CAPITAL AND RISK MANAGEMENT REPORT 2023

S-BANK

CONTENTS

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. 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 2023.

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 have not been externally audited. However, figures presented in this report are based on Annual Report 2023, 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 2023 if not otherwise stated.

3 SUMMARY OF THE YEAR 2023

S-Bank's strong growth continued during 2023. Operating profit was all time high due to the increase in interest rates and amounted to EUR 147.4 million (44.7). The growth of own funds strengthened the capital position. Credit portfolio and deposit base grew from previous year. S-Bank announced in 2023 of the acquirement of Handelsbanken's Finnish household customer, asset management and investment services businesses. The transaction will be financed through a share issue to the shareholders and debt financing from the market. During 2023 S-Bank issued its first covered bond regarding financing of the transaction.

3.1 S-BANK'S RISK POSITION IN 2023

Solid capital position

S-Bank's capital position strengthened during 2023. At the end of the year, the total capital ratio of S-Bank was 18.8 per cent (16.3), which was 6.3 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. The total risk exposure amount (TREA) increased mainly due to operational risk, as the total gross income increased. S-Bank is adequately capitalized to ensure continuity of its operations even under stressed conditions.

Low risk credit portfolio

The credit portfolio continued to grow further during the year, although the pace of growth slowed down compared to the previous year. Total lending increased by 3.6 per cent.

The uncertainty of the economic environment and increase in general price level contributed to the growth of forbearance measures and non-performing loans. The carrying amount of performing forborne exposures in relation to loans and advances was at the level of 2.5 per cent (2.0). The corresponding ratio of non-performing forborne exposures was 0.6 per cent (0.4). The NPL ratio, which describes non-performing exposures in relation to loans and advances, rose to 1.3 per cent (0.9).

The total amount of ECL provision increased by EUR 14.8 million to EUR 37.3 million (22.5) during the financial year. Changes in management judgement and ECL calculation models contributed to the growth of ECL provision. The coverage ratio of the total portfolio increased to 0.37 per cent (0.23) and remained within the risk appetite defined by S-Bank's Board.

During 2023 S-Bank implemented new credit risk models into the loan origination process. New models will gradually be implemented further into the bank's processes in the coming years. Updated creditworthiness assessment calculation rules further improved S-Bank's ability to assess household customers' ability to pay.

Diversified funding and strong liquidity

The main source of S-Bank's funding is customer deposits, that grew 3.2 per cent (4.9) during 2023. S-Bank's liquidity and funding position strengthened during the year, LCR ratio being 256.6 per cent (164.4) and NSFR ratio 164.3 per cent (151.4) at the end of the year. The bond issuances strengthened both the LCR and the NSFR ratios.

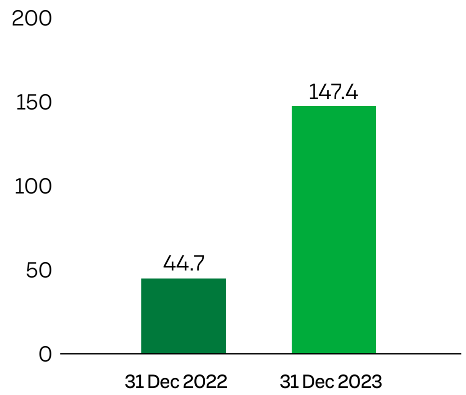
As part of the EUR 3.0 billion bond programme, S-Bank Plc issued a Senior Preferred MREL Eligible Notes 1/2023 bond in November 2023 with a nominal value of

EUR 150 million. The bond's maturity date is in November 2026 and floating interest will be paid. The interest rate is the 3-month Euribor plus a margin of 230 basis points.

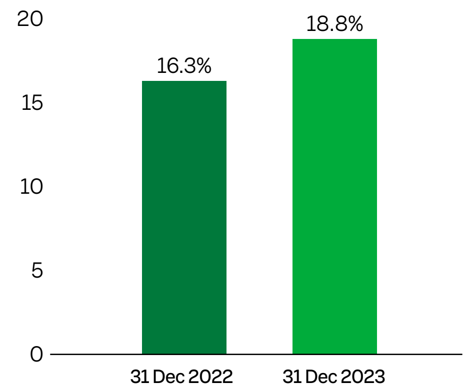
S-Bank issued its first covered bond in September 2023 as part of its EUR 3.0 billion bond programme. The nominal value of the covered bond is EUR 500 million. The bond's maturity date is in September 2028 and annual interest of 3.75 per cent will be paid.

In June 2023, S&P Global Ratings (S&P) raised its outlook on S-Bank from stable to positive. At the same time, S&P affirmed its BBB long-term issuer credit rating and A-2 short-term issuer credit rating for S-Bank. In September 2023, S&P assigned an AAA rating to S-Bank's bond programme and its first covered bond issue. The outlook for the rating is stable.

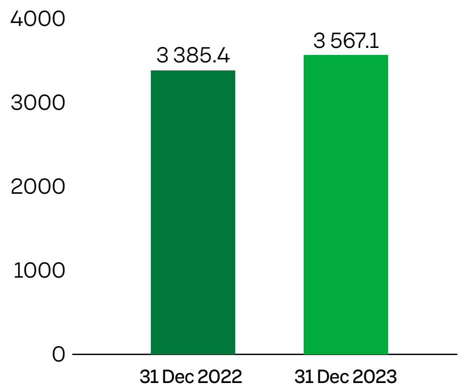
Operating profit (EUR m)



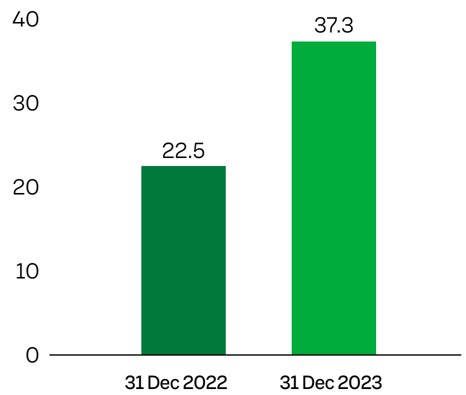
Total capital ratio (%)



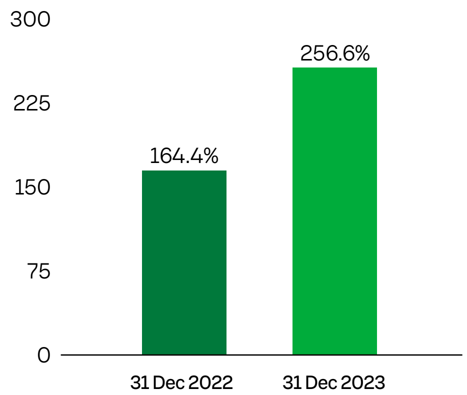
Total REA (EUR m)



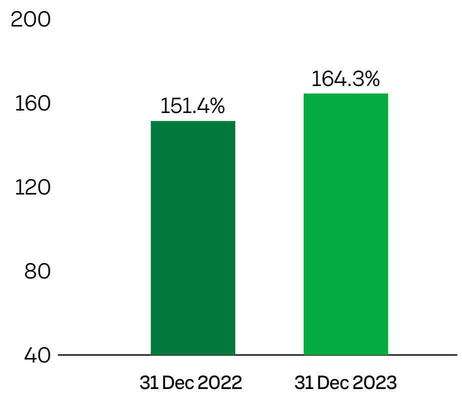
ECL (EUR m)



LCR (%)



NSFR ratio (%)



3.2 KEY CHANGES IN REGULATION AND REQUIREMENTS

New standards and guidelines on IRRBB and CSRBB

New standards and guidelines on interest rate risks in the banking book (IRRBB) and credit spread risk in the banking book (CSRBB) arising from non-trading book activities were introduced by EBA in 2022. The new standards and guidelines were applied from 30 June 2023 for IRRBB and from 31 December 2023 for CSRBB. S-Bank implemented the new standards and guidelines in its models and processes and continues to use internal measurement systems for IRRBB and CSRBB risks.

Minimum requirement for own funds and eligible liabilities (MREL)

Based on the decision issued by the Financial Stability Authority on May 2023, the requirements entering into force on 1 January 2024 are 20.64 per cent on total risk exposure amount and 7.71 per cent on the total amount of exposures used in the calculation of the leverage ratio.

S-Bank covers the MREL requirement with instruments qualifying for own funds and a Senior Preferred bonds issued under a bond programme.

Requirement for systemic risk buffer

On 29 March 2023, the FIN-FSA announced its decision to impose a requirement to maintain a systemic risk buffer, covered by Common Equity Tier 1 (CET1) capital and amounting to 1.0 per cent, to all credit institutions in Finland. The buffer requirement will enter in force as of 1 April 2024.

The systemic risk buffer requirement will increase the minimum capital requirement for S-Bank, and it will also have an effect for the MREL-requirement based on total risk exposure amount through the CBR component.

Pillar 2 requirement and guidance

On 6 June 2023, the FIN-FSA imposed a discretionary Pillar 2 requirement of 2.00 per cent, which increased the previous Pillar 2 requirement imposed on S-Bank by 0.5 per cent. The requirement entered into force on 31 December 2023.

In October 2023, the FIN-FSA announced its decision to impose an additional capital recommendation (Pillar 2 Guidance, "P2G") of 0.75 per cent of the total risk exposure to S-Bank. The P2G is valid until further notice as of 31 March 2024.

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), bail-in data, restructuring in resolution, separability in resolution, liquidity as well as communication in resolution. Institutions are expected to adapt the guidelines to their processes by 1 January 2024.

Changes in legislation to prevent over-indebtedness of households in Finland

Legislation to prevent over-indebtedness of households was reformed by the Finnish government in 2023. The key changes were limitations set to household mortgage and housing corporation loans. At S-Bank, credit origination processes, monitoring and reporting capabilities were developed accordingly in 2023.

A new public register, positive credit register, will be set up to ensure the availability of reliable credit information particularly for assessment of creditworthiness. In the first phase, information on consumer credits and other comparable credits will be included in the register. Lenders can report information as of 1 February 2024 and retrieve information as of 1 April 2024.

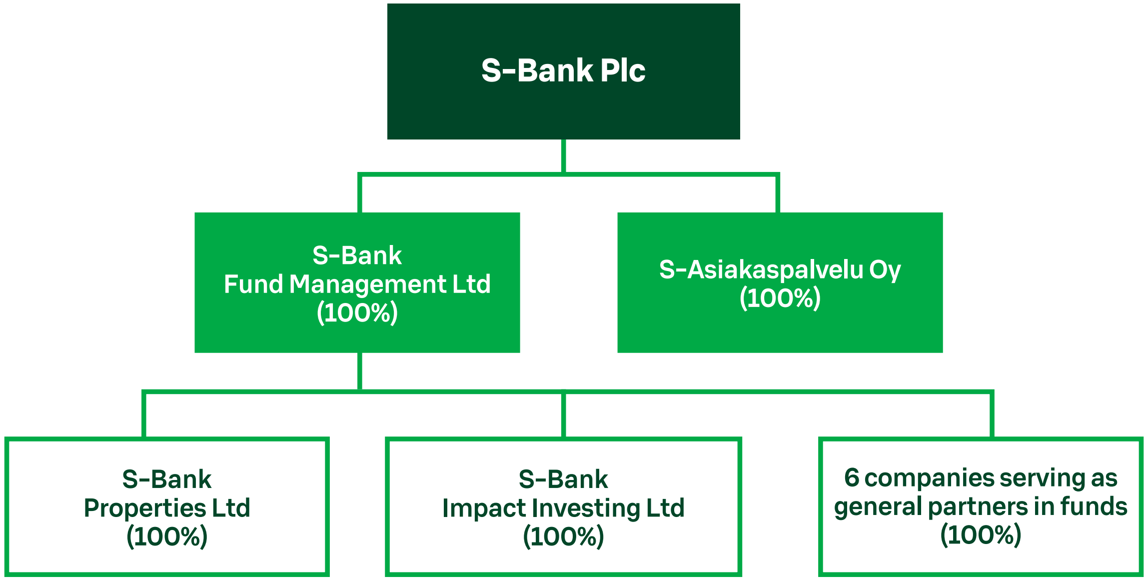
Basel IV implementation (2025-)

The European Commission adopted a review of EU banking rules on 27 October 2021, by which the final elements of the Basel III framework (Basel IV) will be implemented into EU law. The Basel IV package includes revisions to capital requirements calculation of credit risk, operational risk, and credit valuation adjustment (CVA) risk.

S-Bank has been analysing the effects of upcoming regulatory changes. 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.

4 DESCRIPTION OF THE S-BANK GROUP

Legal 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 profitable 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 offer its clients superior ease and benefit as well as a chance for a slightly more affluent tomorrow. This is achieved by offering its 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. S-Bank Fund Management Ltd also provides portfolio management services for private equity funds for the group and is responsible for the portfolio management of Alternative Investment 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.

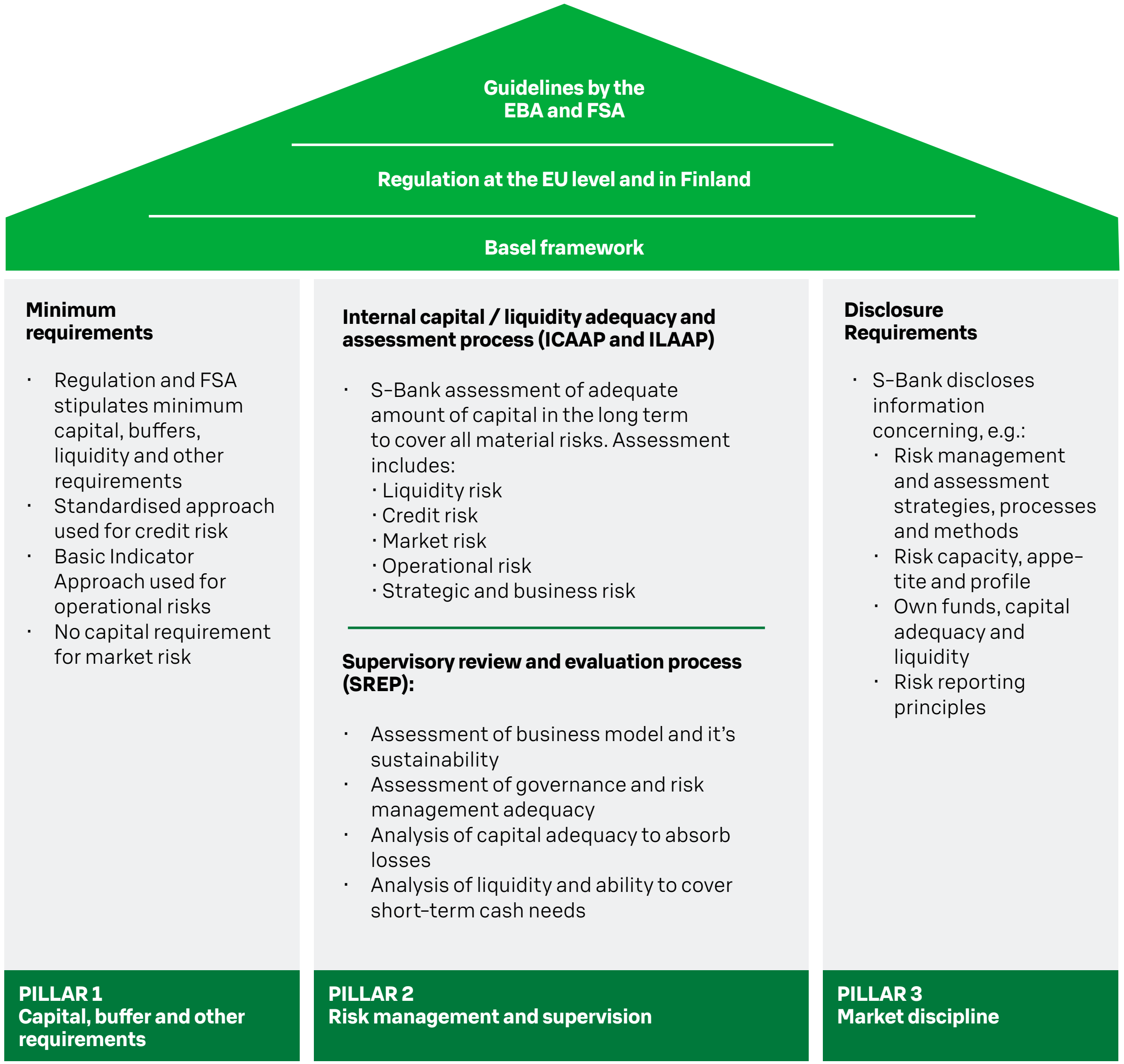
FIM Real Estate Ltd, FIM Infrastructure Mezzanine Debt Fund GP Oy, FIM Infrastructure Mezzanine Debt Fund III GP Oy, FIM Private Debt Fund I GP Oy, FIM SIB Oy, S-Pankki Vaikuttavuus I GP Oy serve as general partners in funds managed by S-Bank Fund Management Ltd. These companies have no other business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



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.

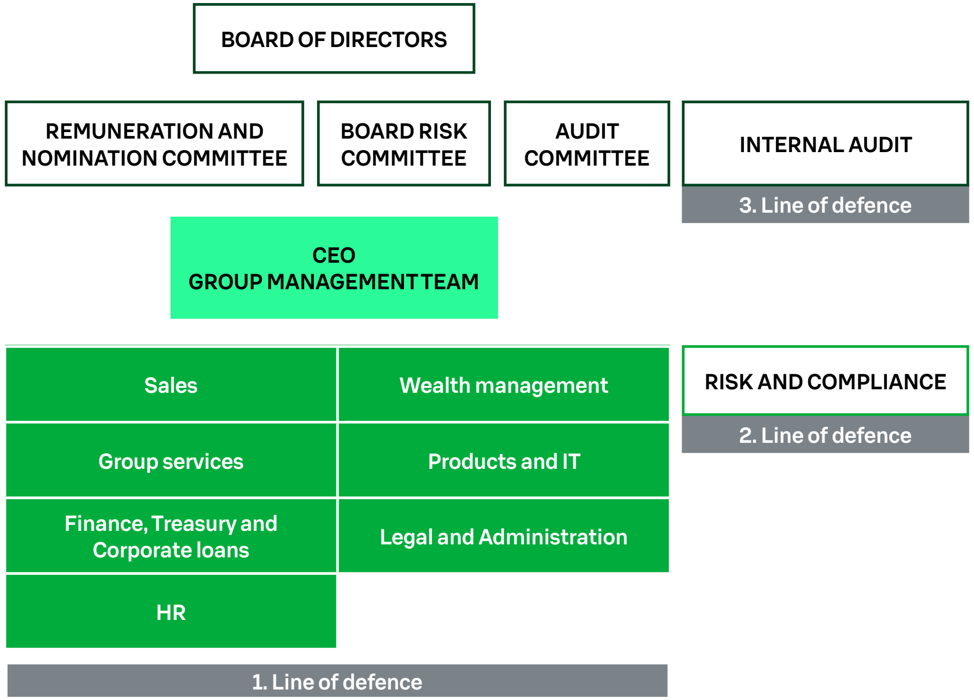
5.1.2 (b) Information on the risk governance structure for each type of risk

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 and day-to-day risk management.

The second line of defence, Risk and Compliance, consists of the Group-level functions that are independent of business operations. The purpose of Risk and Compliance function is to maintain the risk management framework and to monitor the effectiveness of risk management controls as well as compliance with internal and external requirements.

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.

S-Bank Group's administrative structure



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 organised appropriately and are reliable. The Board is responsible for the strategic management of the entire bank group, setting strategic goals and risk strategy, approving principals for risk management and monitoring their implementation.

The Board ensures that S-Bank continuously has adequate capital to cover all material risks arising from its business operations and changes in the operating environment and that the Group's risk-bearing capacity is sufficient. The Board of Directors monitors the development of capital, its allocation and risk limits, and decides on the recapitalising and financing arrangements and their implementation.

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 Board Risk Committee, Audit Committee, as well as by the Remuneration and Nomination Committee. The Board Risk 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 other Board Committees 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 S-Banks 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 Management Risk Committee, Asset and Liability Committee and Credit Committee.

Risk management committees

The Management Risk Committee's main duty is to ensure that the information on S-Bank's risks, risk management and capital adequacy provided to the Board Risk 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 Management Risk Committee prepares the key risk management strategies, policies, and limits for the Board Risk Committee and for approval by the Board of Directors. Management 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 and 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, managing and monitoring credit granting targets, processes, methods, and risks 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. Hence, they are responsible for identifying and assessing the risks associated with their operations, 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 and Operational Risk Control form the Risk & Compliance unit, which is the bank's second line of defence. The Internal Audit function is the banks third line of defence.

These together form the Group-level control functions, that are independent of business operations.

Risk Control is a function tasked with comprehensive monitoring and assessment of S-Bank's risk-taking level and the implementation of risk management for quantitative risks. 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 is a function tasked to ensure that S-Bank has sufficient and appropriate operating principles and procedures to ensure compliance with regulations. The function monitors regulatory changes and supervises their compliance.

Operational risk control's task is to ensure that S-Bank has sufficient and appropriate operating principles and procedures for operational risk 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 is an independent review and verification function. Its task is to audit the performance level, efficiency, adequacy of internal control, level of risk management and compliance with regulations and internal guidelines of the group's internal and outsourced operations. These audits are done in accordance with the auditing plan approved 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 evaluates 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 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.

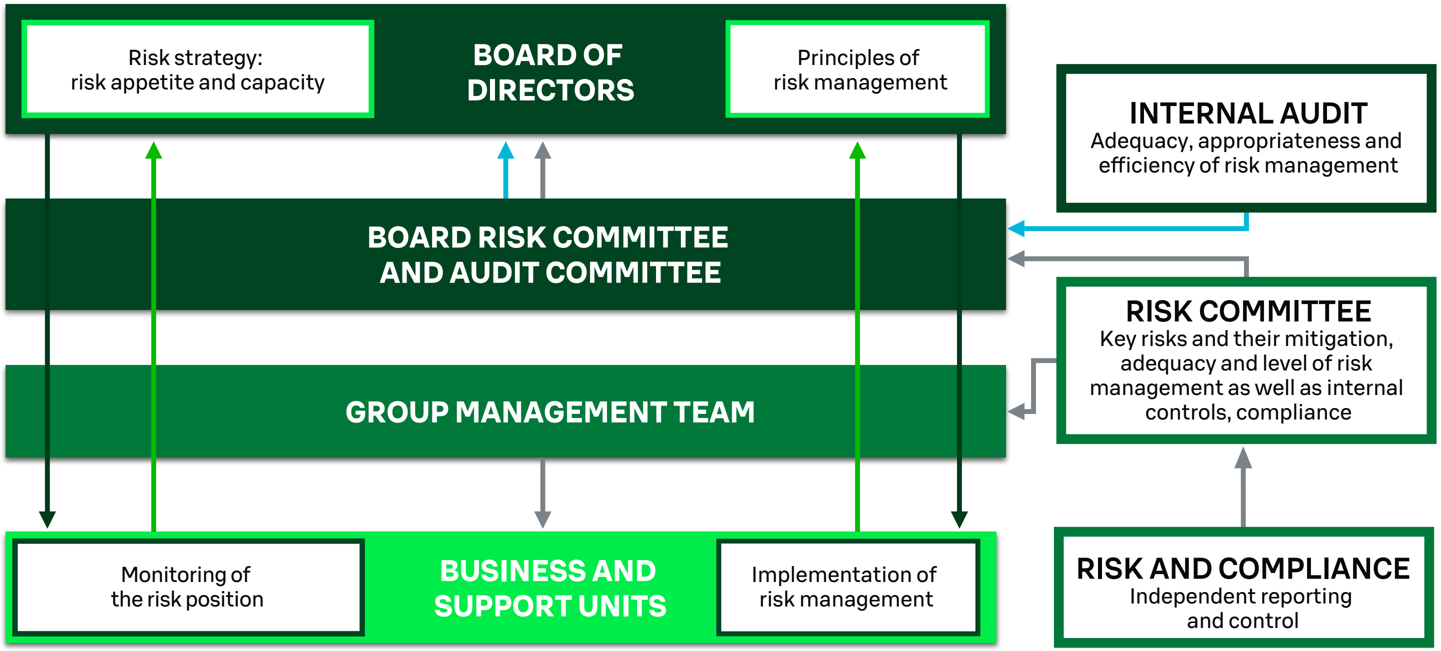
Risks are measured, monitored, controlled, and reported to ensure that S-Bank's Board and executive management have adequate and essential information on risks and their management. The risk position, risk management principles and their changes are reported to the Board regularly so that they can assess the amount of risk taking and the measures taken to control the risk level.

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.

The independent Risk and Compliance control function is responsible for producing reports on the key risks and the level of risk management for S-Bank's executive management 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 its auditing plan. Internal Audit regularly reports on audit results, key audit observations, any operational improvement recommendations and compliance with the audit plan to the Audit Committee and the Board of Directors, as well as to all other relevant bodies in the organisation.

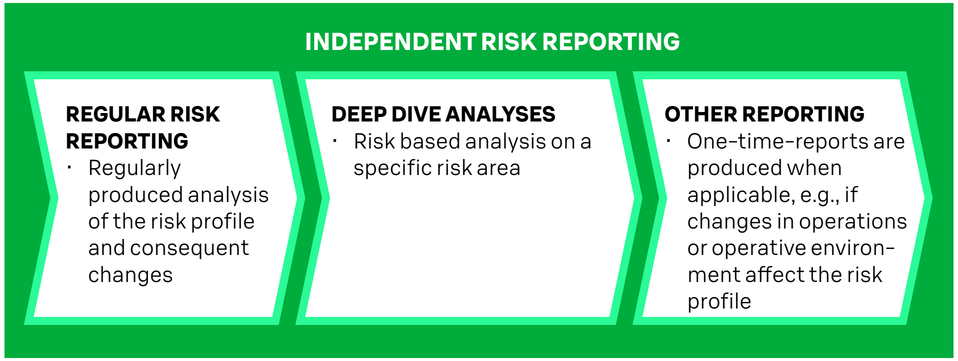
The overall risk reporting in S-Bank



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, internal control framework and reporting. 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 management 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 the quantitative and qualitative targets of the S-Bank Group's risk capacity and risk appetite as part of the risk strategy. The quantitative and qualitative targets are assessed regularly and whenever required by changes in the business or the operating environment. The risk appetite indicators are monitored and controlled as part of regular reporting.

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 available own funds and regulatory requirements and limitations.

Risk appetite reflects the types and levels of approved risks that S-Bank is willing to take in its business operations while pursuing its targets. Risk appetite sets the desired risk profile for the bank. 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 2023

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 and concentration of funding
Compliance risk	· Financial crime indicators · Conduct risk indicators · Regulatory compliance indicators
Operational risk	· Realised operational risks · Business continuity indicators · Indicators of service availability

6 CAPITAL MANAGEMENT

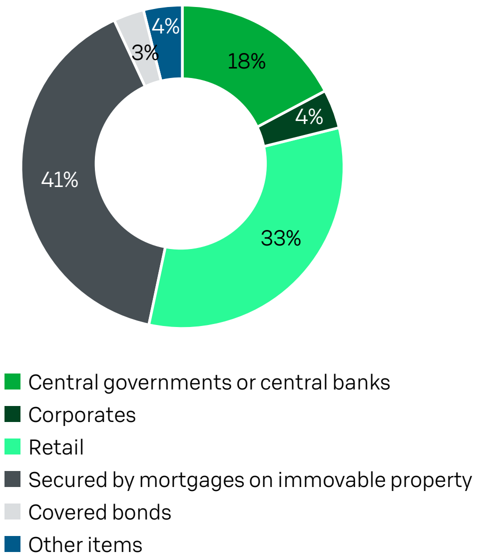
6.1 HIGHLIGHTS 2023 AND OVERVIEW

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 business operations and regulatory capital requirements.

- S-Bank's capital position strengthened and was well above the regulatory requirements.
- Total capital ratio stood at 18.8 per cent (16.3) and CET1 ratio at 16.1 per cent (13.2) on 31 December 2023
- Own funds increased during the review period as operating profit grew to an all-time high of EUR 147.4 million. This positive development was mainly due to increase in net interest income.
- Total REA increased by EUR 181.7 million to EUR 3 567.1 million, mainly due to growth of the risk exposure amount for operational risk, with credit risk increasing EUR 49.2 million compared to the end of the previous year.
- S-Bank's total capital requirement was 12.54 per cent (12.03).
- The FIN-FSA announced in October its decision to impose an additional capital recommendation to S-Bank (Pillar 2 Guidance, P2G) amounting to 0.75% of the total risk exposure amount. The P2G is valid until further notice as of 31 March 2024.
- During the year 2023 S-Bank composed a separate ICLAAP-report, that concentrated on identifying changes to the risk profile due to the Handelsbanken acquisition in 2024.
- Leverage ratio strengthened and stood at 5.6 per cent (4.9). Ratio exceeded the binding leverage ratio requirement of 3 per cent.

Distribution of credit risk exposures by exposure classes

Majority of S-Banks credit exposures were exposures secured by mortgages on immovable property and unsecured retail exposures. The exposures to central banks increased during the year due to bond issues. The following figure shows the distribution of credit risk exposures before credit conversion factors and credit risk mitigation effects, taking into account both on-balance-sheet exposures (EUR 10.0 billion) and off-balance-sheet exposures (EUR 2.3 billion).



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.

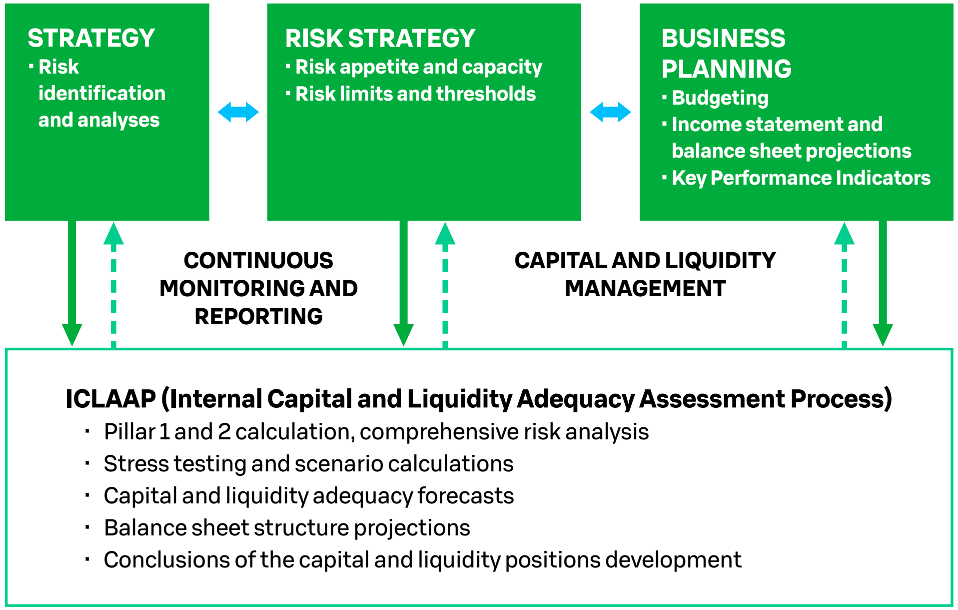
Capital and liquidity management framework and tools are also part of the regularly elaborated Recovery Plan, that aims to ensure the continuity of S-Bank's core businesses, to avoid adverse macroeconomic effects and to protect public funds. The Recovery Plan sets several quantitative and qualitative indicators, that are used for monitoring S-Bank's capital, liquidity, funding, and profitability along with asset quality. The level of recovery indicators is ultimately used to decide whether to employ or refrain from taking the set recovery options in use. The recovery planning is aligned with plausible scenarios used for ICAAP and ILAAP stress tests.

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 and as often as necessary. 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, profitability, 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. The process also includes forecasts of capital requirements, available capital as well as the impact of new regulations. Moreover, the scenarios include potential changes in S-Bank's business volumes and in the behaviour of its customers.

ICAAP provides a comprehensive overview of S-Bank's capital and risk positions in various stress scenarios. Based on the results of the stress scenarios, needed recovery options are identified and described, to ensure adequate level of own funds and capital adequacy position. 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 stressed business and macro scenarios.

The purpose of liquidity stress testing is to ensure the adequacy of S-Bank's liquid assets to cover unexpected liquidity outflows and to ensure that the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) maintain within the set risk appetite. S-Bank is prepared to withstand unexpectedly large cash outflows and recover its liquidity buffer under stressed conditions. The results of stress tests are used for managing liquidity, capital, profitability, and asset and liability management as well as in setting the levels of risk appetite.

Capital and liquidity management framework



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

Internal models as well as Pillar 1 calculation methods are used to determine the required amount of economic capital. 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 not included in the Pillar 1 are subject to a specific calculation of economic capital needs, based on internal approaches.

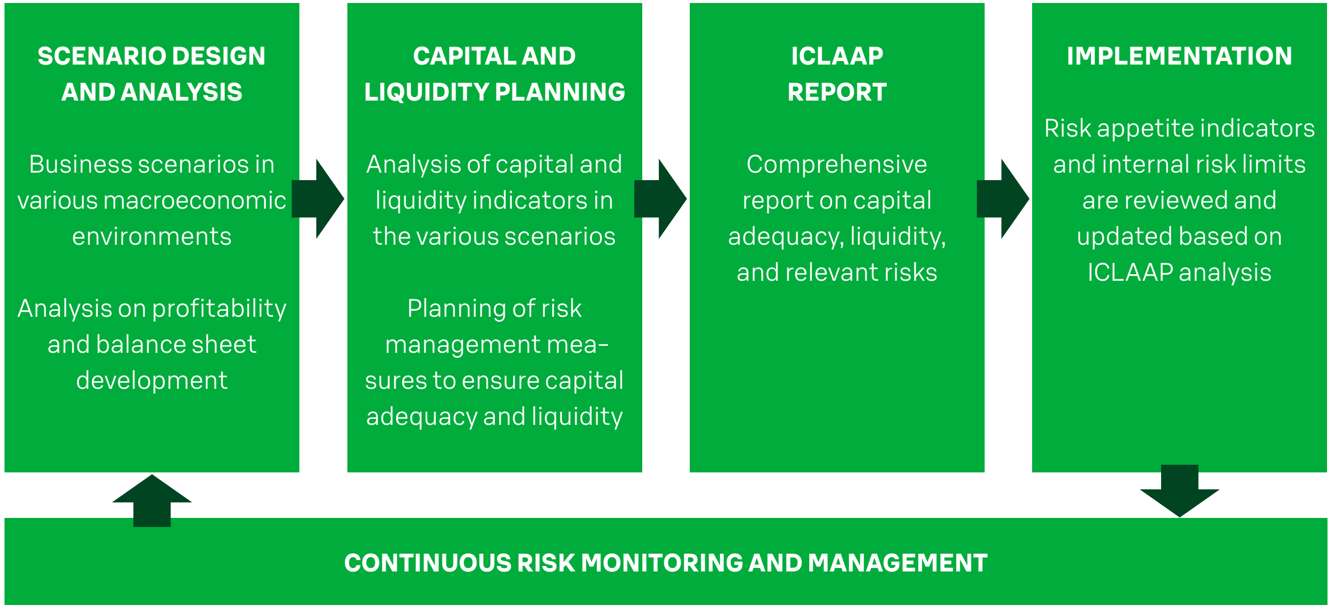
During 2023 all the major risks identified during the risk identification process were taken into account for the assessment of the economic capital requirement. S-Bank notably measures market risks, interest rate risk in the banking book, business and strategic risk, concentration risk, credit risk, and operational risk with its internal models. S-Bank ensures that its own funds always cover the economic capital requirement, considering also the normative perspective of regulatory requirements.

6.3 OWN FUNDS

S-Bank's CET1 ratio stood at 16.1 per cent (13.2) and total capital adequacy ratio at 18.8 per cent (16.3) at the end of the year. Total own funds grew from EUR 552.9 million to EUR 672.0 million. Own funds were positively affected especially by profit performance due to net interest income. The fair value reserve had a negative impact on own funds, but it gradually recovered compared to previous year. The amount of paid dividend for 2022 and foreseeable dividend for 2023 has been deducted from retained earnings, in line with S-Bank's dividend policy and Commission Delegated Regulation (EU) No 241/2014.

S-Bank's Tier 2 capital consists of four debentures with a total value of EUR 99.1 million (104.8) eligible as T2 capital. Two of the debentures have a residual maturity of over five years and are thus fully recognised as Tier 2 capital. The debentures with a residual maturity of less than five years are being gradually removed from Tier 2 capital, 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. The capital requirement of 12.54 per cent comprises the minimum requirement of 8 per cent, the capital conservation buffer of 2.5 per cent, the minimum requirement (P2R) of 2.0 per cent set by the FIN-FSA and the institution-specific capital conservation buffers by country for foreign exposures (CCyB) of 0.04 per cent. Total capital requirement increased during the year from 12.03 per cent to 12.54 per cent because of an increase of 0.5 percentage points in Pillar 2 SREP requirement and a slight increase in the countercyclical capital buffer (CCyB).

S-Bank's total capital requirement on 31 December 2023 (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%	160.5	2.5%	89.2	0.04%	1.4	1.13%	40.1	8.16%	291.2
AT1	1.5%	53.5					0.38%	13.4	1.88%	66.9
T2	2.0%	71.3					0.50%	17.8	2.50%	89.2
Total	**8.0%**	**285.4**	**2.5%**	**89.2**	**0.04%**	**1.4**	**2.00%**	**71.3**	**12.54%**	**447.3**

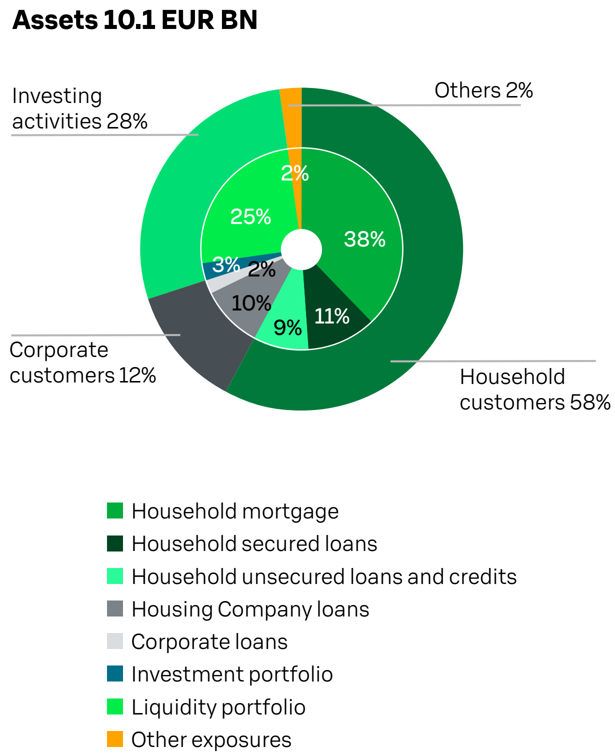
7 CREDIT RISK

7.1 HIGHLIGHTS 2023 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 86.1 per cent (EUR 3 071.8 million) of S-Bank's total REA. Total lending increased by 3.6 % to EUR 6.9 billion at the end of the financial year. Household customer lending increased 2.9 per cent and corporate lending 7.1 per cent.
- Expected Credit Losses provision increased by EUR 14.8 million to EUR 37.3 million (22.5) and coverage ratio relative to total credit exposure increased to 0.37 per cent (0.23).
  - The changes in management judgement increased ECL provision by EUR 1.7 million during the year. The management judgement was increased because higher interest rates and prices were expected to weaken households' ability to pay.
  - LGD risk parameter floors were implemented based on management judgement at the end of the year. The impact of the LGD floors on the ECL provision was EUR 5.3 million.
  - Total net effect on profit from expected and final credit losses was EUR 33.0 million (12.0) and at a level of 0.5 per cent (0.2) in relation to the loan portfolio.
- The uncertainty of the economic environment and increase in general price level contributed to the growth of forbearance measures and non-performing loans.
  - The amount of non-performing loans in the balance sheet increased by EUR 33.1 million to EUR 92.6 million (59.4). The NPL ratio increased to 1.3 per cent (0.9).
  - The carrying amount of performing forborne exposures in relation to loans and advances increased to the level of 2.5 per cent (2.0). The corresponding ratio of non-performing forborne exposures was 0.6 per cent (0.5).

Distribution of on-balance-sheet assets



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 2023 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 principles and strategies for credit risk management, which are in line with good banking and lending practices and regulation. Credit risk strategy defines the target segments for lending, growth targets and allocation limits that are based on S-Bank's risk strategy and action plan which are derived from the strategy of S-Bank.

The principles for credit risk management describes the principles of credit portfolio management, credit origination process, and collateral management for household and corporate customers. Credit risks arising from the investing activities are described and limited in the annual investment plan. Credit risk is managed by the business and support units within the principles and limits approved by the Board of Directors.

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 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 a concentration of S-Bank's exposure in certain customers, industries, geographical areas or against certain types of collateral. Concentration risks are managed through the set limits and are monitored regularly as part of the management risk reporting. Moreover, concentration risks are assessed through stress testing in the context of the capital plan (ICLAAP) and they are taken into account in the calculation of the economic capital requirement (Pillar 2).

Individual large credit institution entities and corporate customer entities are the principal source of customer-related concentration risk. Customer-related concentration risks are managed by assessing the connections between corporate customers, setting limits on the exposures of customer entities, and monitoring the changes in these exposures, including the concentrations in loans granted to related parties. This risk is taken into account as part of S-Bank's assessment of its economic capital (Pillar 2).

Majority of S-Bank's exposures are not classified by industry, as they consist mainly of household customers credits, which reduces industry concentration risk. Corporate lending is targeted mainly at financing of new housing companies under construction. After the construction stage, the credit risk is divided among the shareholders of the housing company and hence does not constitute a material risk concentration. No significant changes have taken place in the distribution of exposure by industry compared to previous year.

The great majority of geographical allocation of credit portfolio is in Finland, which is considered a 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.

Risk Control, Compliance, and Operational Risk Control, that form the Group-level control functions, monitor, and ensure that the business and support units operate in accordance with the principles and limits set in the risk policies, principles, and strategies. Risk and Compliance reports regularly on S-Bank's credit risk profile and the sufficiency of risk management procedures. The relationships between Credit risk management, Risk and Compliance, and the 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.

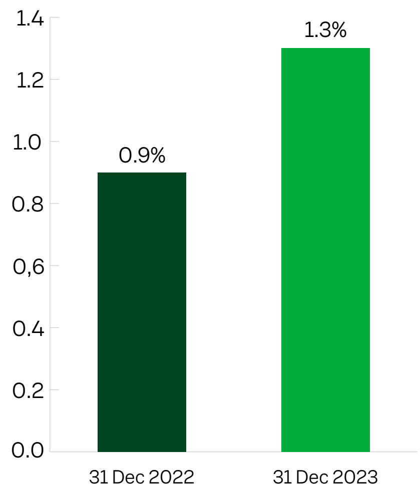
S-Bank applies harmonized definition for the concepts of defaulted exposures, non-performing exposures and IFRS 9 -credit impaired exposures. Defaulted exposures are comprised of exposures with material payment more than 90 days past due, non-performing forbearance, or other indication of unlikely repayment. 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 33.1 million to EUR 92.6 million (59.4) during the financial year. The NPL ratio, which describes non-performing exposures in relation to loans and advances, rose to 1.3 per cent (0.9). All non-performing loans were household customer exposures.

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.

NPL ratio



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 2023, 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).

The total ECL provision was EUR 37.3 million (22.5) at the end of the financial year. The total ECL provision included EUR 3.8 million provisions based on management judgement at the end of the financial year. The coverage ratio of the total portfolio increased to 0.37 per cent (0.23) and remained within the risk appetite defined by S-Bank's Board.

During the financial year, the ECL provision increased by EUR 14.8 million, of which the proportion of household customers was EUR 10.6 million. The changes in management judgement increased ECL provision by EUR 1.7 million during the financial year. The management judgement was increased because higher interest rates and prices were expected to weaken households' ability to pay. At the end of the financial year, LGD risk parameter floors were implemented based on management judgement. LGD floors are 50 per cent for credit cards, 30 per cent for unsecured household customer loans, and 10 per cent for secured household customer loans and corporate loans. LGD floors do not apply to contracts guaranteed by the State of Finland or other institutional guarantees affecting LGD-parameters. The impact of the LGD floors on the ECL provision was EUR 5.3 million. Respective amount of existing provision based on management judgement was reversed. In addition, the modelling of forward-looking information was updated during the financial year, which led to an increase of EUR 2.6 million in the ECL provision estimated by the credit risk models.

The ECL provision related to corporate customers and investing activities increased by EUR 3.1 million, as the amount of exposures classified in stage 2 grew notably. The growth was caused by internal rating downgrades of customers particularly in the real estate and construction industries.

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

Risk exposure, summary

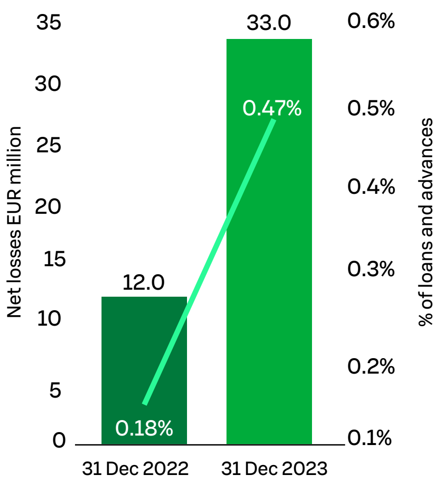
31 Dec 2023, EUR million	Stage 1 Credit risk exposure	Stage 1 ECL provision	Stage 2 Credit risk exposure	Stage 2 ECL provision	Stage 3 Credit risk exposure	Stage 3 ECL provision	Total credit risk exposure	Total ECL provision	Coverage ratio%
Household customers	5 421.6	-2.5	283.7	-13.1	92.4	-15.7	5 797.7	-31.3	-0.54%
Corporate customers	1 088.0	-0.4	96.7	-2.8	0.0	0.0	1 184.7	-3.2	-0.27%
Investing activities	667.6	-0.3	11.1	-0.6	0.0	0.0	678.8	-0.9	-0.14%
Off-balance sheet commitments	2 294.2	-0.5	10.8	-1.3	0.9	-0.1	2 305.8	-1.9	-0.08%
Total	**9 471.4**	**-3.7**	**402.4**	**-17.8**	**93.3**	**-15.8**	**9 967.1**	**-37.3**	**-0.37%**

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 recognized credit losses. Hence, the amount of realized 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 40.0 (18.5) million were recognized in the consolidated income statement during the financial year. Reversals, or recovered credit losses, amounted to EUR 7.0 million (6.6). Consequently, the total net effect on profit of expected and final credit losses was EUR 33.0 million (12.0). The ratio of net credit losses to the size of the on-balance-sheet credit portfolio increased during the financial year to 0.5 per cent (0.2).

Net effect on profit of expected and final credit losses



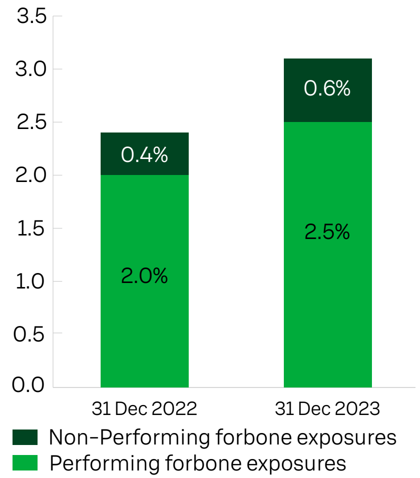
d) The institution's own definition of a restructured exposure used for the implementation of point (d) of Article 178(3) CRR specified by the EBA Guidelines on default in accordance with Article 178 CRR when different from the definition of forborne exposure defined in Annex V to Commission Implementing 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 uncertainty of the economic environment and increase in general price level has contributed to the growth of forbearance measures and non-performing loans. Gross forborne exposures in the balance sheet totalled EUR 215.5 million (158.9) at the end of the financial year. The carrying amount of performing forborne exposures in relation to loans and advances was at the level of 2.5 per cent (2.0). The corresponding ratio of non-performing forborne exposures was 0.6 per cent (0.4).

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 has ISDA (International Swaps and Derivatives Association) and CSA (Credit Support Annex) netting agreements with its derivative counterparties. S-Bank started to recognize credit risk mitigation effect of derivatives netting in its capital adequacy calculation during 2023.

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

S-Bank's Credit Committee decides the eligible collateral categories and their valuation principles. S-Bank uses collateral and other credit risk mitigation arrangements in credit risk management. Credit risk mitigation arrangements, in addition to collaterals, include mainly customary types of guarantees, such as government guarantees, institutional guarantees and personal guarantee commitments. The methods specified in the credit granting guidelines and credit risk management principles are used to ensure that the collateral and guarantees are acceptable, binding, comprehensive and realisable. Depending on its type, collateral is measured at market value or fair value. A haircut is applied to the value of collateral in credit processes, and the amount of this haircut depends on various criteria.

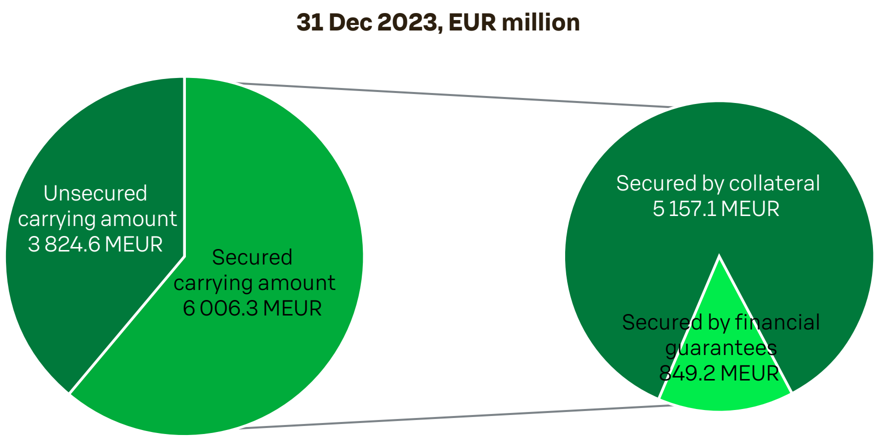
Immovable property collateral values are monitored and revalued regularly during the lifecycle of the credit. Collateral revaluation process combines frequent advanced statistical modelling together with expert valuations to monitor changes in collateral value and significant declines in valuation are 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 of the collateral base.

S-Bank does not take possession of collateral pledged to it. If the payment difficulties related to a non-performing receivable are not resolved, S-Bank cooperates with the customer to sell the security to cover the remaining debt.

(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

Distribution of credit risk mitigation measures



(such as government guarantees for student loans, residential and housing companies' mortgage as well as financial mortgage guarantees by an external service provider).

(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 adequacy 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

Real estate collateral is S-Bank's most significant type of collateral from the perspective of concentration risks. As a significant part of the real estate collateral portfolio comprises housing, the price trends of housing can have an effect on S-Bank's risk position. Regional concentration risk within Finland is mitigated by diversification of the credit portfolio 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. The credit risk strategy also guides portfolio allocation between different credit products. 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 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 2023	Proportion of exposures
0 - 50 %	18 %
50 - 60 %	13 %
60 - 70 %	18 %
70 - 80 %	32 %
80 - 90 %	16 %
90 - 100 %	2 %
> 100 %	1 %
Total	**100 %**

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 %**

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 Management of market risk). 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.

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

The same methodologies, that are used in the Pillar 1 regulatory capital requirement, are used for assigning internal capital to CCR and credit valuation adjustment (CVA). The internal capital is assigned for CCR using the original exposure method and for CVA using the standard approach. S-Bank has netting agreements with all its derivative counterparties and started to take into account the netting effects also in the counterparty credit risk calculations during 2023.

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. 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.

(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 and are used to mitigate the regulatory counterparty credit risk. The agreements specify the general terms and conditions to derivatives and collaterals between the counterparties. S-Bank uses clearing broker to access central counterparty.

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. Counterparty exposures and adequacy of required collateral are monitored and measured on a daily basis.

(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 related to its derivative exposures.

(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 nominal value of derivative portfolio increased by EUR 295 million (increase of EUR 61 million). The increase was due to the hedging of the covered bond S-Bank issued during 2023. There was no significant change in the fair values of the derivatives.

EUR million	31 Dec 2023			31 Dec 2022		
	Nominal value	Positive fair values	Negative fair values	Nominal value	Positive fair values	Negative fair values
Hedge accounting of assets						
Interest rate swaps	397.2	13.3	-0.8	612.2	23.3	-0.0
Hedge accounting for issued bonds						
Interest rate swaps	500.0	17.7	-	-	-	-
Designated for hedge accounting total	**897.2**	**30.9**	**-0.8**	**612.2**	**23.3**	**-0.0**
For non-hedging purposes						
Interest rate swaps	40.0	0.4	-	30.0	1.0	-0.0
Items outside hedge accounting total	**40.0**	**0.4**	**-**	**30.0**	**1.0**	**-0.0**
Derivatives total	**937.2**	**31.3**	**-0.8**	**642.2**	**24.3**	**-0.0**

Maturities of derivatives, EUR million	31 Dec 2023				31 Dec 2022			
	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	90.0	807.2	-	**897.2**	245.0	317.2	50.0	**612.2**
For non-hedging purposes								
Interest rate swaps	30.0	10.0	-	**40.0**	20.0	0.0	10.0	**30.0**
Derivatives total	**120.0**	**817.2**	**-**	**937.2**	**265.0**	**317.2**	**60.0**	**642.2**

9 MARKET RISK

9.1 HIGHLIGHTS 2023 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.

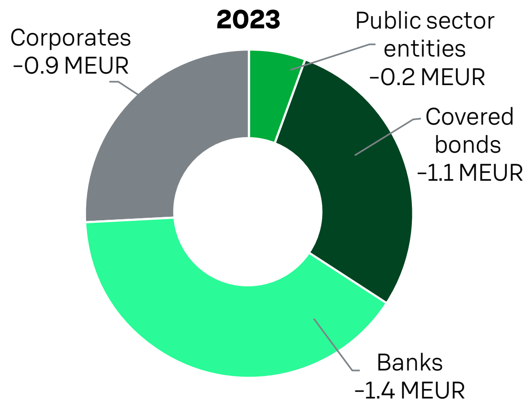
S-Bank's market risks mainly consist of interest rate risk in the banking book (IRRBB) and spread risk of debt securities. S-Bank is not significantly exposed to other direct market risks, such as equity, currency or real estate risks. The market risk profile is controlled with conservative risk appetite 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 risk 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 remained stable during the year. The interest rates continued to rise in the first half of the year but started to decline towards the end of the year. The interest rate risk of the issued covered bond was hedged by derivatives. Market value changes were included in the net interest income risk from 31 December 2023 onwards.
  - Economic value (EV) risk for instruments measured at fair value (+100 bps) was EUR -4.6 million (decrease of EUR 2.0 million).
  - Economic value of equity (EVE) risk for the full banking book (+100 bps) was EUR 28.3 million (decrease of EUR 6.9 million).
  - Net interest income (NII) risk (-100 bps) was EUR -7.7 million (decrease of EUR 1.0 million).
- In 2022 EBA published new standards and guidelines on interest rate risk (IRRBB) and credit spread risk (CSRBB) arising from non-trading book activities. The new standards and guidelines were applied from 30 June 2023 for IRRBB and CSRBB guidelines from 31 December 2023. S-Bank implemented the new standards and guidelines and continued to use internal measurement systems for IRRBB and CSRBB risks.
- Spread risk decreased slightly due to the decrease in the amount of Treasury portfolio's debt securities.
  - Spread risk was EUR -3.6 million (decrease of EUR 0.9 million).

Sensitivity analysis for the interest rate risk

Interest rate risk, EUR million	31 Dec 2023		
Interest rate shock	EVE risk, instruments measured at fair value	EVE risk, full banking book	NII risk
+100 bps	-4.6	28.3	7.3
-100 bps	4.7	-26.1	-7.7

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, S-Bank's banking business includes direct 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 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 in the banking book. All hedging derivative instruments at the end of the year 2023 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 unit monitors the market risk on a daily basis and the Asset and Liability Management Committee is responsible for the operational measurement, monitoring and reporting of market risks in accordance with the procedures agreed within the organisation. Risk Control, as part of the second line of defence, also monitors market risk exposures on a daily basis. In addition, the Risk Control function supervises the management of S-Bank's market risks and the effectiveness and use of the applied market risk models. The most important entities related to market risks, the effectiveness of risk management and the impact of risks on capital adequacy are reported to S-Bank's management, the Risk Committee, the Board Risk Committee, and the Board of Directors. Market risk position and the impact of market risk on economic capital are reported within organisation in accordance with chapter 5.

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 EV 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 IRRBB management is based on a conservative risk appetite and the Board of Directors has set risk limits for the EV risk (EV for instruments measured at fair value) and for the NII risk, which are monitored and reported actively to the management of S-Bank. The Treasury unit is tasked with the day-to-day management of the Group's IRRBB risks within the scope of its authorisations. The Asset and Liability Management Committee is responsible for the operational measurement, monitoring and reporting of IRRBB risks in accordance with the procedures agreed within the organisation. The Risk Control function supervises the management of S-Bank's IRRBB risks and the effectiveness and use of the applied IRRBB models. The IRRBB risk is managed by planning the balance sheet structure, interest rate linkages, as well as through 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 EV risk (EV for instruments measured at fair value) and monthly for the EV and the NII risk. Monthly EV risk is calculated for both instruments measured at fair value and for all interest rate sensitive instruments. EV risk is calculated using run-off balance sheet assumption. NII risk is based on dynamic balance sheet assumption and is measured for a 12-month horizon. Market value changes are also included in NII risk. Due to the rapid changes in market interest rates, additional IRRBB risk reporting is performed in the middle of month. IRRBB risk is also monitored monthly using repricing 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

In addition to the balance sheet structure and interest rate linkages planning, IRRBB risk is also hedged by using interest rate derivatives for the interest rate risk of fixed-rate debt securities and self-issued bonds. S-Bank applies fair value hedge accounting for the eligible hedged positions as described in the Notes of the financial statement.

10 LIQUIDITY RISK

10.1 HIGHLIGHTS 2023 AND OVERVIEW

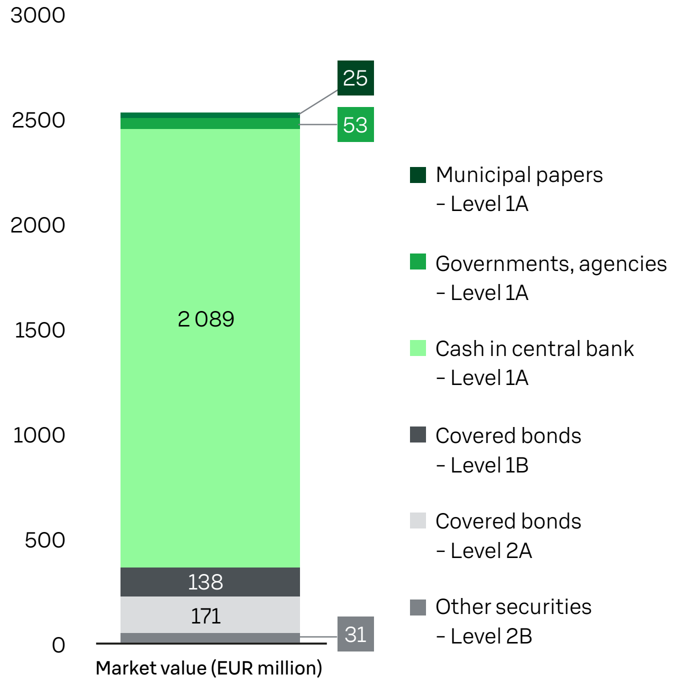
Liquidity risk is defined as the risk that the bank is unable to meet its payment obligations in due time or that it will be forced to fund its liquidity obligations at an unfavourable cost. Liquidity risk arises from the difference between the maturities of cash in- and outflows. Generally, the role 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 unit'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 256.6 per cent (164.4).
  - At the year-end the liquidity buffer value after applicable haircuts was EUR 2 455.9 million (1 665.9) and net outflows were EUR 957.1 million (1 013.3).
- At the year-end Treasury's portfolio was EUR 2 792.4 million (increase of EUR 816.8 million). The increase in the total portfolio size was concentrated in the liquidity portfolio and was mainly driven by the raised funding.
- The Net Stable Funding Ratio (NSFR), which is defined as the available stable funding relative to the required stable funding, strengthened at a level of 164.3 per cent (151.4).
- 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 8 175.9 million (7 925.6) at the end of the year.
- In 2023 S-Bank's funding structure diversified with the issuance of its first covered bond with a nominal value of EUR 500 million and with the issuance of a senior preferred MREL eligible bond with a nominal value of EUR 150 million. The strengthening of the liquidity position and the stable funding during the financial year was impacted by the bond issuances.
- S&P affirmed S-Bank's BBB long-term and A-2 short-term issuer credit ratings. S&P also raised its outlook for future performance from stable to positive. For S-Bank's bond programme and the first covered bond issuance, S&P assigned an AAA rating with stable outlook. S&P also affirmed its Resolution Counterparty Ratings (RCR) for S-Bank. The RCR credit rating of long-term borrowing is BBB+ and that of short-term borrowing is A-2.

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)	2 167 (86.4%)	138 (5.5%)	171 (6.8%)	31 (1.2%)	2 507



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 Plan 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 Plan describes the 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. S-Bank has a bond programme, under which the bank can issue senior preferred MREL eligible notes, covered bonds and additional tier 1 capital notes. Under the bond programme, S-Bank has issued a covered bond for nominal value of EUR 500 million and senior preferred MREL eligible bond for nominal value of EUR 370 million. Other sources of funding include the Treasury unit's wholesale market deposits from companies and other credit institutions, as well as certificates of deposits.

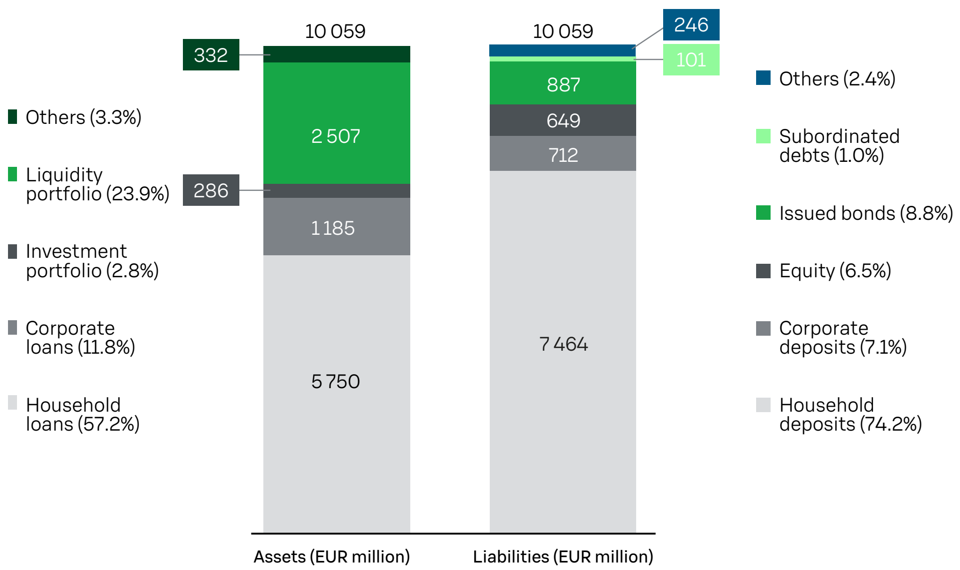
(b) Structure and organisation of the liquidity risk management function (authority, statute, other arrangements)

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 and asset encumbrance ratio defined by the authorities and internal indicators. Internal liquidity indicators include short-term liquidity buffer and survival horizon. S-Bank has also set an internal limit for the amount of covered bonds out of the total funding and out of the balance sheet total. 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 Management Risk Committee, the Risk and Board Risk 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 by various business 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 3.0 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 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 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 chapter 2.

11 OPERATIONAL RISK

11.1 HIGHLIGHTS 2023 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 2023 were low in comparison to the regulatory capital requirement reserved for them.

- Operational risk accounts for 14 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 488.3 million (362.8) and the increase was mainly driven by continue of higher net interest income and net fee and commission income within year 2023.
- In 2023 total operational risk losses were EUR 1.43 million (2.87). In order to facilitate comparability, following figures represent basic operational risks.
  - 12.4 per cent (2.9) of the total net operational risk losses are due to individual events with a loss value less than EUR 10 thousand.
  - 46.8 per cent (60.3) of total operational risk losses are caused by external fraud. S-Bank continues to work against fraud on various preventative initiatives.
- The level of incidents has decreased in 2023. Operational risk team has continued to grow in numbers, allowing more comprehensive monitoring program going forward.
- During 2023 S-Bank has seen increasing scamming and phishing activity towards its customers. However, due to strengthened controls and security measures the losses for S-Bank and its customers have been lower than in previous year.

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 Board Risk Committee, the Management 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 2023 AND OVERVIEW

Compliance risk refers to a risk that arises from non-compliance of regulatory requirements, internal guidelines or ethical principles. Compliance risks include conduct risks, risks related to non-compliance of regulatory requirements, specific juridical risks and risks in relation to anti-money laundering and terrorist financing. Compliance risks are non-financial risks and often overlap 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.

- S-Bank's agreement to acquire Handelsbanken's Finnish private customer, asset management and investment services was the largest single change in the Bank's operational environment during 2023. To better support the Bank's growing business in management of compliance risks, several new roles were created, and professionals recruited in the Compliance function and the operational units.
- During 2023 S-Bank's new Code of Conduct was implemented and as a part of that a new e-learning course for all employees was launched. By the end of 2023 98% of all S-Bank's employees had completed the course. Furthermore, S-Bank's Whistleblowing Policy and processes were updated in accordance with the new regulatory requirements.
- 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.

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 regulatory requirements as well as the requirements set out in S-Bank's policies, procedures and ethical standards, continuous AML and sanctions monitoring processes and ongoing compliance training.

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, sanctions, anti-bribery and -corruption, conflicts of interest, customer complaints practices, whistleblowing, data protection, ethical principles, fit & proper requirements, and insider trading guidelines. The Compliance function is responsible for maintaining the policies and providing training on them on a regular basis.

Management of compliance risks is an ongoing process based on risk-assessments. All 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 of 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 Board's Risk Committee and Audit Committee, the Risk Committee, the CEO and the senior management.

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