SP MORTGAGE BANK PLC'S

HALF-YEAR REPORT
1 JANUARY – 30 JUNE 2019

Sp Mortgage Bank Plc

Sp Mortgage Bank Plc's Half-year Report 1 January – 30 June 2019

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BOARD OF DIRECTORS' REVIEW FOR 1 JANUARY – 30 JUNE 2019

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

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

During the review period Sp Mortgage Bank's operations proceeded as planned and the loan portfolio reached EUR 1.9 billion at the end of June.

Sp Mortgage Bank's operating profit January – June amounted to EUR -1.2 Million, and total assets amounted to EUR 2,027 million.

In the spring, a targeted share issue to the owner banks was carried out, which amounted to EUR 8 million.

In June, Sp Mortgage Bank issued a EUR 500 million covered bond under its covered bond programme. S&P Global Ratings assigned a credit rating of AAA for the bond.

The Savings Banks Group and the Savings Banks Amalgamation

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

The Savings Banks Group is the most longstanding banking group in Finland. It comprises Savings Banks forming the Savings Banks Amalgamation, the Savings Banks' Union Coop which acts as the Central Institution and the subsidiaries and associated companies owned by the Savings Banks.

The member organisations of the Savings Banks Amalgamation form a financial entity as defined in the Act on the Amalgamation of Deposit Banks, in which the Savings Banks' Union Coop and its member credit institutions ultimately are jointly liable for each other's liabilities and commitments. The Amalgamation comprises the Savings Banks' Union Coop which acts as the Central Institution of the Amalgamation, 21 Savings Banks, Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc and the companies within the consolidation groups of the above-mentioned entities, as well as Savings Bank Services Ltd and Sp-Fund Management Company Ltd. The coverage of the Savings Banks Group differs from that of the Savings Banks Amalgamation in that the Savings Banks Group also includes institutions other than credit and financial institutions or service companies. The most notable of these are Sb Life Insurance Ltd and Sp-Koti Oy.

During the review period, two mergers between the Savings Banks were executed. Kiikoisten Säästöpankki merged to Huittisten Säästöpankki and Suomenniemen Säästöpankki to Säästöpankki Optia. As a result of the mergers, the number of Savings Banks belonging to the Amalgamation and to the Group reduced from 23 banks to 21 banks.

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

Description of the operational environment

Global economic outlook

Uncertainty over the development of global economic growth increased during the first half of 2019 and the economic outlook worsened. The trade policy tension between the United States and China became a central theme. In addition, the United Kingdom leaving the European Union caused a domestic policy crisis as a result of which the exit had to be postponed. This in part had a negative impact on industry and consumer confidence in Europe. Uncertainty over the global trade outlook impaired the outlook for industry, and global economic growth is expected to slow down to the level of 3.2 per cent during 2019. Central banks' monetary policy is changing to a stimulating direction, which in part reduces the negative shock arising from global obstacles to trade.

Economic growth in the euro zone was modest, and the change was 1.2 per cent during the first quarter year-on-year. The development of the labour market has continued to be good in the euro zone, and the unemployment rate has decreased. Trade policy tensions and uncertainty over economic growth have manifested themselves as decreasing confidence indicators. In particular, industrial confidence indicators decreased during the first half of 2019. The increase in core inflation ground to a halt during the second half of last year, and expectations regarding the ECB's monetary policy changed to a significant extent. The European Central Bank estimates that key interest rates will remain at their current level until at least mid-2020.

Economic growth in the United States has remained stable, and the change was 3.1 per cent during the first quarter year-on-year. The unemployment rate is exceptionally low, even though fewer new jobs were created than the previous year. Uncertainty regarding trade policy and the administration's planned changes in import duties could be seen in the slowing down of industrial production. Industrial confidence indicators decreased strongly during the first half of 2019. In spite of the impairment of industrial outlook, consumer confidence continued to be strong and retail sales grew during the first quarter. Expectations regarding the monetary policy of the US Federal Reserve changed significantly after the turn of the year. The increase in the key interest rate stopped after a three-year rise, and the market began to price interest rate cuts. Underlying the change is the low consumer price inflation and uncertainty over the potential impacts of a trade war on economic growth. Inflation expectations turned to a decline during the fourth quarter of 2018 and have continued to decrease during 2019.

Interest rate environment

Interest rates remained at a very low level during the period under review. Short-term interest rates decreased towards the end of the period under review after relative stability during the first months of the year. On the other hand, the decrease in long-term interest rates continued almost throughout the period under review. No significant change in the situation is in sight due to the euro zone's weak economic growth and subdued inflation, which has also delayed the normalisation of the ECB's monetary policy.

The prevailing flat yield curve presents challenges to net interest income in banking operations due to low maturity transformation income. Furthermore, regulatory requirements

(LCR and, effective from 31 December 2018, MREL) combined with the EB's negative deposit rate result in increased burden on the net interest income.

Investment markets

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The Finnish economy

The outlook of the Finnish economy has worsened as global economic growth has slowed down. In particular, the outlook of exports has worsened. Adjusted for seasonal fluctuations, the Finnish GDP increased by 1.2 per cent year-on-year during the first quarter and is therefore close to the economic growth in the rest of the euro zone. A slowing down of economic growth in the euro zone will have a significant impact on the Finnish economy, as 40 per cent of the value of exports of goods is bound for other euro zone countries. Even though the Confederation of Finnish Industries' confidence indicator decreased strongly last year, growth in industrial production has remained at a good level. The employment rate has improved and households' purchasing power has developed favourably. These factors support economic growth, which depends on domestic consumption as export demand slows down. An increase in the employment rate from its current level requires faster economic growth, which is challenging in the prevailing situation of the world economy. Finland's economic growth is expected to be around 1.5 per cent this year.

The housing market in Finland

The factors that influence housing transactions (employment rate, interest rates and consumer confidence) should have supported a positive climate in the housing market. However, this was not the case. The transaction volume for old apartments decreased by 1.4 per cent in January–April year-on-year. The factors behind the decrease include the large number of newly constructed apartments, lower investor interest in residential investments and a lower number of first-time home buyers. There was a growing divide between housing markets in different geographic regions. Uusimaa and other major cities, Turku in particular, saw continued growth, while many other regions, such as Kainuu, Kymenlaakso and Southern Savonia, moved in the opposite direction. This polarisation is significantly influenced by regional trends in population size and the size of the labour force. We predict that the transaction volume for old apartments will decrease by 0–5 per cent in 2019.

The decrease in the demand for residential investments that began last year continued during the first half of the year. This is due to strong growth in the supply of rental apartments and even excess supply in several cities. The increased supply curbed the rise in rents to a significant degree. In particular, purchases by housing funds have declined significantly. Many investors also decided to sell some of their residential investments, which was reflected in an increased supply of small apartments in several cities. There is even excess supply of these small apartments in several cities, which has contributed to them being longer on the market and the increase in prices at least coming to a halt.

New construction activity will continue to be strong this year in spite of waning demand. The number of issued building permits and start-ups of new sites are already on an obvious decline. This suggests growing caution among construction firms. This cautious attitude is attributable to the decreasing demand for residential investments and consumer demand, as well as the public debate regarding tightening terms and conditions for housing company loans. The low availability of plots in good locations is also a factor. Construction firms are now increasingly focusing on renovation. The transaction volume for newly constructed apartments decreased by 13.4 per cent in January–April. We predict that the transaction volume for newly constructed apartments will fall by 10–20 per cent in 2019.

The prices of old apartments and terraced houses increased by 1.5 per cent in the Helsinki Metropolitan Area during Q1 and decreased by 0.2 per cent in the rest of Finland, i.e. there was strong differentiation in the price increase. We predict that the prices of old apartments will remain largely unchanged or even decline slightly throughout the country in 2019. The factors affecting prices include the increased uncertainty regarding the overall economic situation and the decrease in new construction.

Sp Mortgage Bank's profit and balance sheet

Sp Mortgage Bank's financial highlights

(EUR 1,000)	1.1.-30.6.2019	1.1.-31.12.2018	1.1.-30.6.2018
Revenue	9,989	21,838	10,716
Net interest income	8,726	17,157	8,256
% of revenue	87.4 %	78.6 %	77.0 %
Operating profit before taxes	-1,187	2,686	2,072
% of revenue	-11.9 %	12.3 %	19.3 %
Total operating revenue	-66	4,723	3,148
Total operating expenses	-1,026	-2,056	-1,025
Cost to income ratio %	-1554.7 %	43.5 %	32.5 %
Total assets	2,026,801	1,906,481	1,731,100
Total equity	94,997	88,184	82,793
Return on equity %	-1.3 %	2.7 %	2.1 %
Return on assets %	-0.1 %	0.1 %	0.1 %
Equity/assets ratio %	4.7 %	4.6 %	4.8 %
Solvency ratio %	13.5 %	13.4 %	13.7 %
Impairment losses on loans and other receivables	-96	20	-51

Profit trends (comparison period 1-6/2018)

Profit of the financial period consisted of net interest income, net fee and commission income and net trading income, other operating expenses, depreciations of intangible assets, expected credit losses and taxes.

Interest income was EUR 11.8 (10.8) million and consisted mostly of housing loan Interest payments. Growth in Interest income comes from growth in housing loans and interest income from hedging derivatives. Interest expenses were EUR 3.1 (2.5) million consisting mostly of Interest expenses from liabilities to credit institutions and Interest expenses from covered bonds. The net interest income amounted to EUR 8.7 (8.3) million.

Net fee and commission income mainly consisting of fees paid to the intermediating banks amounted to EUR -6.7 (-4.8) million.

Net profit from hedge accounting for the review period was EUR -2.1 (-0.3) million and it is presented under Net trading income on the income statement.

Operating expenses were EUR -1.0 (-1.0) million. Operating expenses mainly consisted of other operating expenses and depreciation of intangible assets.

Expected credit losses were EUR -0.1 (-0.1) million.

Operating loss for the review period was EUR -1.2 (2.1) million.

Balance sheet and funding (comparison figures 31 December 2018)

The loan portfolio of Sp Mortgage Bank grew to EUR 1,923 (1,854) million during the review period.

Sp Mortgage Bank funds its operations with covered bonds. Financial credit from Central Bank of Savings Banks Finland Plc is used as short-term bridge financing. In June, Sp Mortgage Bank issued a EUR 500 million covered bond under its covered bond programme. The value of the covered The value of the covered bonds were EUR 1,510 (1,000) million at the end of the review period. At the end of the review period, the amount of short term funding taken from Central Bank of Savings Banks Finland Plc was EUR 410 (813) million.

During the review period a targeted share issue to the owner banks was carried out, which amounted to EUR 8 million. At the end of the review period equity amounted to EUR 95 (88) million.

Capital adequacy and risk position

Capital adequacy (comparison figures 31 December 2018)

At the end of the review period, the Sp Mortgage Bank had a strong capital structure, consisting of CET1 capital. Own funds were EUR 95 (88) million. Risk-weighted assets amounted to EUR 700 (654) million. The capital ratio of the Sp Mortgage Bank was 13.5 (13.4) % and the CET1 capital ratio was 13.5 (13.4) %.

The capital requirement of Sp Mortgage Bank was EUR 74 (69) million that equals to 10.5 % of risk-weighted assets. The components of the capital requirement have remained unchanged compared to the previous year. The capital requirement is formed by:

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

The Finnish Financial Supervisory Authority is responsible for domestic macro prudential decision making after hearing the Bank of Finland, Ministry of Finance and Ministry of Social Affairs and Health. Decisions on the activation of macro prudential instruments are taken on a quarterly basis expect for decisions on O-SII buffers, risk weights for loans secured by mortgages on immovable property (CRR Article 124 and 164) and systematic risk Buffer. Decisions on the activation of these instruments have been taken at least once a year.

In the beginning of the year 2018 Credit Institution Act was updated to include a new macroprudential measure, Systemic Risk Buffer (SRB). FIN-FSA may impose SRB on the basis of the structural characteristics of the financial system. FIN-FSA made decision to maintain the level of systemic risk buffer unchanged on 28 June 2019. The systemic risk buffer requirement for Savings Banks Amalgamation will be 1 % of risk weighted assets, and this requirement enters into effect at the Amalgamation level on 1 July 2019 based on decision made before.

Board of Financial Supervisory Authority has set a discretionary additional capital requirement according to the Act on Credit Institutions' chapter 11 6th article in their meeting on 4th of July 2019. Financial Supervisory Authority has determined the discretionary additional capital requirement as 1,25 % of total risk amount according to the Act on Credit Institutions' chapter 11 6th article's 2 moment's first paragraph's a) subparagraph. The requirement percentage is based on the methodology of SREP (Supervisory Review and Evaluation Process) for LSI banks from ECB, where the percentage of additional capital requirement is determined from the overall rating of FSA's assessment. Additional capital requirement is to be fulfilled by Common Equity Tier 1 (CET1) capital referred in EU's Capital Requirement Regulation (CRR) (EU 575/2013). The capital requirement ruling the Savings Banks Amalgamation is effective from 31st of March 2020 and is valid maximum 3 years until 31st of March 2023. The discretionary additional capital requirement is valid on 30 June 2019 as 0,5% of the total risk amount.

The decision made by the FIN-FSA Board to lower the maximum LTC ratio from 90 % to 85 % for residential mortgage loans other than first-home loans came into effect on 1 July 2018. In the year 2018 FIN-FSA decided not to impose countercyclical buffer requirement (CCyB) on credit institutions, and therefore CCyB remained at zero. CCyB can vary from 0-2.5% of risk weighted assets. FIN-FSA did not impose additional O-SII capital requirement for Savings Banks Amalgamation.

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

The Financial Supervisory Authority has granted permission to the Central Institution of the Amalgamation to waive fully the application of the requirements regarding liquidity set out in part six of Regulation (EU) No 575/2013 and its amending and supplementing acts to the Amalgamation's member credit institutions.

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

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

Sp Mortgage Bank's capital adequacy's main items

Own Funds (EUR 1,000)	30.6.2019	31.12.2018
Common Equity Tier 1 (CET1) capital before regulatory adjustments	94,997	88,184
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-226	-394
Common Equity Tier 1 (CET1) capital	94,771	87,791
Additional Tier 1 (AT1) capital before regulatory adjustments	0	0
Total regulatory adjustments to Additional Tier 1 (AT1) capital	0	0
Additional Tier 1 (AT1) capital	0	0
Tier 1 capital (T1 = CET1 + AT1)	94,771	87,791
Tier 2 (T2) capital before regulatory adjustments	0	0
Total regulatory adjustments to Tier 2 (T2) capital	0	0
Tier 2 (T2) capital	0	0
Total capital (TC = T1 + T2)	94,771	87,791
Risk weighted assets	700,495	654,052
of which: credit and counterparty risk	669,204	634,720
of which: credit valuation adjustment (CVA)	20,390	8,432
of which: market risk	0	0
of which: operational risk	10,900	10,900
Common Equity Tier 1 (as a percentage of total risk exposure amount)	13.5 %	13.4 %
Tier 1 (as a percentage of total risk exposure amount)	13.5 %	13.4 %
Total capital (as a percentage of total risk exposure)	13.5 %	13.4 %
Capital requirement		
Total capital requirement	94,771	87,791
Capital requirement total*	73,554	68,677
Capital buffer	21,218	19,113

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

Leverage ratio

The leverage ratio of the Sp Mortgage Bank was 4.7 (4.6) % The leverage ratio has been calculated according to the known regulation, and it describes the ratio of the Sp Mortgage Bank's Tier 1 capital to total liabilities. The Sp Mortgage Bank monitors the indebtedness as part of the ICAAP process.

Leverage ratio

(EUR 1,000)	30.6.2019	31.12.2018
Tier 1 capital	94,771	87,791
Leverage ratio exposure	2,037,824	1,913,797
Leverage ratio	4.7 %	4.6 %

Resolution plan

The Directive of the European Parliament and of the Union 2014/59/EU on the recovery and resolution framework of credit institutions and investment service firms was brought nationally into force as of 1 January 2015 (the Act on the crisis solution of credit institutions and investment service firms). To implement the resolution act, the Financial Stability Authority was established (the Act on the Financial Stability Authority, 1995/2014). In May 2017 the Stability Authority decided to set a minimum requirement of own funds and eligible liabilities (MREL) at amalgamation level and this requirement came in force starting December 31st 2018. The requirement will not be directed at the member credit institutions. The MREL requirement is in nature a Pillar 2 -type continuously required minimum requirement. The Financial Stability Authority has decided that the minimum amount of eligible liabilities is the minimum requirement of own funds times two. Currently, the requirement is 20.79 % of the total risk of Amalgamation.

Risk Position

The objectives, principles and organization of risk management in Sp Mortgage Bank are the same as those presented in the 2018 financial statements.

Material events after the closing date

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

Outlook for the year 2019

Sp Mortgage Bank expects the loan portfolio to continue to grow and its quality to remain good.

Sp Mortgage Bank estimates the operating profit to be positive. The expectations include uncertainties due to economic circumstances, which have an impact on the estimated result; especially with regard to net profit from hedge accounting.

Information

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

The figures presented in the half-year report are unaudited.

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

Formulas used in calculating the financial highlights:

Revenues	Interest income, fee income, net trading income, net investment income, other operating revenue
Total operating revenue	Net interest income, net fee and commission income, net trading income, net investment income, other operating revenue
Total operating expenses	Personnel expenses, other operating expenses, depreciation and amortisation of plant and equipment and intangible assets
Cost to income ratio %	$\frac{\text{Total operating expenses}}{\text{Total operating revenue}}$
Return on equity %	$\frac{\text{Profit}}{\text{Equity (average)}}$
Return on assets %	$\frac{\text{Profit}}{\text{Total assets (average)}}$
Equity/assets ratio %	$\frac{\text{Equity}}{\text{Total assets}}$

Alternative Performance Measures

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

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

SP MORTGAGE BANK'S HALF-YEAR REPORT (IFRS)

Sp Mortgage Bank's income statement

(EUR 1,000)	Note	1-6/2019	1-6/2018
Interest income		11,804	10,775
Interest expense		-3,078	-2,519
Net interest income	4	**8,726**	**8,256**
Net fee and commission income	5	-6,657	-4,793
Net trading income	6	-2,135	-314
Total operating revenue		**-66**	**3,148**
Personnel expenses			-10
Other operating expenses		-845	-834
Depreciation of intangible assets		-181	-181
Total operating expenses		**-1,026**	**-1,025**
Net impairment loss on financial assets	7	-96	-51
Operating profit before tax		**-1,187**	**2,072**
Taxes			-397
Profit		**-1,187**	**1,675**

Sp Mortgage Bank's statement of comprehensive income

(EUR 1,000)	1-6/2019	1-6/2018
Profit	-1,187	1,675
Total comprehensive income	-1,187	1,675

Sp Mortgage Bank's statement of financial position

(EUR 1,000)	Note	30.6.2019	31.12.2018
Assets			
Loans and advances to credit institutions	9	84,028	44,151
Loans and advances to customers	9	1,922,240	1,852,994
Derivatives	10	16,275	5,776
Intangible assets		210	390
Tax assets		330	96
Other assets		3,719	3,074
Total assets		**2,026,801**	**1,906,481**
Liabilities and equity			
Liabilities			
Liabilities to credit institutions	11	418,780	815,240
Debt securities issued	12	1,510,297	1,000,243
Provisions and other liabilities		2,727	2,814
Total liabilities		**1,931,804**	**1,818,297**
Equity			
Share capital		61,937	56,601
Reserves		30,922	28,258
Retained earnings		2,138	3,325
Total equity		**94,997**	**88,184**
Total liabilities and equity		**2,026,801**	**1,906,481**

Sp Mortgage Bank's statement of cash flows

(EUR 1,000)	1-6/2019	1-6/2018
Cash flows from operating activities		
Profit	-1,187	1,675
Adjustments for items without cash flow effect	2,411	546
Change in deferred tax		157
Income taxes paid		240
Cash flows from operating activities before changes in assets and liabilities	**1,224**	**2,618**
Increase (-) or decrease (+) in operating assets	**-69,929**	**-159,504**
Loans and advances to customers	-69,284	-158,826
Other assets	-645	-678
Increase (-) or decrease (+) in operating liabilities	**100,816**	**121,364**
Liabilities to credit institutions	-396,460	120,610
Debt securities issued	497,420	331
Other liabilities	-144	423
Income taxes paid	-233	-530
Total cash flows from operating activities	**31,877**	**-36,052**
Cash flows from financing activities		
Increase in basic capital	5,336	4,736
Other monetary increases in equity items	2,664	2,364
Total cash flows from financing activities	**8,000**	**7,100**
Change in cash and cash equivalents	**39,877**	**-28,952**
Cash and cash equivalents at the beginning of the period	**44,151**	**59,227**
Cash and cash equivalents at the end of the period	**84,028**	**30,275**
Cash and cash equivalents comprise the following items:		
Receivables from central banks repayable on demand	84,028	30,275
Total cash and cash equivalents	**84,028**	**30,275**
Adjustments for items without cash flow effect		
Impairment losses on financial assets	96	51
Changes in fair value	2,135	314
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	181	181
Total	**2,411**	**546**
Interest received	11,765	10,561
Interest paid	2,571	883

Sp Mortgage Bank's statement of changes in equity

(EUR 1,000)	Share capital	Share premium	Retained earnings	Total equity
Equity 31 December 2017	**48 597**	**24 262**	**1 836**	**74 695**
Effect of IFRS 9 transition 1 January 2018			-678	-678
Equity 1 January 2018	**48 597**	**24 262**	**1 159**	**74 018**
Comprehensive income				
Profit			1 675	1 675
Total comprehensive income			**1 675**	**1 675**
Transactions with owners				
Subscription issue	4 736	2 364		7 100
Total equity 30 June 2018	**53 332**	**26 627**	**2 834**	**82 793**
Equity 1 January 2018	**48 597**	**24 262**	**1 159**	**74 018**
Comprehensive income				
Profit			2 167	2 167
Total comprehensive income			**2 167**	**2 167**
Transactions with owners				
Subscription issue	8 004	3 996		12 000
Total equity 31 December 2018	**56 601**	**28 258**	**3 325**	**88 184**
Equity 1 January 2019	**56 601**	**28 258**	**3 325**	**88 184**
Comprehensive income				
Profit			-1 187	-1 187
Total comprehensive income			**-1 187**	**-1 187**
Transactions with owners				
Subscription issue	5 336	2 664		8 000
Total equity 30 June 2019	**61 937**	**30 922**	**2 138**	**94 997**

BASIS OF PREPARATION

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

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

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

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

The Savings Banks focus on retail banking, particularly services related to daily business, saving and investments, and lending services. The service and product range offered is complemented with the other financial services and products provided in cooperation with the service and product companies within the Savings Banks Group. The service and product companies within the Group support and promote the operations of the Group via producing centralised services or having responsibility for certain products. The most significant service and product companies of the Group are Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc, Sb Life Insurance Ltd, Sp-Fund Management Company Ltd, Savings Bank Services Ltd and Sp-Koti Oy.

The member organisations of the Savings Banks Amalgamation form a financial entity as defined in the Act on the Amalgamation of Deposit Banks, in which the Savings Banks' Union Coop and its member credit institutions are jointly liable for each other's liabilities and commitments. The Amalgamation comprises the Savings Banks' Union Coop, which acts as the Central Institution of the Amalgamation, 21 Savings Banks, the Central Bank of Savings Banks Finland Plc and Sp Mortgage Bank Plc, the companies within the consolidation groups of the above-mentioned entities as well as Savings Bank Services Ltd and Sp-Fund Management Company Ltd.

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

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

Sp Mortgage Bank's financial statements and half-year reports are available at the website www.saastopankki.fi/saastopankkiryhma or at the premises, address Teollisuuskatu 33, FI-00510 Helsinki.

The Savings Banks Group's financial statements and half-year reports are available at the website *www.saastopankki.fi/saastopankkiryhma* or at the premises of Savings Banks' Union Coop, address Teollisuuskatu 33, FI-00510 Helsinki.

NOTE 2. ACCOUNTING POLICIES

Overview

Sp Mortgage Bank's financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU.

Sp Mortgage Bank is part of the Savings Banks Amalgamation and in accordance with the principles of the Act on the Amalgamation of Deposit Banks and the IAS 8 standard concerning accounting policies, adjustments and errors in accounting estimates, the Board of the Savings Banks' Union Coop confirms any accounting policy for which no guidance is available in the IFRS.

The half-year report 1 January – 30 June 2019 has been prepared in accordance with the IAS 34 Interim Financial Reporting standard. Accounting principles applied in the half-year report are essentially the same as in the financial statement of 2018. Changes in accounting policies during the financial year are described below. The financial statement 2018 contain the full accounting principles.

The figures presented in the half-year report are unaudited.

Sp Mortgage Bank's financial statements are presented in euros, which is the Bank's accounting and functional currency. The half-year report is presented in thousands of euros, unless stated otherwise.

Changes in the accounting policies during the reporting period

IFRS 16 Leases

IFRS 16 Leases entered into effect on 1 January 2019. On transition, Sp Mortgage Bank has applied a simplified approach and the comparison figures have not been adjusted.

Prior to the IFRS 16 transition on 1 January 2019, Sp Mortgage Bank had no finance leases as referred to in IAS 17 and IFRIC 4. The IFRS 16 transition had no effect on profit or loss or balance sheet, nor did it affect retained earnings, because Sp Mortgage Bank has only leases, which are under the IFRS 16 exemptions, and Sp Mortgage Bank has decided to use exemptions possibility.

Amendments to the IFRS 16 standard for Sp Mortgage Bank's accounting policies and the effects of IFRS 16 transition can be found in section of Adoption of new IFRS Standards and Interpretations in the Financial Statements 2018.

Critical accounting estimates and judgments

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

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

There have not been any major changes regarding the uncertainty requiring management to exercise judgment and make estimates and assumptions compared to the financial statement of 2018.

NOTE 3. SEGMENT INFORMATION

Sp Mortgage Bank's management reviews the performance of the company as one individual segment and therefore separate segment information, as defined in IFRS 8, is not presented.

PROFIT FOR THE PERIOD

NOTE 4. NET INTEREST INCOME

(EUR 1,000)	1-6/2019	1-6/2018
Interest income		
Loans and advances to customers	9,966	8,941
Derivative contracts		
Hedging derivatives	1,817	1,827
Other	22	7
Total	**11,804**	**10,775**
Interest expense		
Liabilities to credit institutions	-2,104	-1,259
Derivative contracts		
Hedging derivatives		-22
Debt securities issued	-910	-889
Limits		-285
Other	-64	-65
Total	**-3,078**	**-2,519**
Net interest income	**8,726**	**8,256**

NOTE 5. NET FEE AND COMMISSION INCOME

(EUR 1,000)	1-6/2019	1-6/2018
Fee and commission income		
Lending	319	255
Total	**319**	**255**
Fee and commission expense		
Loans	-6,975	-5,047
Other	-1	-1
Total	**-6,977**	**-5,048**
Net fee and commission income	**-6,657**	**-4,793**

NOTE 6. NET TRADING INCOME

(EUR 1,000)	1-6/2019	1-6/2018
Net income from hedge accounting		
Change in hedging instruments' fair value	10,499	5,695
Change in hedged items' fair value	-12,634	-6,009
Net trading income	**-2,135**	**-314**

NOTE 7. IMPAIRMENT LOSS ON FINANCIAL ASSETS

Financial asset within the scope of accounting for expected credit losses by impairment stage (EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Financial asset 30.6.2019				
Loans and advances	1,776,413	145,796	895	1,923,104
Off-balance sheet items	13,831	232		14,063
Total	**1,790,244**	**146,028**	**895**	**1,937,167**
Financial asset 31.12.2018				
Loans and advances	1,733,316	119,414	1,090	1,853,820
Off-balance sheet items	5,219	671		5,890
Total	**1,738,535**	**120,085**	**1,090**	**1,859,710**

Expected Credit Losses (ECL), Loans and advances and off-balance sheet	Stage 1	Stage 2	Stage 3	Total
(EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected Credit Losses 1 January 2019	**502**	**320**	**6**	**827**
New assets originated or purchased	126	68	7	201
Assets derecognised or repaid (excluding write offs)	-89	-53	-3	-144
Transfers from Stage 1 to Stage 2	-14	86		72
Transfers from Stage 1 to Stage 3				
Transfers from Stage 2 to Stage 1	9	-42		-33
Transfers from Stage 2 to Stage 3				
Transfers from Stage 3 to Stage 2		1	-1	
Net change in ECL				96
Expected Credit Losses 30 June 2019	**533**	**381**	**9**	**923**

Expected Credit Losses (ECL), Loans and advances and off-balance sheet	Stage 1	Stage 2	Stage 3	Total
(EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected Credit Losses 1 January 2018	**664**	**174**	**9**	**847**
New assets originated or purchased	103	189	3	295
Assets derecognised or repaid (excluding write offs)	-252	-126	-9	-387
Transfers from Stage 1 to Stage 2	-19	102		83
Transfers from Stage 1 to Stage 3			1	1
Transfers from Stage 2 to Stage 1	6	-20		-15
Transfers from Stage 2 to Stage 3		-1	2	
Transfers from Stage 3 to Stage 2		3		3
Net change in ECL				-20
Expected Credit Losses 31 December 2018	**502**	**320**	**6**	**827**

ASSETS

NOTE 8. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

30.6.2019 (EUR 1,000)	Amortized costs	Fair value through profit or loss	Other financial liabilities	Total
Loans and advances to credit institutions	84,028			84,028
Loans and advances to customers	1,922,240			1,922,240
Derivatives		16,275		16,275
hedging derivatives		16,275		
fair value		16,275		
Total assets	**2,006,268**	**16,275**		**2,022,542**
Liabilities to credit institutions			418,780	418,780
Debt securities issued			1,510,297	1,510,297
Total liabilities			**1,929,077**	**1,929,077**

31.12.2018 (EUR 1,000)	Jaksotettu hankintameno	Käypään arvoon tulosvaikuttei-sesti kirjattavat	Muut rahoitusvelat	Yhteensä
Loans and advances to credit institutions	44,151			44,151
Loans and advances to customers	1,852,994			1,852,994
Derivatives		5,776		5,776
hedging derivatives		5,776		
fair value		5,776		
Total assets	**1,897,144**	**5,776**		**1,902,920**
Liabilities to credit institutions			815,240	815,240
Debt securities issued			1,000,243	1,000,243
Total liabilities			**1,815,483**	**1,815,483**

NOTE 9. LOANS AND ADVANCES

30.6.2019 (EUR 1,000)	Not impaired (gross)	Expected credit losses (ECL)	Balance sheet value
Loans and advances to credit institutions			
Deposits*	84,028		84,028
Total	**84,028**		**84,028**

* of which Deposits to Credit Institutions belonging to the Savings Banks Amalgamation EUR 83,986 thousand.

Loans and advances to customers			
Loans	1,923,104	-865	1,922,240
Total	**1,923,104**	**-865**	**1,922,240**
Loans and advances total	**2,007,132**	**-865**	**2,006,268**

31.12.2018 (EUR 1,000)	Not impaired (gross)	Expected credit losses (ECL)	Balance sheet value
Loans and advances to credit institutions			
Deposits*	44,151		44,151
Total	**44,151**		**44,151**

* of which Deposits to Credit Institutions belonging to the Savings Banks Amalgamation EUR 44,150 thousand.

Loans and advances to customers			
Loans	1,853,820	-826	1,852,994
Total	**1,853,820**	**-826**	**1,852,994**
Loans and advances total	**1,897,971**	**-826**	**1,897,144**

NOTE 10. DERIVATIVES AND HEDGE ACCOUNTING

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

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

(EUR 1,000)	Nominal value / remaining maturity		Fair value	
30.6.2019	1 - 5 years	Total	Assets	Liabilities
Hedging derivative contracts				
Fair value hedging	1,500,000	1,500,000	16,275	
Interest rate derivatives	1,500,000	1,500,000	16,275	
Total	**1,500,000**	**1,500,000**	**16,275**	
Derivatives total			**16,275**	

(EUR 1,000)	Nominal value / remaining maturity		Fair value	
31.12.2018	1 - 5 years	Total	Assets	Liabilities
Hedging derivative contracts				
Fair value hedging	1,000,000	1,000,000	5,776	
Interest rate derivatives	1,000,000	1,000,000	5,776	
Total	**1,000,000**	**1,000,000**	**5,776**	
Derivatives total			**5,776**	

LIABILITIES

NOTE 11. LIABILITIES TO CREDIT INSTITUTIONS

(EUR 1,000)	30.6.2019	31.12.2018
Other than those repayable on demand*	418,780	815,240
Liabilities to credit institutions	**418,780**	**815,240**

* of which Liabilities to Credit Institutions belonging to the Savings Banks Amalgamation EUR 410,000 (813,000) thousand

NOTE 12. DEBT SECURITIES ISSUED

	30.6.2019		31.12.2018	
(EUR 1,000)	Nominal value	Carrying amount	Nominal value	Carrying amount
Measured at amortised cost				
Covered bonds	1,500 000	1,494,519	1,000,000	997,099
Fair value hedging on covered bonds		15,778		3,145
Debt securities issued	**1,500 000**	**1,510,297**	**1,000,000**	**1,000,243**

Sp Mortgage Bank Plc's Covered bonds issued

(EUR 1,000)	Nominal value	Carrying amount	Maturity	Interest base	Coupon	Maturity date
Sp Mortgage Bank 2016	500,000	499,241	5 years	Fixed	0.10 %	29.11.2021
Sp Mortgage Bank 2017	500,000	498,190	5 years	Fixed	0.125 %	24.10.2022
Sp Mortgage Bank 2019	500,000	497,088	7 years	Fixed	0.050 %	19.6.2026
Total	**1,500,000**	**1,494,519**				

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

OTHER NOTES

NOTE 13. COLLATERALS

(EUR 1,000)	30.6.2019	31.12.2018
Collateral given		
Given on behalf of Group's own liabilities and commitments		
Loans	1,849,893	1,782,148
Collateral given	**1,849,893**	**1,782,148**
Collateral received		
Real estate collateral	1,922,488	1,853,574
Other	9,030	2,486
Collateral received	**1,931,518**	**1,856,060**

NOTE 14. OFF BALANCE-SHEET COMMITMENTS

(EUR 1,000)	30.6.2019	31.12.2018
Loan commitments	17,970	13,473
Money Market Deposits*	60,000	60,000
Off balance-sheet commitments	**77,970**	**73,473**

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

NOTE 15. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

(EUR 1,000) 30.6.2019				Amounts which are not offset but are subject to enforceable master netting arrangements or similar agreements			
	Recog-nised financial assets, gross	Recognised financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Financial instruments	Financial instruments held as collateral	Cash held as collateral	Net amount
Assets							
Derivative c ontracts				16,275			16,275
Total				**16,275**			**16,275**
Liabilities							
Derivative contracts						8 780	8,780
Total						**8,780**	**8,780**

(EUR 1,000) 31.12.2018				Amounts which are not offset but are subject to enforceable master netting arrangements or similar agreements			
	Recog-nised financial assets, gross	Recognised financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Financial instruments	Financial instruments held as collateral	Cash held as collateral	Net amount
Assets							
Derivative contracts				5,776			5,776
Total				**5,776**			**5,776**
Liabilities							
Derivative contracts						2,240	2,240
Total						**2,240**	**2,240**

NOTE 16. FAIR VALUES BY VALUATION TECHNIQUE

Fair value measurement

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

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

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

Fair value hierarchy

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

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

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

Transfers between levels

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

During the reporting period 1.1-30.6.2019, there were no transfers between levels 1 and 2.

Financial assets 30.6.2019 (EUR 1,000)	Carrying amount	Fair value by hierarchy level			Fair value
		Level 1	Level 2	Level 3	Total
Measured at fair value					
Derivative contracts	16,275		16,275		**16,275**
Measured at amortised cost					
Loans and advances	2,006,268		2,253,364		**2,253,364**
Total financial assets	**2,022,542**		**2,269,638**		**2,269,638**

Financial liabilities 30.6.2019 (EUR 1,000)	Carrying amount	Fair value by hierarchy level			Fair value
		Level 1	Level 2	Level 3	Total
Measured at amortised cost					
Liabilities to credit institutions	418,780		423,712		**423,712**
Debt securities issued*	1,510,297	1,494,519			**1,494,519**
Total financial liabilities	**1,929,077**	**1,494,519**	**423,712**		**1,918,231**

* Carrying amount includes the adjustment from the hedging EUR 15.8 million.

Financial assets 31.12.2018 (EUR 1,000)	Carrying amount	Fair value by hierarchy level			Fair value
		Level 1	Level 2	Level 3	Total
Measured at fair value					
Derivative contracts	5,776		5,776		**5,776**
Measured at amortised cost					
Loans and advances	1,897,144		2,345,433		**2,345,433**
Total financial assets	**1,902,920**		**2,351,209**		**2,351,209**

Financial liabilities 31.12.2018 (EUR 1,000)	Carrying amount	Fair value by hierarchy level			Fair value
		Level 1	Level 2	Level 3	Total
Measured at amortised cost					
Liabilities to credit institutions	815,240		817,936		**817,936**
Debt securities issued*	1,000,243	997,099			**997,099**
Total financial liabilities	**1,815,483**	**997,099**	**817,936**		**1,815,035**

* Carrying amount includes the adjustment from the hedging EUR 3.1 million.

NOTE 17. RELATED PARTIES

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

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

CAPITAL ADEQUACY INFORMATION

NOTE 18. PILLAR III DISCLOSURES

Sp Mortgage Bank is part of the Savings Banks Amalgamation and the Savings Banks Group. Sp Mortgage Bank's capital adequacy information is included in the information concerning the capital adequacy of the Savings Banks Amalgamation, presented in the consolidated financial statements of the Savings Banks Group. The Savings Banks Group publishes the so-called Pillar III capital adequacy information separately at the same time with its financial statements.

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

Sp Mortgage Bank Plc