SP MORTGAGE BANK PLC´S

HALF-YEAR REPORT

1 JANUARY - 30 JUNE 2018

Sp Mortgage Bank Plc's Half-year Report 1 January - 30 June 2018

Table of contents

SP MORTGAGE BANK PLC'S HALF-YEAR REPORT

Board of Directors' Review for 1 January – 30 June 2018

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 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 was at the end of June the amount of EUR 1.7 billion.

Sp Mortgage Bank's operating profit January – June amounted to EUR 2.1 Million, and the balance sheet total amounted to EUR 1,731 million.

Acting Managing Director Tero Kangas was nominated on 24 May 2018 as Managing Director.

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, 23 Savings Banks, Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc and the companies within the consolidation groups of the above-mentioned entities, as well as Sp-Fund Management Company Ltd and Savings Bank Services Ltd.

The coverage of the Savings Banks Group differs from that of the Savings Banks Amalgamation in that the Savings Banks Group also includes institutions other than credit and financial institutions or service companies. The most notable of these are Sb Life Insurance Ltd and Sp-Koti Oy.

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

At the start of 2018, expectations regarding the development of the international economy were exceptionally high. Economic development during the first half of the year did not, however, quite live up to the expectations—especially in Europe—and global economic growth appears to be slowing down. This may be explained by normal fluctuation: economic boom periods include "mini-cycles" during which GDP growth picks up and slows down at times. It is also possible that the macroeconomic disappointments of the first half of the year are purely due to random fluctuation and that is not a sign of a more significant change.

Nevertheless, the international operational environment has certain characteristics that indicate a slightly elevated risk of a more serious and prolonged dip in growth. For the first time since the financial crisis, growth is slowing down in circumstances where one of the world's most significant central banks is tightening its monetary policy. Interest rate hikes by the Federal Reserve and the unwinding of its balance sheet have a broad impact on the debt servicing costs of dollar-denominated loans, which may have a higher-than-expected impact on investment activity among businesses. Many leading economies are also starting to show symptoms that are typical of the peak of the economic cycle: in the United States, unemployment has fallen below four per cent and in the European industrial sector, capacity utilisation is at a high level. At the same time, threats of a trade war are beginning to turn from mere rhetoric into a spiral of concrete measures and countermeasures between the United States and its key trading partners. Tensions are further increased by political uncertainty in Italy and the UK's complicated Brexit negotiations.

In spite of the risks, it would appear that, for the time being, we are seeing a moderate slowing down of growth rather than the end of the current cycle of economic expansion. Stock markets have become more volatile, but so far there are no significant indications of prices reflecting a turn in the economic cycle. As for monetary policy, the only industrialised country where tighter measures have been implemented is the strongest economic area, i.e. the United States. The Fed expects to raise its benchmark interest rate to 2.50 per cent by the end of 2018. The European Central Bank (ECB), for its part, has announced that it will not end quantitative easing until the end of the year and it will maintain its key benchmark rates at their current levels at least until late summer 2019. The euro zone outlook is also brightened by the depreciation of the euro in the second quarter of 2018.

While the global growth outlook is declining to some extent, the global economy can be expected to continue to grow at a rate exceeding three per cent in 2018. Concerns about the economic cycle would appear to influence the outlook of the developed economies more than the developing economies. In the developing economies GDP growth has even accelerated during the first half of the year.

Interest rate environment

Interest rates have remained low and there are no significant changes expected in the short term. The yield curve remains flat which, when combined with the low basic interest rate level, presents challenges to net interest incomes in banking. Net interest income is also weighed down by the liquidity regulation requirements (LCR liquidity requirements) and the European Central Bank's negative deposit rate.

Investment markets

The first half of 2018 was characterised by uncertainty in the investment markets. Expectations of corporate profit performance declined and the increase of political risks, in particular, has been noted by the markets. The political situation in Italy has raised questions about the future of the euro zone. At the same time, tariffs and other barriers to trade announced by the United States are reducing the growth prospects of international trade.

The upcoming measures by central banks to tighten monetary policy have contributed to uncertainty in the fixed income markets. In the United States, long-term interest rates have risen substantially and the spread between U.S and euro zone government bonds has increased. Combined with the appreciation of the U.S. dollar, the rise in interest rates has led to lower returns from fixed income investments in the developing markets. The risk margins of corporate bonds increased, reducing returns in this asset class in the first half of the year.

Return expectations remain low for fixed income investments during the second half of the year. The low expected inflation in the euro zone limits the rise in interest rates, but long-term interest rates will nevertheless increase towards the end of the year. The stock market outlook is more unstable than last year, but stock market returns are expected to significantly exceed the returns of fixed income investments. The uncertainty associated with returns in the developing markets will remain high during the second half of the year.

The economic climate in Finland

Trends in the Finnish economy have remained positive. The Finnish GDP increased faster than anticipated during the first half of 2018. The continued strong growth, and even accelerated growth, of investments has been a particularly favourable sign. Brisk investment activity strengthens the economy's long-term production capacity and increases productivity. The rather substantial slowing down of export growth is a slight concern. The recent weakening of the global growth outlook seems to already be reflected in export figures. However, private consumption continues to show a strengthening trend. While the growth of household debt has accelerated in recent years and the household saving rate has fallen into negative territory, the significant improvement in employment and the development of wages supports household consumption prospects. The increase in employment accelerated significantly in the second half of 2017. While the rate of recruitment is now clearly levelling off, the decrease in unemployment is continuing and the unemployment rate is expected to fall below 8% in 2018.

For the past couple of years, Finland has been in a situation where the economy has been able to recover without significant internal or external restrictions. However during next years the circumstances will change and maintaining growth will become more difficult. The global economy is already showing indications of slower growth, which dampens the positive effect of the export markets. At the same time, the availability of skilled labour in the domestic labour market is starting to become an obstacle to growth. Increased household debt can also turn out to be a problem in case expextations of higher interest rates become stronger.

In spite of these limitations, GDP growth may continue at a rate exceeding the long-term trend (approx. 1.5%) even after the current year. In order for this to happen, however, it is necessary to ensure the competitiveness of the economy, strengthen the public economy and introduce labour market, social security and training reforms to make the labour reserve more accessible to the economy. The current estimate is that economic growth will be close to 3% in 2018.

The housing market in Finland

The factors that influence housing transactions (employment rate, interest rates and consumer confidence) remain optimal for the housing market. In spite of the favourable conditions, the transaction volume for old dwellings is down by approximately 3% compared to the corresponding period last year. The transaction volume for second-hand housing was previously predicted to increase by 3–5% this year, but the current estimates suggest that this is now unlikely. The tightening of loan cap regulations is one of the factors behind this development.

The demand for residential investments has remained strong despite certain cities having an excess supply of rental apartments. The excess supply is partly due to the high level of investment activity among housing funds.

The prices of old dwellings have increased in the Helsinki Metropolitan Area, while prices have decreased elsewhere in Finland. The price differential between the Helsinki Metropolitan Area and the rest of the country increased by approximately 5% during the first half of the year. The polarisation of the housing market is reflected in significant differences in prices between different cities. The prices of old dwellings are predicted to increase by approximately 1–2% in 2018 in Finland as a whole.

Sp Mortgage Bank's profit and balance sheet

Sp Mortgage Bank's financial highlights

(EUR 1,000)	1.1.-30.6.2018	1.1.-31.12.2017	1.1.-30.6.2017
Revenue	10,716	18,544	7,212
Net interest income	8,256	9,622	3,343
% of revenue	77.0 %	51.9 %	46.4 %
Profit before taxes	2,072	5,097	1,534
% of revenue	19.3 %	27.5 %	21.3 %
Total operating revenue	3,148	6,904	2,212
Total operating expenses	-1,025	-1,808	-525
Cost to income ratio %	32.5 %	26.2 %	23.7 %
Total assets	1,731,100	1,598,072	1,175,366
Total equity	82,793	74,695	63,546
Return on equity %	2.1 %	6.9 %	2.3 %
Return on assets %	0.1 %	0.3 %	0.1 %
Equity/assets ratio %	4.8 %	4.7 %	5.4 %
Solvency ratio %	13.7 %	13.5 %	17.0 %
Impairment losses on loans and other receivables	-51	0	0

Profit trends (comparison figures 1-6/2017)

The result of the financial period consisted of net interest income, net fee and commission income and net trading income and operating expenses.

The Interest income was EUR 10.8 (5.6) million and consisted mostly of housing loan Interest payments. The growth in Interest income comes from growth in housing loans and interest income from hedging derivatives. The Interest expenses was EUR 2.5 (2.2) million consisted mostly of Interest expenses from liabilities to credit institutions and Interest expenses from covered bonds. The net interest income amounted to EUR 8.3 (3.3) million.

The net fee and commission income mainly consisted of fees paid to the intermediating banks amounted to EUR -4.8 (-2.7) million.

Net profit from hedge accounting for the review period was EUR -0.3 (1.5) million and it is presented under Net trading income on the income statement.

Operating expenses were EUR -1.0 (-0.7) million. Operating expenses mainly consisted of other operating expenses and depreciation of intangible assets.

Operating profit for the review period was EUR 2.1 (-1.5) million.

Balance sheet and funding (comparison figures 31 December 2017)

The loan portfolio of Sp Mortgage Bank grew to EUR 1,694 (1,535) 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. The value of the covered bonds was EUR 997 (990) 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 648 (528) million.

During the review period a targeted share issue to the owner banks was carried out, which amounted to EUR 7 million. At the end of the financial year equity amounted to EUR 83 (75) million.

Capital adequacy and risk position

Capital adequacy (comparison figures 31 December 2017)

At the end of the review period, the Sp Mortgage Bank had a strong capital structure, consisting of CET1 capital. Own funds were EUR 82 (74) million. Risk-weighted assets amounted to EUR 602 (548) million. The capital ratio of the Sp Mortgage Bank was 13.7 (13.5) % and the CET1 capital ratio was 13.7 (13.5) %.

The capital requirement of Sp Mortgage Bank was EUR 63 million (EUR 57 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%, TIER 1 ratio of 6% and CET1 ratio of 4.5%,
- 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.

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 on the level of systemic risk buffer requirements for

Finnish credit institutions on 29 June 2018. 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.

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.

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).

Sp Mortgage Bank's capital adequacy information is included in the consolidated financial statements of the Savings Banks Amalgamation. The Savings Banks Group publishes the Pillar III capital adequacy information in its financial statements. The Savings Banks Group's financial statements are available online at *www.saastopankki.fi*.

Sp Mortgage Bank's capital adequacy's main items

Own Funds (EUR 1,000)	30.6.2018	31.12.2017
Common Equity Tier 1 (CET1) capital before regulatory adjustments	82,793	74,695
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-571	-752
Common Equity Tier 1 (CET1) capital	82,222	73,943
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)	82,222	73,943
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)	82,222	73,943
Risk weighted assets	601,530	547,507
of which: credit and counterparty risk	580,135	529,621
of which: credit valuation adjustment (CVA)	8,449	4,940
of which: market risk	0	0
of which: operational risk	12,946	12,946
Common Equity Tier 1 (as a percentage of total risk exposure amount)	13.7 %	13.5 %
Tier 1 (as a percentage of total risk exposure amount)	13.7 %	13.5 %
Total capital (as a percentage of total risk exposure)	13.7 %	13.5 %
Capital requirement		
Total capital requirement	82,222	73,943
Capital requirement total*	63,182	57,499
Capital buffer	19,040	16,445

* 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)	30.6.2018	31.12.2017
Tier 1 capital	82,222	73,943
Leverage ratio exposure	1,740,858	1,602,220
Leverage ratio	4.7 %	4.6 %

Risk Position

On 24 May 2017, the Finnish Financial Stability Authority decided to impose a minimum amount of debt eligible for bail-in on the Savings Banks Amalgamation pursuant to Chapter 8, Section 7 of the Act on the Crisis Resolution of Credit Institutions and Investment Firms (1194/2014). The minimum amount of debt eligible for bail-in must be met starting from 31 December 2018.

The Finnish Financial Supervisory Authority has granted Savings Banks' Union Coop, which acts as the Central Institution of the Savings Banks Amalgamation, permission pursuant to the Act on the Amalgamation of Deposit Banks to decide that its member credit institutions will not be subject to the requirements stipulated by Section 6 of the EU Capital Requirements Regulation (EU 575/2013) and other EU statutes issued on the basis of the Regulation regarding the liquidity of credit institutions. In the end of the review period Amalgamation's Central Institution has not made the decision needed and the requirements were applied in Sp Mortgage Bank.

The objectives, principles and organization of risk management in Sp Mortgage Bank are the same as those presented in the 2017 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 2018

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 trading income.

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:

Revenue	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, net life insurance 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 %	Total operating expenses / Total operating revenue
Return on equity %	Profit / Equity (average)
Return on assets %	Profit / Total assets (average)
Equity/assets ratio %	Equity / Total assets

Alternative Performance Measures

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	1-6/2018	1-6/2017
Interest income		10,775	5,561
Interest expense		-2,519	-2,217
Net interest income	4	**8,256**	**3,343**
Net fee and commission income	5	-4,793	-2,652
Net trading income	6	-314	1,521
Total operating revenue		**3,148**	**2,212**
Personnel expenses		-10	-2
Other operating expenses		-834	-523
Depreciation of intangible assets		-181	-152
Total operating expenses		**-1,025**	**-677**
Net impairment loss on financial assets *		-51	0
Profit before tax		**2,072**	**1,534**
Taxes		-397	-307
Profit		**1,675**	**1,228**

*Net impairment loss on financial assets have been calculated under IFRS 9 in 2018.

Sp Mortgage Bank's statement of comprehensive income

(EUR 1,000)	1-6/2018	1-6/2017
Profit	**1,675**	**1,228**
Total comprehensive income	**1,675**	**1,228**

Sp Mortgage Bank's statement of financial position

(EUR 1,000)	Note	30.6.2018	31.12.2017
Assets			
Loans and advances to credit institutions	8	30,275	59,227
Loans and advances to customers	8	1,692,920	1,534,830
Derivatives	9	3,380	0
Intangible assets		571	752
Tax assets		12	0
Other assets		3,941	3,264
Total assets		**1,731,100**	**1,598,072**
Liabilities and equity			
Liabilities			
Liabilities to credit institutions	10	648,610	528,000
Derivatives	9	0	2,315
Debt securities issued	11	996,555	990,215
Tax liabilities		191	481
Provisions and other liabilities		2,951	2,366
Total liabilities		**1,648,307**	**1,523,377**
Equity			
Share capital		53,332	48,597
Reserves		26,627	24,262
Retained earnings		2,834	1,836
Total equity		**82,793**	**74,695**
Total liabilities and equity		**1,731,100**	**1,598,072**

Sp Mortgage Bank's statement of cash flows

(EUR 1,000)	1-6/2018	1-6/2017
Cash flows from operating activities		
Profit	1,675	1,228
Adjustments for items without cash flow effect	546	-1,368
Change in deferred tax	157	307
Income taxes paid	240	
Cash flows from operating activities before changes in assets and liabilities	**2,618**	**166**
Increase (-) or decrease (+) in operating assets	**-159,504**	**-367,477**
Loans and advances to customers	-158,826	-345,781
Other assets	-678	-21,696
Increase (-) or decrease (+) in operating liabilities	**121,364**	**348,707**
Liabilities to credit institutions	120,610	348,000
Debt securities issued	331	155
Other liabilities	423	552
Income taxes paid	-530	
Total cash flows from operating activities	**-36,052**	**-18,604**
Cash flows from investing activities		
Investments in property, plant and equipment and intangible assets		-1
Total cash flows from investing activities	**0**	**-1**
Cash flows from financing activities		
Increase in share capital	4,736	13,040
Other monetary increases in equity items	2,364	6,510
Total cash flows from financing activities	**7,100**	**19,550**
Adjustments for items without cash flow effect		
Impairment losses on financial assets	51	
Changes in fair value	314	**-1,521**
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	181	152
Total	**546**	**-1,368**
Change in cash and cash equivalents	**-28,952**	**945**
Cash and cash equivalents at the beginning of the period	**59,227**	**35,467**
Cash and cash equivalents at the end of the period	**30,275**	**36,412**
Cash and cash equivalents comprise the following items:		
Receivables from central banks repayable on demand	30,275	36,412
Total cash and cash equivalents	**30,275**	**36,412**
Interest received	10,561	4,102
Interest paid	883	1,626

Sp Mortgage Bank's statement of changes in equity

(EUR 1,000)	Share capital	Share premium	Retained earnings	Total equity
Equity 1 January 2017	30,021	14,988	-2,241	42,768
Comprehensive income				
Profit			1,228	1,228
Total comprehensive income			1,228	1,228
Transactions with owners				
Subscription issue	13,040	6,510		19,550
Total equity 30 June 2017	43,061	21,498	-1,013	63,546
Equity 1 January 2017	30,021	14,988	-2,241	42,768
Comprehensive income				
Profit			4,077	4,077
Total comprehensive income			4,077	4,077
Transactions with owners				
Subscription issue	18,576	9,274		27,850
Total 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

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 (hereinafter also "the Group") is the most longstanding banking group in Finland. It comprises Savings Banks forming the Savings Banks Amalgamation (hereinafter also "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 Sp Mortgage Bank Plc, Central Bank of Savings Banks Finland Plc, Sb Life Insurance Ltd, Sp-Fund Management Company Ltd, Savings Bank Services Ltd and Sp-Koti Oy.

The member organisations of the Savings Banks Amalgamation form a financial entity as defined in the Act on the Amalgamation of Deposit Banks, in which the Savings Banks' Union Coop and its member credit institutions are jointly liable for each other's liabilities and commitments. The Amalgamation comprises the Savings Banks' Union Coop, which acts as the Central Institution of the Amalgamation, 23 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.

NOTE 2 ACCOUNTING POLICIES

1. 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 2018 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 2017.

Changes in the accounting policies during the reporting period:

IFRS 9 Financial instruments:

IFRS 9 came into effect 1 January 2018 fully replacing the prior IAS 39 standard. The adoption of the standard resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements. The adoption of IFRS 9 changed the classification and valuation of financial assets and liabilities and affected the accounting treatment of financial instruments. Sp Mortgage Bank did not early adopt any of IFRS 9 in previous periods. As permitted by the transitional provisions of IFRS 9, Sp Mortgage Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

The IFRS 9 standard introduced a major change in the calculation of expected loan losses. Sp Mortgage Bank calculates expected Credit Loss (ECL) for low-risk loans using the Loss Rate – model (ECL = Loss Rate *EAD) and ECL for other loans is calculated using the PD / LGD – model (ECL = PD * LGD * EAD).

Components used in the PD / LGD model:

- EAD (Exposure At Default) ie the amount of liability at the time of insolvency.
- PD % (Probability of Default) is based on internal credit ratings.
- LGD % (Loss Given Default), ie the estimated amount of loss at the time of the insolvency, taking into account the collateral available for the contract.

The Group categorise contracts in three diffrerent stages, when it calculates expected credit losses (ECL).

Stage 1: 12 months' ECL

- If credit risk has not increased significantly since initial recognition, expected credit loss is calculated based on 12 months credit loss.

Stage 2: ECL for remaining duration - non-performing (not defaulted)

- If credit risk has increased significantly since initial recognition, expected credit loss is calculated based on credit loss expected during the remaining duration.

Stage 3: ECL for remaining duration – defaulted

- If contract has defaulted, expected credit loss is calculated based on credit loss expected during the remaining duration. Stage 3 includes exposures which have one or more actual events that have negative impact on cash flows.

The expected credit losses of Sp Mortgage Bank on 1 January 2018 were EUR 0.8 million and 30 June 2018 EUR 0.9 million.

Amendments to the IFRS 9 standard for accounting policies and calculations describing the transitional changes can be found in section of Adoption of new IFRS Standards and Interpretations in the Financial Statements 2017.

IFRS 15 Revenue from Contracts with Customers:

IFRS 15 Revenue from Contracts with Customers standard came into effect 1 January 2018. Standard had no effect on Sp Mortgage Banks's income or financial statements. More precise description of Sp Mortgage Bank's revenue recognition can be found in section Accounting policies - New IFRS standards and interpretations in Financial statements 2017

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

Sp Mortgage Bank publishes a half-year report during the year 2018.

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

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.

2. 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.

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 2017.

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)	1-6/2018	1-6/2017
Interest income		
Loans and advances to customers	8,941	5,002
Derivative contracts		
Hedging derivatives	1,827	634
Other	7	-75
Total	**10,775**	**5,561**
Interest expense		
Liabilities to credit institutions	-1,259	-886
Derivative contracts		
Hedging derivatives	-22	
Debt securities issued	-889	-403
Limits	-285	-900
Other	-65	-29
Total	**-2,519**	**-2,217**
Net interest income	**8,256**	**3,343**

NOTE 5. NET FEE AND COMMISSION INCOME

(EUR 1,000)	1-6/2018	1-6/2017
Fee and commission income		
Lending	255	130
Total	**255**	**130**
Fee and commission expense		
Securities		-1
Loans	-5,047	-2,780
Other	-1	-1
Total	**-5,048**	**-2,782**
Net fee and comission income	**-4,793**	**-2,652**

NOTE 6. NET TRADING INCOME

(EUR 1,000)	1-6/2018	1-6/2017
Net income from hedge accounting		
Change in hedging instruments' fair value	5,695	-2,510
Change in hedged items' fair value	-6,009	4,031
Net trading income	**-314**	**1,521**

ASSETS

NOTE 7. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

30.6.2018 (EUR 1,000)	Amortized costs	Fair value through profit or loss	Other financial liabilities	Total
Loans and advances to credit institutions	30,275			30,275
Loans and advances to customers	1,692,920			1,692,920
Derivatives		3,380		3,380
hedging derivatives		3,380		
fair value		3,380		
Total assets	**1,723,195**	**3,380**	**0**	**1,726,575**
Liabilities to credit institutions			648,610	648,610
Debt securities issued			996,555	996,555
Total liabilities	**0**	**0**	**1,645,165**	**1,645,165**

31.12.2017 (EUR 1,000)	Loans and receivables	Fair value through profit or loss	Other financial liabilities	Total
Loans and advances to credit institutions	59,227			59,227
Loans and advances to customers	1,534,830			1,534,830
Total assets	**1,594,056**	**0**	**0**	**1,594,056**
Liabilities to credit institutions			528,000	528,000
Derivatives		2,315		2,315
hedging derivatives		2,315		
fair value		2,315		
Debt securities issued			990,215	990,215
Total liabilities	**0**	**2,315**	**1,518,215**	**1,520,530**

NOTE 8. LOANS AND ADVANCES

(EUR 1,000)	30.6.2018	31.12.2017
Loans and advances to credit institutions		
Deposits	30,275	59,227
Total	**30,275**	**59,227**
Loans and advances to customers		
Loans	1,693,656	1,534,830
Expected credit losses	-736	
Total	**1,692,920**	**1,534,830**
Loans and advances total	**1,723,195**	**1,594,056**

Expected Credit Losses (ECL), Loans and Advances	Stage 1	Stage 2	Stage 3	Total
(EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected Credit Losses 1 January 2018	602	174	9	785
New assets originated or purchased	107	56		162
Assets derecognised or repaid (excluding write offs)	-100	-125	-6	-231
Transfers from Stage 1 to Stage 2		33		33
Transfers from Stage 1 to Stage 3			1	1
Transfers from Stage 2 to Stage 1	-14			-14
Transfers from Stage 2 to Stage 3				
Transfers from Stage 3 to Stage 1	0			0
Transfers from Stage 3 to Stage 2				
Amounts written off				0
Expected Credit Losses 30 June 2018	**595**	**137**	**4**	**736**

Impairment losses on loans and receivables 2017 (EUR 1,000)	Measured by individual contract	Measured by group	Total
Impairments 1 January 2017	0	0	0
Impairments 31 December 2017	0	0	0

NOTE 9. 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	
30.6.2018	1 - 5 years	Total	Assets	Liabilities
Hedging derivative contracts				
Fair value hedging	1,000,000	1,000,000	3,380	
Interest rate derivatives	1,000,000	1,000,000	3,380	
Total	**1,000,000**	**1,000,000**	**3,380**	**0**
Derivatives total			**3,380**	**0**

(EUR 1,000)	Nominal value / remaining maturity		Fair value	
31.12.2017	1 - 5 years	Total	Assets	Liabilities
Hedging derivative contracts				
Fair value hedging	1,000,000	1,000,000		2,315
Interest rate derivatives	1,000,000	1,000,000		2,315
Total	**1,000,000**	**1,000,000**	**0**	**2,315**
Derivatives total			0	2,315

LIABILITIES

NOTE 10. LIABILITIES TO CREDIT INSTITUTIONS

(EUR 1,000)	30.6.2018	31.12.2017
Other than those repayable on demand*	648,610	528,000
Liabilities to credit institutions	**648,610**	**528,000**

*Consists mainly of internal deposits in the Savings Bank Group.

LIITE 11. DEBT SECURITIES ISSUED

(EUR 1,000)	30.6.2018		31.12.2017	
	Nominal value	Carrying amount	Nominal value	Carrying amount
Measured at amortised cost				
Covered bonds	1,000,000	996,761	1,000,000	996,430
Fair value hedging on covered bonds		-207		-6,215
Debt securities issued	**1,000,000**	**996,555**	**1,000,000**	**990,215**

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	498,928	5 years	Fixed	0.10 %	29.11.2021
Sp Mortgage Bank 2017	500,000	497,834	5 years	Fixed	0.125 %	24.10.2022
Total	**1,000,000**	**996,761**				

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

OTHER NOTES

NOTE 12. COLLATERALS

(EUR 1,000)	30.6.2018	31.12.2017
Collateral given		
Given on behalf of own liabilities and commitments		
Loans	1,629,994	1,485,159
Collateral given	**1,629,994**	**1,485,159**
Collateral received		
Real estate collateral	1,693,294	1,534,549
Other	927	172
Collateral received	**1,694,221**	**1,534,721**

NOTE 13. OFF BALANCE-SHEET COMMITMENTS

(EUR 1,000)	30.6.2018	31.12.2017
Loan commitments	27,602	16,427
Money Market Deposits*	80,000	40,000
Off balance-sheet commitments	**107,602**	**56,427**

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

Expected Credit Losses (ECL), Off balance-sheet commitments	Stage 1	Stage 2	Stage 3	Total
(EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected Credit Losses 1 January 2018	62			62
New assets originated or purchased	79	22		100
Assets derecognised or repaid (excluding write offs)				0
Transfers from Stage 1 to Stage 2				0
Transfers from Stage 1 to Stage 3				0
Transfers from Stage 2 to Stage 1				0
Transfers from Stage 2 to Stage 3				0
Transfers from Stage 3 to Stage 1				0
Transfers from Stage 3 to Stage 2				0
Amounts written off				0
Expected Credit Losses 30 June 2018	**141**	**22**	**0**	**162**

NOTE 14. 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) 30.6.2018				Amounts which are not offset but are subject to enforceable			
	Recognised financial assets, gross	Recognised financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Carrying amount of Financial instruments in statement of financial position, net	Carrying amount of Financial instruments in statement of financial position, net	Cash held as collateral	Net amount
Assets							
Derivative contracts				3,380			3,380
Total				3,380	0	0	3,380

(EUR 1,000) 31.12.2017				Amounts which are not offset but are subject to enforceable			
	Recognised 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				2,315			2,315
Total				2,315			2,315

NOTE 15. FAIR VALUES BY VALUATION TECHNIQUE

Fair value measurement

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

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 balance sheet date. In respect of cash and deposits payable on demand, the nominal value is considered equivalent to the fair value.

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

Fair value hierarchy

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

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

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

Transfers between levels

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

During the reporting period 1.1-30.6. 2018, there were no transfers between levels 1 and 2.

Financial assets 30.6.2018 (EUR 1,000)	Carrying amount	Fair value by hierarchy level			
		Level 1	Level 2	Level 3	total
Measured at fair value					
Derivative contracts	3,380		3,380		**3,380**
Measured at amortised cost					
Loans and other advances	1,723,195		2,182,454		**2,182,454**
Total financial assets	**1,726,575**		**2,185,835**		**2,185,835**

Financial liabilities 30.6.2018 (EUR 1,000)	Carrying amount	Fair value by hierarchy level			
		Level 1	Level 2	Level 3	total
Measured at amortised cost					
Liabilities to credit institutions	648,610		651,844		**651,844**
Debt securities issued*	996,555	1,000,850			**1,000,850**
Total financial liabilities	**1,645,165**	**1,000,850**	**651,844**		**1,652,694**

* Carrying amount includes the adjustment from the hedging EUR -0.2 million.

Financial assets 31.12.2017 (EUR 1,000)	Carrying amount	Fair value by hierarchy level			
		Level 1	Level 2	Level 3	total
Measured at amortised cost					
Loans and advances	1,594,056		1,991,940		**1,991,940**
Total financial assets	**1,594,056**		**1,991,940**		**1,991,940**

Financial liabilities 31.12.2017 (EUR 1,000)	Carrying amount	Fair value by hierarchy level			
		Level 1	Level 2	Level 3	total
Measured at fair value					
Derivative contracts	2,289		2,289		**2,289**
Measured at amortised cost					
Liabilities to credit institutions	528,000		531,018		**531,018**
Debt securities issued *	990,215	999,075			**999,075**
Total financial liabilities	**1,520,504**	**999,075**	**533,307**		**1,532,382**

* Carrying amount includes the adjustment from the hedging EUR -6.2 million.

NOTE 16. 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 17. 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 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

BUSINESS ID: 2685273-8 | POSTAL/VISITING ADDRESS: | SP MORTGAGE BANK PLC TEOLLISUUSKATU 33, 00510, 02600 | REGISTERED OFFICE: HELSINKI