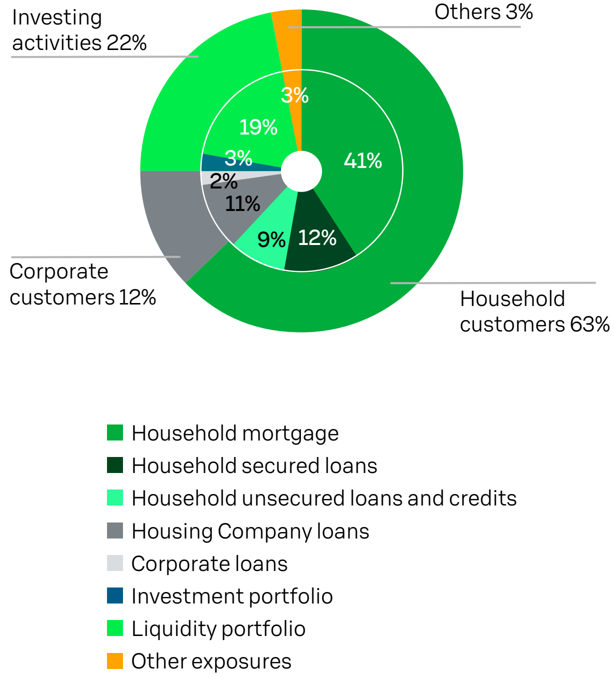
7.1 HIGHLIGHTS 2022 AND OVERVIEW

S-Bank focuses on household lending including housing loans, credit cards and consumption loans. S-Bank's corporate portfolio focuses on secured loans for housing companies. S-Bank sustains a low credit risk profile in line with its conservative risk appetite, supported by prudent risk management.

- Credit risk constitutes 89.3 per cent (EUR 3.0 billion) of S-Bank's total REA. Household customer lending increased 9.9 per cent and represented 83.5 per cent (83.5) of total lending.
- Expected Credit Losses provision increased by EUR 1.9 million to EUR 22.5 million (20.6) and coverage ratio relative to total credit exposure increased to 0.23 per cent (0.22).
  - S-Bank updated its criteria for identifying significant increase in credit risk (SICR) and a new macro model was introduced, which reduced ECL provision by EUR 2.1 million.
  - The changes in management judgement increased in the ECL provision by approximately EUR 1.6 million. The management judgement was updated, as increases in interest expenses and prices are expected to weaken the financial standing of customer households.
  - Total net effect on profit from expected and final credit losses was EUR 12.0 million (15.7) and it was at a low level of 0.2 per cent (0.3) in relation to the loan portfolio.
- The enhancements implemented in the forbearance identification process with stricter cure criteria caused an increase in reported forbearance measures and non-performing loans. In addition, the increase in general price level has contributed to the growth of forbearance measures.
  - The amount of non-performing loans in the balance sheet increased by EUR 20.1 million to EUR 59.4 million (39.3). Of this, EUR 12.1 million was due to an increase in non-performing forborne exposures. The NPL ratio increased to 0.9 per cent (0.6).
  - The carrying amount of performing forborne exposures in relation to loans and advances increased to the level of 2.0 per cent (1.6). The corresponding ratio of non-performing forborne exposures was 0.4 per cent (0.2).

Distribution of on-balance-sheet assets

Total lending increased by 10.0% to EUR 6.7 billion at the end of the financial year. The growth was balanced across main lending portfolios.



7.2 MANAGEMENT OF CREDIT RISK (EU CRA)

a) In the concise risk statement in accordance with point (f) of Article 435(1) CRR, how the business model translates into the components of the institution's credit risk profile.

S-Bank's credit risk profile is described within chapter Highlights 2022 and overview together with S-Bank Capital Adequacy tables.

b) When discussing their strategies and processes to manage credit risk and the policies for hedging and mitigating that risk in accordance with points (a) and (d) of Article 435(1) CRR, the criteria and approach used for defining the credit risk management policy and for setting credit risk limits

The Board of Directors approves S-Bank's credit risk strategy and principles for credit risk management, which are in line with good banking and lending practices and regulation. Credit risk strategy defines the strategy for credit risk-taking within the risk appetite indicators set in S-Bank's risk strategy. The principles for credit risk management describes the principles of credit risk management, mitigation, monitoring, and control.

Credit risk is managed by the business and support units within the principles and limits set in S-Bank's risk strategy, credit risk strategy and principles of credit risk management. Credit risks arising from the Treasury investing activities are described and limited in the Treasury's annual investment plan approved by the Board of Directors. Credit risk strategy defines the target segments for lending, including low risk secured lending to households and housing corporations, credit cards and unsecured consumer loans. The structure of credit portfolio is managed by setting segment level growth targets and allocation limits. The credit risk management framework includes prudent credit origination process, limits, credit risk mitigation measures such as collaterals and guarantees, credit risk modelling, risk-based pricing, and credit risk monitoring, control and reporting.

The origination of credit is based on a process that includes customer identification, credit analysis, an assessment of the use of funds along with collateral. As a general rule, credit is only granted to customers with sustainable ability to repay the loan, regardless of potential collateral value. Credit proposals and decisions are prepared, executed, and documented appropriately. The credit decision process is centralised, and partly automatised based on risk scoring models and other credit granting criteria. Credit decision process is managed according to credit risk strategy, which sets limits for credit portfolio allocation, risk concentrations and asset quality indicators.

Risk concentrations may arise from concentrated exposures in geographical area, industry sector, type of collateral, or large single name exposures. Concentration risks are managed within the defined limits and followed regularly in the management risk reporting. In addition, concentration risks are assessed through stress testing in the context of capital planning (ICLAAP process), and they are included in the calculation of Pillar 2 economic capital requirement.

The concentration risk of large single name exposures can be due to large credit institution or corporate exposures. Single name risk is managed by assessing the interconnectedness of corporate clients, limiting these exposures, and closely monitoring their development on individual level and as concentration of top holdings. The risk is reflected in the calculation of S-Bank Pillar 2 economic capital.

Majority of S-Bank's portfolio is retail lending and does not have industry category, which reduces industry concentration risk. In addition, corporate lending portfolio focuses on housing corporations, where credit risk is diversified between multiple owners after construction of property is finished. There have been no significant changes in the industry distribution relative to previous year.

The great majority of geographical allocation of credit portfolio is in Finland, which is considered minor risk from S-Bank's perspective. Exposures outside Finland are primarily Treasury investments. The credit risk strategy also guides diversification of credit portfolio across different product types.

c) When informing on the structure and organisation of the risk management function in accordance with point (b) of Article 435(1) CRR, the structure and organisation of the credit risk management and control function.

Credit Committee is responsible for setting up credit granting targets, processes, methods, and credit risk limits in accordance with the risk appetite set by the Board. Credit Committee makes credit decisions, and it is a first line of defence committee.

Credit risk management unit is responsible for management of credit risk together with business units, including regular monitoring of the balance sheet, credit portfolios, and performance of product and customer segments. Assessed reports include e.g. information on achieving the set objectives and actual risk levels, follow-up on different credit risk categories, 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.

d) When informing on the authority, status and other arrangements for the risk management function in accordance with point (b) of Article 435(1) CRR, the relationships between credit risk management, risk control, compliance and internal audit functions.

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 policies, principles, and strategies. The Risk Control function reports regularly on S-Bank's credit risk profile and the sufficiency of risk management procedures. The relationships between credit risk management, risk control, compliance and internal audit are described in chapter 5 Governance of risk.

7.3 CREDIT RISK QUALITY OF EXPOSURES (EU CRB)

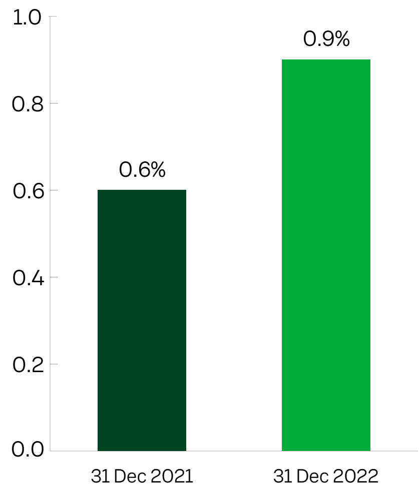
This chapter presents the essential concepts related to the credit quality of exposures, provisions, and credit risk adjustments.

a) The scope and definitions of 'past-due' and 'impaired' exposures used for accounting purposes and the differences, if any, between the definitions of past due and default for accounting and regulatory purposes as specified by the EBA Guidelines on the application of the definition of default in accordance with Article 178 CRR.

S-Bank applies harmonized definition for the concepts of defaulted exposures, non-performing exposures and IFRS 9 -credit impaired exposures. Defaulted exposures are comprised of exposures with material payment more than 90 days past due, consented non-performing forbearance, or other indication of unlikely repayment. Defaulted exposure has a probation period of at least 3 months after removal of all default criteria. The probation period is extended until the condition of full 3-month period without 30-day delinquency is fulfilled.

The amount of non-performing loans (NPL) in the balance sheet increased by EUR 20.1 million to EUR 60.1 million (39.3) during the year 2022. Of this, EUR 12.1 million was due to an increase in non-performing forborne exposures. The NPL ratio, which describes non-performing exposures in relation to loans and advances, rose to 0.9 per cent (0.6). All non-performing loans were household customer exposures.

NPL ratio



b) The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this.

Past due exposures are comprised of exposures with payments past due without considering materiality thresholds. The material payment is defined through both absolute and relative thresholds. Absolute threshold for material payment, coming from the regulation, is minimum 100 euros for retail exposures or 500 euros for corporate exposures and relative threshold is minimum 1 per cent of the gross carrying amount.

c) Description of methods used for determining general and specific 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 information on such losses in 2022, so the amount for general credit risk adjustments is zero. Hence, all credit risk adjustments are specific.

Internal risk models are used for the measurement of credit risk in terms of Expected Credit Losses (ECL) as per IFRS 9 standard requirements. S-Bank uses the probability of default (PD), Loss Given Default (LGD) and Credit Conversion Factor (CCF) models for measuring credit risks. The CCF parameter is used to determine the amount of future liability i.e. Exposure at Default (EAD). 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's note 1 and Group's note 2).

ECL provision increased during the financial year by EUR 1.9 million, which was affected by increases due to origination and decreases due to derecognition and write-offs, in addition to changes in risk levels. The ECL provision related to stage 3 exposures increased by EUR 3.7 million, mainly due to the growth in defaulted household customer exposures. Changes in risk parameters decreased the ECL provision by EUR 2.0 million relative to previous year. This item is affected by updates in estimates from risk models and changes in provisions based on the management judgement.

During the first half of the year, S-Bank updated its criteria for identifying significant increase in credit risk based on statistical analysis, which decreased the amount of receivables classified in stage 2. In addition, a new macro model was introduced to assess the impact of macroeconomic forecasts on expected credit losses. The updates in calculation methods reduced ECL provision by approximately EUR 2.1 million, including related changes in management judgement.

Forward-looking information is complemented by a management judgement, which takes into account the uncertainty related to model parameters and assumptions as well as model risk. The changes in management judgement during the financial year contributed to the growth in the ECL provision by approximately EUR 1.6 million. The management judgement was updated, as increases in interest expenses and prices are expected to weaken the financial standing of customer households.

Risk exposure, summary

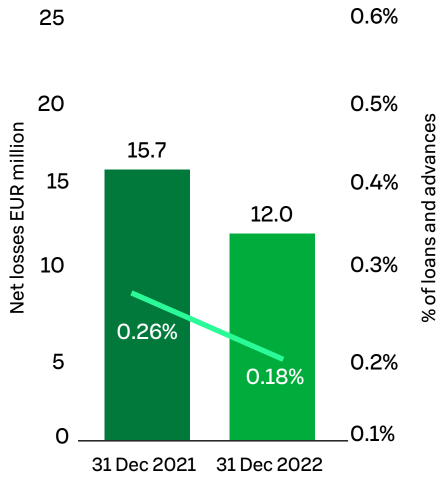
	Stage 1		Stage 2		Stage 3				
31 Dec 2022, EUR million	Credit risk exposure	ECL provision	Credit risk exposure	ECL provision	Credit risk exposure	ECL provision	Total credit risk exposure	Total ECL provision	Coverage ratio%
Household customers	5 317.4	-1.4	244.8	-9.3	59.4	-10.0	5 621.6	-20.7	-0.37%
Corporate customers	1 090.0	-0.2	16.3	-0.4	0.0	0.0	1 106.3	-0.6	-0.05%
Investing activities	696.4	-0.3	1.5	-0.1	0.0	0.0	697.8	-0.4	-0.05%
Off-balance sheet commitments	2 197.6	-0.2	14.6	-0.6	0.7	0.0	2 212.9	-0.8	-0.04%
Total	**9 301.4**	**-2.1**	**277.2**	**-10.3**	**60.1**	**-10.1**	**9 638.7**	**-22.5**	**-0.23%**

The receivable or part of it will be recognized as final credit loss when it is not likely to be repaid. S-Bank has internal product specific definitions for recognition of final credit losses. For S-Bank, the largest amount of credit losses is generated by unsecured credit, which are recognized as a credit loss typically within 4-7 months after the receivable is past due. Credit losses on secured receivables are recorded at the earliest when the collateral has been realized 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.

After recognition of final credit loss, the contract is excluded from expected credit loss calculation and ECL provision. However, collection agencies are still applying active measures to collect debt recorded as final credit losses. These recoveries are booked as reversals of final credit losses and will eventually reduce the net 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.

Expected and final credit losses of EUR 18.5 (21.4) million were recognised in the consolidated income statement during the financial year. Reversals, or recovered credit losses, amounted to EUR 6.6 million (5.7). Consequently, the total net effect on profit of expected and final credit losses was EUR 12.0 million (15.7). The ratio of net credit losses to the size of the on-balance-sheet credit portfolio decreased during the financial year to 0.2 per cent (0.3)

Net effect on profit of expected and final credit losses



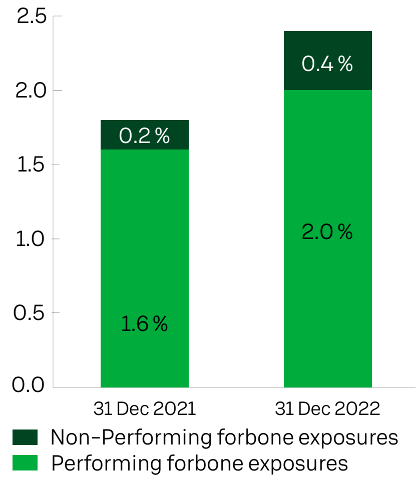
d) The institution's own definition of a restructured exposure used for the implementation of point (d) of Article 178(3) CRR specified by the EBA Guidelines on default in accordance with Article 178 CRR when different from the definition of forborne exposure defined in Annex V to Commission Implementing Regulation (EU) 680/2014.

Forborne exposures refer to the restructured credit agreements (e.g. repayment holidays), which are intended to help customers cope with temporary payment difficulties. When restructuring credit agreements, material regulatory requirements must be met, including the assessment of the customer's financial situation and a risk-based assessment of the application. Forbearance measures always aim to return the exposure to a situation of sustainable repayment. Forbearance is classified as performing when default criteria are not met. In this case, the contract is classified under stage 2 in impairment measurement for a cure period of at least two years.

Performing forborne credit becomes non-performing if any of default criteria is triggered. In addition to standard default criteria, a second forbearance or payments more than 30 days delinquent within the probation period trigger non-performing status. A non-performing forborne credit is subject to a minimum of a 12-month cure period and is classified under stage 3 in impairment measurement (defaulted exposure). After cure period of non-performing forbearance, the contract is transferred to a cure period performing forborne for at least two years.

The enhancements implemented in the forbearance identification process with stricter cure criteria caused an increase in reported forbearance measures and non-performing loans. In addition, the increase in general price level has contributed to the growth of forbearance measures. The amount of on-balance-sheet forborne exposures was EUR 158.9 million (109.9) at the end of the review period. At the end of 2022, 84 per cent (88) of total on-balance-sheet forborne exposures were performing. The gross carrying amount of performing forborne exposures in relation to loans and advances (excluding central bank cash and demand deposits) rose to 2.0 per cent (1.6 per cent). The corresponding ratio of non-performing forborne exposures remained at the level of 0.4 per cent (0.2 per cent)

Forborne exposures



7.4 CREDIT RISK MITIGATION (EU CRC)

(a) A description of the core features of the policies and processes for on- and off-balance-sheet netting and an indication of the extent to which institutions make use of balance sheet netting

S-Bank does not use on-balance or off-balance sheet netting for credit risk mitigation recognition nor for the accounting purposes.

S-Bank uses ISDA (International Swaps and Derivatives Association) and CSA (Credit Support Annex) netting agreements with its derivative counterparties. Description of policies related to guarantees and other credit risk mitigants for counterparty credit risk is disclosed under EU CCRA Qualitative disclosure related to CCR.

(b) The core features of policies and processes for eligible collateral evaluation and management

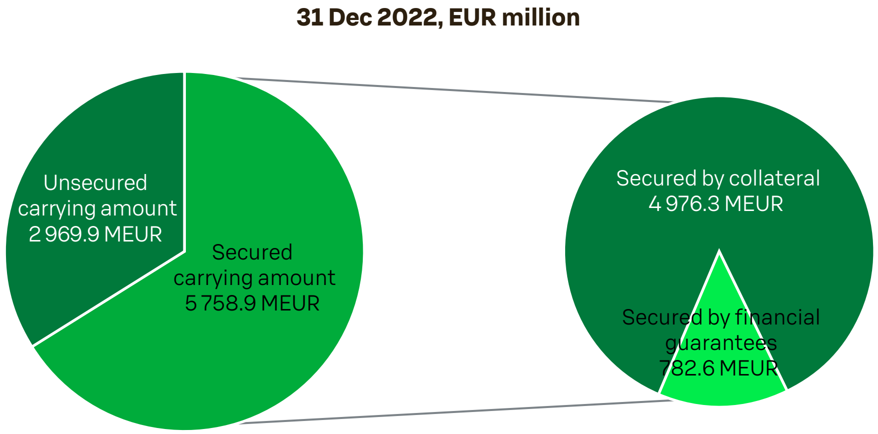
The Board of Directors decides the eligible collateral categories and their valuation principles. S-Bank requires adequate collateral to reduce credit risk. The methods for assessing collateral value, its coverage, acceptability, extension options, and liquidation are instructed thoroughly and employed in conjunction with credit granting process. The value of the immovable property collateral is calculated based on the market value or fair value of the asset, reduced by a haircut. The size of the haircut depends on several criteria, reflecting volatility and liquidity of the asset value. ECL calculation process accounts for 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 revalued regularly during the lifecycle of the credit. Collateral revaluation process combines frequent advanced statistical modelling together with expert valuations to monitor changes in collateral value and significant declines in valuation are updated accordingly. Certain pre-defined groups of collaterals are assessed separately by an independent appraiser. The regular revaluation process is explicitly documented, and collateral values are frequently monitored to provide transparency for the collateral base.

(c) A description of the main types of collateral taken by the institution to mitigate credit risk;

S-Bank accepts immovable property collateral and guarantees as primary credit risk mitigation measures. Exposures secured by immovable property form the largest part of credit portfolio. In the calculation of capital requirements, credit risk mitigation techniques include mainly collateral secured by immovable property and unfunded guarantee arrangements (such as government guarantees for student, residential and housing companies' mortgage as well as financial mortgage guarantees by an external service provider)

Distribution of credit risk mitigation measures



(d) For guarantees and credit derivatives used as credit protection, the main types of guarantor and credit derivative counterparty and their creditworthiness used for the purposes of reducing capital requirements, excluding those used as part of synthetic securitisation structures;

Main types of guarantors are sovereign guarantors, such as Finnish government and external insurance companies with high quality credit ratings. By using guarantees, the customer risk is transferred from the counterparty to the guarantor in the capital requirements calculation. In addition, S-Bank uses other collateral and guarantees to reduce credit risk, but these are not considered in the capital adequacy calculation. S-Bank does not use credit derivatives as credit protection.

(e) Information about market or credit risk concentrations within the credit mitigation taken

Immovable property is S-Bank's largest individual type of collateral in terms of concentration risk. The development of housing prices impacts S-Bank's risk position as immovable property collaterals are mainly residential properties. Regional concentration risk within Finland is mitigated by diversification across large number of individual loans and collaterals due to broad customer base. The regional distribution of credit portfolio is guided by the credit risk strategy, in which mortgage credit granting is directed to the largest cities and their commuting areas. Collateral values also monitored and revalued during mortgage lifetime and collateral information is maintained to identify and manage possible collateral risk concentrations. Possible changes in immovable property collateral values are also considered as a part of stress scenarios.

The FIN-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 2022, the average LTC-ratio for S-Bank's residential mortgage portfolio was 66.4 per cent (68.4 per cent).

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.

Loan-to-value distribution at the point of origination of household customers

LTV Band 31 Dec 2022	Proportion of exposures
0 - 50%	17%
50 - 60%	13%
60 - 70%	18%
70 - 80%	31%
80 - 90%	17%
90 - 100%	3%
> 100%	1%
Total	**100%**

LTV Band 31 Dec 2021*	Proportion of exposures
0 - 50%	17%
50 - 60%	13%
60 - 70%	17%
70 - 80%	30%
80 - 90%	19%
90 - 100%	3%
> 100%	1%
Total	**100%**

* The process of LTV calculation at the point of origination was updated during 2022 and the LTV distribution for comparison period has been the revised to reflect the change.

7.5 USE OF THE STANDARDISED APPROACH (EU CRD)

(a) Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) nominated by the institution, and the reasons for any changes over the disclosure period:

For calculating risk-weighted exposure amounts for certain exposure classes, S-Bank uses ratings disclosed by External Credit Assessment Institutions (ECAI's) such as Standard & Poor's, Moody's Investors Service and Fitch Ratings.

(b) The exposure classes for which each ECAI or ECA is used

The ECAIs are used to determine applicable risk weights for exposure classes: central governments or central banks, regional governments, public sector entities, credit institutions, corporates, covered bonds and collective investments undertakings.

(c) The association of the external rating of each nominated ECAI or ECA with the risk weights that correspond with the credit quality steps as set out in Chapter 2 of Title II of Part Three CRR (except where the institution complies with the standard association published by the EBA).

The external ratings of ECAI's are mapped to the corresponding credit quality step, as defined, and published by the EBA for determining the applicable risk weight for the issuer or for the issue.

8 COUNTERPARTY CREDIT RISK

8.1 EU CCRA QUALITATIVE DISCLOSURE RELATED TO CCR

Counterparty credit risk (CCR) arises from derivatives for S-Bank. Derivatives are used to hedge the interest rate risk in the banking book. S-Bank uses derivatives solely for hedging purposes (more information in chapter 9.2) and all S-Bank's derivatives were cleared through a qualifying central counterparty. The Pillar 3 qualitative tables for counterparty credit risk are disclosed in S-Bank Capital Adequacy Tables on S-Bank's website.

(a) Description of the methodology used to assign internal capital and credit limits for counterparty credit exposures, including the methods to assign those limits to exposures to central counterparties

Counterparty credit exposures arises from derivatives and counterparty credit risk is controlled by applying counterparty specific credit limits. These limits are approved by the Credit Risk Committee within the risk appetite set by the board. Counterparty credit risk (CCR) and credit valuation adjustment (CVA) are considered as a part of the total Pillar 2 internal capital for credit risk. S-Bank uses the same methodology when assigning internal capital to CCR as in the Pillar 1 regulatory capital requirement. S-Bank has internal credit limits for all derivative counterparties, including central counterparty (CCP). CCR, CVA and any other exposures towards the counterparty are included within the internal credit limits. The central counterparty is not subject to CVA risk calculation in the regulatory framework nor in the internal credit limits. For CCP credit limit, the daily variation margin posted or received in the form of cash is netted with the CCR exposure.

S-Bank uses the original exposure method in the calculation of CCR exposures, in which the alpha used for computing regulatory exposure value, positive market value and the potential future exposure of the contract constitute the risk exposure. At the end of 2022 The CCR exposure was EUR 55.9 million (21.0). The change in the exposure value was mainly driven by increase in the positive market value of the derivatives as well as increase in the notional amount of interest rate derivatives.

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 standard approach for own funds requirement for CVA risk.

(b) Description of policies related to guarantees and other credit risk mitigants, such as the policies for securing collateral and establishing credit reserves

S-Bank uses ISDA (International Swaps and Derivatives Association) and CSA (Credit Support Annex) agreements with its derivative counterparties. These agreements reduce counterparty risk, but they have not been used to mitigate the regulatory counterparty credit risk. The agreements specify the general terms and conditions to derivatives and collaterals between the counterparties.

The ISDA/CSA agreement creates a single legal obligation, in which all positive and negative market values under an agreement can be netted at the counterparty level. Collateral is changed on daily basis based on the net market value of the derivative portfolio. S-Bank uses only cash as collateral to mitigate credit risk related to derivatives.

All S-Bank's derivatives at the end of 2022 were cleared through a qualifying central counterparty. S-Bank uses clearing broker to access central counterparty.

(c) Description of policies with respect to Wrong-Way risk as defined in Article 291 of the CRR

According to the regulation, an institution shall give due consideration to exposures that give rise to a significant degree of wrong-way risk. Wrong-way risk is defined as the risk that occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty. S-Bank has not identified a wrong-way risk with its derivative exposures, as all derivatives are cleared through a qualifying central counterparty.

(d) Any other risk management objectives and relevant policies related to CCR

S-Bank has not set any additional objectives or policies relating to CCR.

(e) The amount of collateral the institution would have to provide if its credit rating was downgraded

Downgrade of S-Bank's credit rating would not have any impact on the amount of collateral the institution has provided.

Derivative contracts and remaining maturity breakdown

The derivative portfolio increased by EUR 61 million (decrease of EUR 130 million). The fair value of the derivative portfolio turned positive as the interest rates rose rapidly during 2022.

EUR million	31 Dec 2022			31 Dec 2021		
	Nominal value	Positive fair values	Negative fair values	Nominal value	Positive fair values	Negative fair values
Designated for hedge accounting						
Interest rate swaps	612.2	23.3	-0.0	531.2	0.5	-8.3
Designated for hedge accounting total	**612.2**	**23.3**	**-0.0**	**531.2**	**0.5**	**-8.3**
For non-hedging purposes						
Interest rate swaps	30.0	1.0	-0.0	50.0	0.0	-0.1
Items outside hedge accounting total	**30.0**	**1.0**	**-0.0**	**50.0**	**0.0**	**-0.1**
Derivatives total	**642.2**	**24.3**	**-0.0**	**581.2**	**0.6**	**-8.4**

Maturities of derivatives, EUR million	31 Dec 2022				31 Dec 2021			
	Less than 1 year	1-5 years	More than 5 years	Total	Less than 1 year	1-5 years	More than 5 years	Total
Designated for hedge accounting								
Interest rate swaps	245.0	317.2	50.0	**612.2**	69.0	422.2	40.0	**531.2**
For non-hedging purposes								
Interest rate swaps	20.0	0.0	10.0	**30.0**	30.0	10	10.0	**50.0**
Derivatives total	**265.0**	**317.2**	**60.0**	**642.2**	**99.0**	**432.2**	**50.0**	**581.2**

9 MARKET RISK

9.1 HIGHLIGHTS 2022 AND OVERVIEW

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

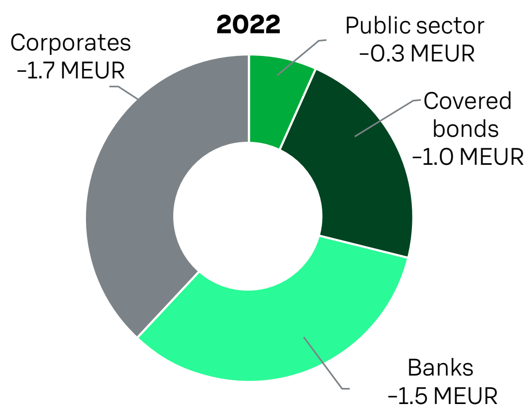
S-Bank's market risks are mainly comprised of interest rate risk in the banking book (IRRBB) and spread risk. S-Bank is not significantly exposed to other market risks, such as equity risks, real estate risks and foreign exchange rate risks. The market risk profile is controlled with conservative risk appetite and interest rate derivatives.

- S-Bank's trading book in accordance with the Capital Requirements Regulation is non-significant. 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 models as part of the Pillar 2 economic capital and ICAAP process.
- Both the economic value of equity (EVE) risk and the net interest income (NII) risk measures decreased from the end of last year. The change in the EVE risk and the NII risk sensitivities was impacted by the strong rise in interest rates during the year. The change from negative interest rate environment to a positive one explains the annual change of the interest risk sensitivities.
  - Economic value of equity (EVE) risk for instruments measured at fair value (+100 bps) was EUR -6.6 million (decrease of EUR 4.5 million).
  - Economic value of equity (EVE) risk for the full banking book (+100 bps) was EUR 21.4 million (decrease of EUR 13.8 million).
  - Net interest income (NII) risk (-100 bps) was EUR -8.7 million (decrease of EUR 0.4 million).
- In 2022 EBA published new standards and guidelines on interest rate risk (IRRBB) and credit spread (CSRBB) risk arising from non-trading book activities, which will apply gradually from 30 June 2023. S-Bank has begun its preparation for implementing the new standards and guidelines.
- Spread risk decreased due to the decrease in the amount of Treasury portfolio's debt securities.
  - Spread risk was EUR -4.5 million (decrease of EUR 2.6 million).
- At the end of 2022, Treasury's portfolio was EUR 1 975.6 million (decrease of EUR 213.3 million). The decrease in the total portfolio size was concentrated in the investment portfolio due to increase in the lending portfolio.

Sensitivity analysis for the interest rate risk

Interest rate risk, EUR million	31 Dec 2022		
Interest rate shock	EVE risk, instruments measured at fair value	EVE risk, full banking book	NII risk
+100 bps	-6.6	21.4	3.4
-100 bps	6.8	-22.7	-8.7

Bond spread risk



9.2 MANAGEMENT OF MARKET RISK (EU MRA)

(a) A description of the institution's strategies and processes to manage market risk, including:
- An explanation of management's strategic objectives in undertaking trading activities, as well as the processes implemented to identify, measure, monitor and control the institution's market risks
- A description of their policies for hedging and mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges

and

(b) A description of the structure and organisation of the market risk management function, including a description of the market risk governance structure established to implement the strategies and processes of the institution discussed in row (a) above, and that describes the relationships and the communication mechanisms between the different parties involved in market risk management

In general, market risk refers to the impact of changes in securities prices, market interest rates, exchange rates or the market value fluctuation of balance sheet items on the bank's profit and balance sheet. The market risk of S-Bank's banking business mainly consists of the structural interest rate risk of lending and borrowing and the interest rate risk of investments and funding as well as the spread risk of debt securities. Additionally, the S-Bank's banking book includes equity, foreign exchange and real estate risks to a minor extent. Market risks are assessed from the perspective of the economic value and interest income risk of the banking book and the spread risk. Market risks are measured by means of sensitivity figures, allocation, stress tests and scenario analyses.

Market risks are measured using internal risk models as part of the Pillar 2 economic capital. The amount of items allocated to the small trading book, in accordance with the Capital Requirements Regulation, has been very low due to the internally set limits, and therefore S-Bank is not subject to the Pillar 1 capital requirement for market risk. Interest rate, spread, equity, foreign exchange and real estate risks, as well as the diversification benefits, are taken into account in the internal capital and liquidity adequacy assessment process (ICLAAP).

The aim of S-Bank's market risk management is to manage unexpected changes in the bank's profits and capital adequacy as a result of fluctuations in market prices and to optimise the return on equity within the scope of the risk appetite. Market risk management is based on a conservative risk appetite and the risk limits derived from it. The Board of Directors has set the Principles for Market Risk Management and risk limits for each market risk type, which are monitored and reported actively to the management of S-Bank. Monitoring and prediction of the external business environment are particularly emphasised in market risk management. Market risk concentrations are managed by means of limits that are set at the Group and business unit levels and are determined as market risk-sensitivities or maximum amounts in monetary terms. The Treasury unit is tasked with the day-to-day management of the Group's market risks within the scope of its authorisations. Treasury's strategic goals are set in S-Bank's risk strategy and risk appetite, then integrated into Treasury's annual Investment Plan.

S-Bank uses derivatives to hedge the interest rate risk on the banking book. All hedging derivative instruments at the end of the year 2022 were interest rate swaps and hedge accounting was applied for the eligible positions.

(c) Scope and nature of risk reporting and measurement systems

S-Bank's Treasury function monitors market risks on a daily basis and the Asset and Liability Management Committee is responsible for the operational measuring, monitoring, and reporting of market risks in compliance with the organisation's agreed upon internal procedures. Market risks are also monitored by the Risk Control function on a daily basis. 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. Market risk position and the impact of market risk on economic capital are reported within organisation in accordance with chapter 5.1.4.

9.3 INTEREST RATE RISK IN THE BANKING BOOK (EU IRRBBA)

(a) A description of how the institution defines IRRBB for purposes of risk control and measurement

The interest rate risk in the banking book (IRRBB) consists of lending and borrowing by the banking business and the investments and funding of the Treasury unit. The structural interest rate risk in the banking book arises from differences between the interest rate fixings and maturities of financial assets and liabilities, which is why the future net interest income of the banking business (net interest income (NII) risk) and the net present value of the balance sheet (economic value of equity (EVE) risk) are not entirely foreseeable. The NII risk and the EVE risk measure the risks from different perspectives. The EVE risk measures the net present value of financial assets and liabilities on the balance sheet, i.e. the theoretical economic value of equity. The NII risk is used to simulate the effects of the realisation of risks on S-Bank's profits within a set period of time. S-Bank calculates the EVE risk for all interest rate sensitive instruments and also separately for instruments measured at fair value. Rapid and even momentary changes in the interest rate curve may result in an immediate loss on items measured at fair value, which is reflected as a change either in the fair value reserve or in the result.

(b) A description of the institution's overall IRRBB management and mitigation strategies

S-Bank's market risk management is based on a conservative risk appetite and the Board of Directors has set risk limits the EVE risk (EVE for instruments measured at fair value) and the NII risk, which are monitored and reported actively to the management of S-Bank. The IRRBB risk is managed by planning the balance sheet structure, such as the maturity and interest rate fixings of assets and liabilities, and also by using interest rate derivatives.

(c) The periodicity of the calculation of the institution's IRRBB measures, and a description of the specific measures that the institution uses to gauge its sensitivity to IRRBB

IRRBB risk is monitored daily for the EVE risk (EVE for instruments measured at fair value) and monthly for the EVE and the NII risk. Monthly EVE risk is calculated for both instruments measured at fair value and for all interest rate sensitive instruments. Due to strong increase in market interest rates in 2022, additional NII risk reporting was performed on a weekly basis for the second half of the year. IRRBB risk is also monitored monthly using interest rate gap analysis, in which financial assets and liabilities are grouped over time periods based on their interest rate fixings.

(f) A high-level description of how the bank hedges its IRRBB, as well as the associated accounting treatment

S-Bank applies fair value hedge accounting for the eligible hedged positions as described in the Notes of the financial statement. The Treasury unit is tasked with the day-to-day management of the Group's market risks within the scope of its authorisations.

10 LIQUIDITY RISK

10.1 HIGHLIGHTS 2022 AND OVERVIEW

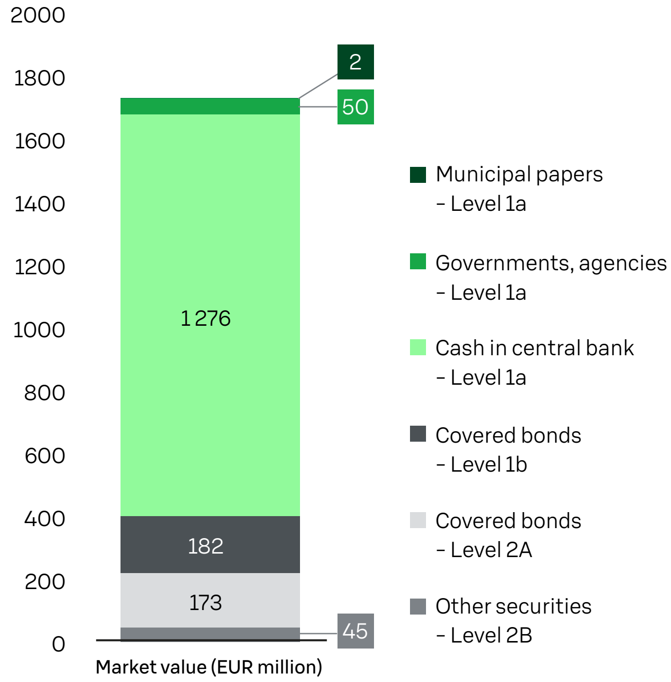
Liquidity risk is defined as the risk that the bank is unable to meet its payment obligations in due time or that it will be forced to fund its liquidity obligations at an unfavourable cost. Liquidity risk arises from the difference between the maturities of cash in- and outflows. Generally, the role of banks in maturity transformation 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, deposits, investment activities and funding. 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 in investing activities is to ensure that the liquidity position is continuously above the minimum regulatory requirements and the internal Risk Appetite.

- The Liquidity Coverage Ratio (LCR), which measures the adequacy of liquid assets under stressed conditions within the next 30 days, increased at a robust level of 164.4 per cent (149.9).
  - At year-end the liquidity buffer value after applicable haircuts was EUR 1 665.9 million (1 651.0) and net outflows were EUR 1 013.3 million (1 101.7).
- The Net Stable Funding Ratio (NSFR), which is defined as the available stable funding relative to the required stable funding, was 151.4 per cent (151.1).
- 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. Total deposits continued to grow and were EUR 7 925.6 million (7 554.9) at the end of the review period.
- In June 2022 S-Bank issued an increase of EUR 50 million in the original amount of its Senior Preferred bond (tap issue). The total nominal amount of the S-Bank's Senior Preferred bond is EUR 220 million and is considered an eligible liability intended to meet the MREL requirement. In December S-Bank amended its note issuance programme to cover additional tier 1 capital notes.
- On 22 September 2022, credit rating agency Standard & Poor's (S&P) published a report where it affirmed S-Bank's long-term rating of BBB. The credit rating of long-term borrowing is BBB, that of short-term borrowing is A-2, and the outlook is stable.

Composition of the liquidity buffer

EUR million	Level 1 a	Level 1b	Level 2 A	Level 2 B	Total
Amount held (% of total market value)	1 328 (76.9%)	182 (10.5%)	173 (10.0%)	45 (2.6%)	1 727



10.2 LIQUIDITY RISK MANAGEMENT (EU-LIQA)

(a) Strategies and processes in the management of the liquidity risk, including policies on diversification in the sources and tenor of planned funding

The liquidity and funding risk management in S-Bank is based on S-Bank's Risk Strategy, Liquidity Risk Management Principals, Funding Strategy and Liquidity Contingency Plan approved by the Board of Directors. The Risk Strategy defines and sets key limits for the risk appetite and capacity. Liquidity Risk Management Principals further define the roles and responsibilities, management, mitigation, monitoring and reporting of liquidity risk. Funding Strategy describes the plan for funding needs and defines guidelines for long term funding. Liquidity Contingency Plan establishes a structure 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.

S-Bank's funding is primarily based on the deposit portfolio and thus the main sources of funding are the deposit and savings accounts of its household customers. Other sources of funding include the Treasury unit's wholesale market deposits from companies and other credit institutions, as well as certificates of deposits. In June S-Bank issued an increase of EUR 50 million in the original amount of its bond (tap issue). The tap issue concerns the Senior Preferred MREL Eligible Notes serial bonds in the original amount EUR 170 million issued on 4 October 2021 and maturing on 4 April 2025. S-Bank's has EUR 1.5 billion note issuance programme, under which the bank can issue senior preferred MREL eligible notes, covered bonds and additional tier 1 capital notes to the wholesale market.

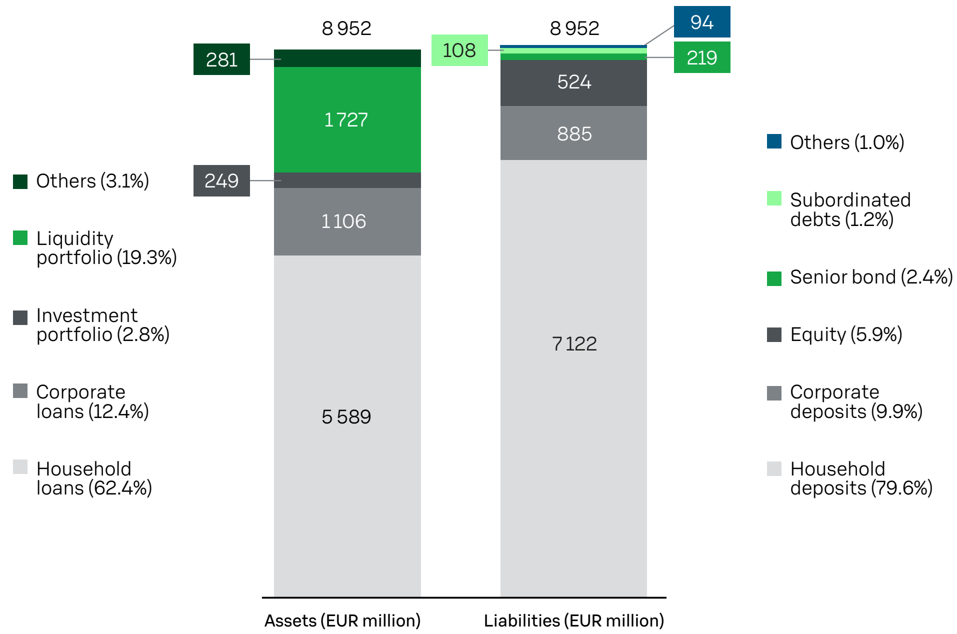
(b) Structure and organisation of the liquidity risk management function (authority, statute, other arrangements)

and

(c) A description of the degree of centralisation of liquidity management and interaction between the group's units

S-Bank Group's liquidity and funding risk management has been delegated to the Treasury unit, which is responsible for the operational execution of the risk appetite pursuant to S-Bank's liquidity risk strategy, taking into consideration S-Bank's business model, risk limit structure and funding and investment plans. 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 roles and responsibilities in risk management have been described in chapter 5.

Balance sheet and funding structure



(d) Scope and nature of liquidity risk reporting and measurement systems

S-Bank reports and measures its liquidity and funding using the LCR and the NSFR ratios, MREL requirement defined by the authorities and internal indicators. Internal liquidity indicators include short-term liquidity buffer, survival horizon and asset encumbrance ratio. S-Bank has also set an internal limit for the amount of covered bonds of the total funding and of the balance sheet total, which will come in force at the first covered bond issuance. The indicators, their calculation parameters and the limits applied in internal modelling are approved by the Asset and Liability Management Committee and comply with the risk appetite defined in the overall risk strategy. The limit framework is used to ensure that the liquidity position always meets internal target levels and the minimum regulatory requirements. Intraday liquidity position is managed using cash flow forecasts and liquidity risk is reported on a daily basis for the LCR, short-term liquidity buffer and survival horizon. Monthly liquidity reporting includes the NSFR, MREL requirement and asset encumbrance ratio. The key aspects of the liquidity risk are reported by the Treasury and Risk Control to S-Bank's management, the Risk Committee, the Risk and Audit Committee and the Board of Directors.

(e) Policies for hedging and mitigating the liquidity risk and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants

Minimum requirement for liquidity management includes meeting the regulatory Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), MREL requirement and the central bank's minimum reserve obligation requirements considering the internal risk limit structure. In addition, liquidity management includes collateral management, i.e. ensuring that S-Bank has an adequate number of eligible liquid securities at its disposal to cover the collateral required for Central Bank facilities and monetary policy operations.

(f) An outline of the bank's contingency funding plans

The internal capital and liquidity adequacy assessment process (ICLAAP) provides a comprehensive overview of S-Bank's liquidity risk position in various stressed business scenarios. Further, the Liquidity Contingency Plan determines the measures needed for preserving an adequate liquidity position in normal and stressed market environments. Liquidity risks are mitigated maintaining sufficient liquidity buffer for unexpected events and S-Bank has pre-positioned central bank eligible debt securities for Central Bank facilities and monetary policy operations, that can be used as additional liquidity sources. In addition, S-Bank has a certificates of deposits program for short term funding needs and EUR 1.5 billion bond programme, under which the bank can issue senior preferred MREL eligible notes, covered bonds and additional tier 1 capital notes to the wholesale market.

(g) An explanation of how stress testing is used

S-Bank's internal liquidity modelling is an integral part of the annual internal capital and liquidity adequacy assessment process (ICLAAP). In this process, different stresses and scenario analyses are used to prepare forecasts of changes in S-Bank's liquidity position in various scenarios affecting the balance sheet and the external operating environment, and of the impact of these changes on the liquidity indicators. The internal capital and liquidity adequacy assessment process (ICLAAP) is described in more detail in the chapter 6.

(h) A declaration approved by the management body on the adequacy of liquidity risk management arrangements of the institution providing assurance that the liquidity risk management systems put in place are adequate with regard to the institution's profile and strategy.

For a declaration approved by the management body on the adequacy of liquidity risk management arrangements, please refer to the chapter 2.

(i) A concise liquidity risk statement approved by the management body succinctly describing the institution's overall liquidity risk profile associated with the business strategy.

For a concise liquidity risk statement approved by the management body succinctly describing the institution's overall liquidity risk profile associated with the business strategy, please refer to the chapter 2.

11 OPERATIONAL RISK

11.1 HIGHLIGHTS 2022 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, staff-related problems and problems in occupational safety, damage to physical assets and external events, 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 secure continuous operations and to manage reputational risk in both the short and long term. Losses attributable to operational risks realized in 2022 were low in comparison to the regulatory capital requirement reserved for them.

- Operational risk accounts for 11 per cent of S-Bank's total REA. The basic indicator approach is used for calculating the capital requirement for operational risk.
- The risk exposure amount for operational risk was EUR 362.8 million (327.4) and the increase was mainly driven by higher net interest income and net fee and commission income within year 2022.
- In 2022 total operational risk losses were EUR 2.87 million (2.44). In order to facilitate comparability, following figures represent basic operational risks.
  - 2.94 per cent (5.8) of the total net operational risk losses are due to individual events with a loss value less than EUR 10 thousand.
  - 60.3 per cent (14) of total operational risk losses are caused by external fraud. S-Bank continues to work against fraud on various preventative initiatives.
- The Financial Supervisory Authority (FIN-FSA) has imposed an administrative fine of EUR 60 000 on S-Bank. The reason for the fine is the inadequacies in S-Bank's reporting on derivative contracts it had entered into during June 2019–March 2021.
- The level of incidents has increased (excluding penalties) in 2022 due to increase in external fraud. Operational risk team has continued to grow in numbers, allowing more comprehensive monitoring program going forward.
- During the summer 2022, a rare system malfunction affected authentication with online banking IDs. This problem was exploited by a very small group of individuals logging into the online bank as another customer, making unauthorised payments and logging into third-party online services. A few hundred customers were affected, and the malfunction was corrected as soon as it was detected.
- Various scam messages also circulated during the summer and autumn, claiming to be from S-Bank and other banks. Unfortunately, also our customers occasionally fell victim to these phishing campaigns. In order to prevent misuse, we took a number of measures in the autumn that will further strengthen the security of our services and prevent criminal activity. Work to prevent scams will continue.

11.2 MANAGEMENT OF OPERATIONAL RISK (EU ORA)

(a) Disclosure of the risk management objectives and policies

The primary objective of S-Bank's operational risk management is to secure business continuity and to manage reputational risk 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.

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.

(b) Disclosure of the approaches for the assessment of minimum own funds requirements

S-Bank uses the basic indicator approach (BIA) for calculating the own funds requirements related to operational risk.

12 COMPLIANCE RISKS

12.1 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, specific 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.

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.

- Due to the current situation in Ukraine and its implications to the sanction's regime, S-Bank continues to have an increased focus on sanctions screening. However, due to S-Bank's customer base, the implications have been limited. S-Bank also put on hold all payments to and from Russia and Belarus in the spring of 2022.
- During 2022 S-Bank's Code of Conduct was compiled in cooperation of S-Bank's personnel and management. It combines S-Bank's most essential standards of behaviour that are based on the policies and procedures approved by the board.

12.2 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, ethical principles, 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.

12.3 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.