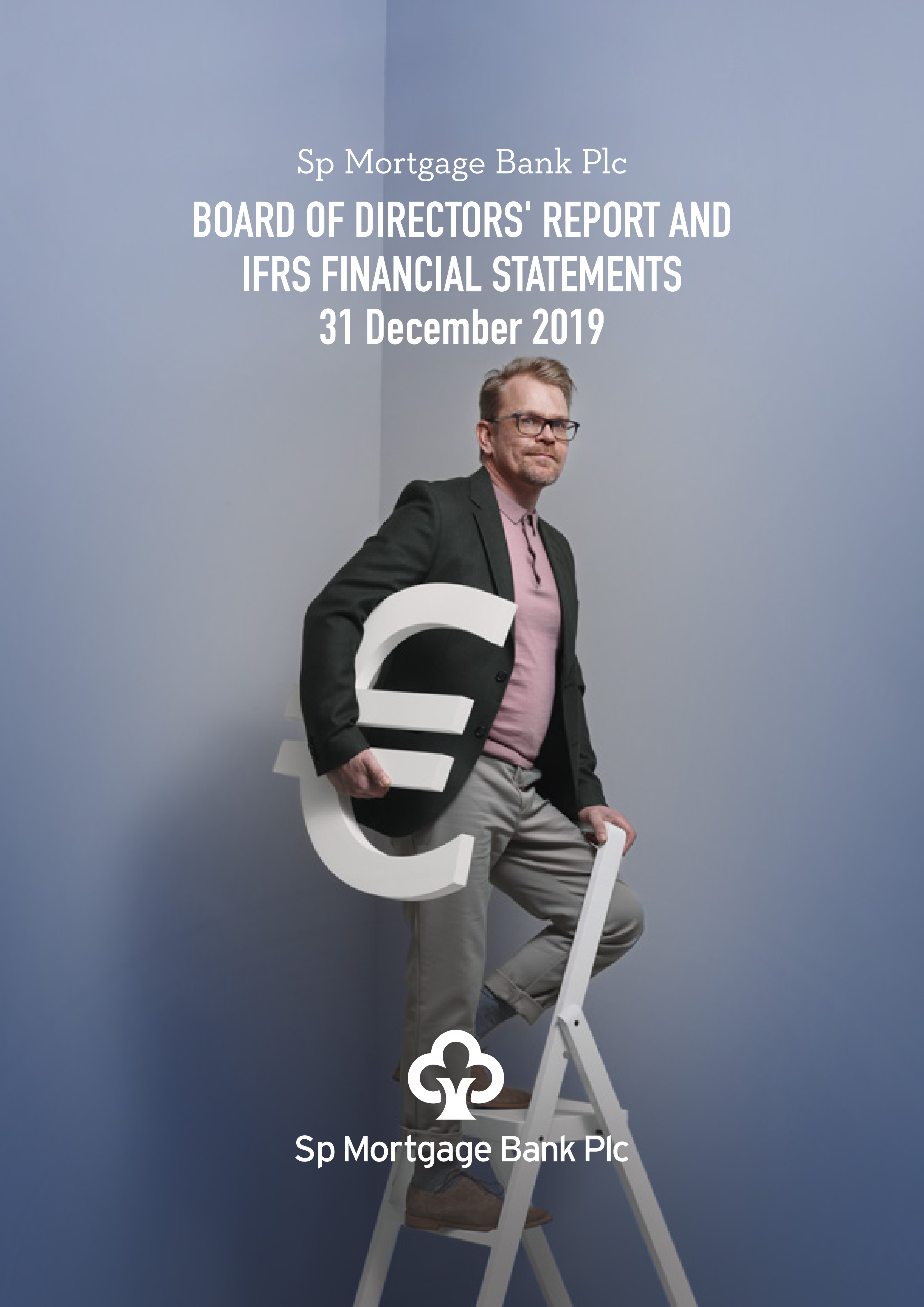
Sp Mortgage Bank Plc

BOARD OF DIRECTORS' REPORT AND IFRS FINANCIAL STATEMENTS
31 December 2019



Sp Mortgage Bank Plc

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SP MORTGAGE BANK PLC'S BOARD OF DIRECTORS' REPORT 1 JANUARY – 31 DECEMBER 2019

Sp Mortgage Bank Plc's (henceforth also "Sp Mortgage Bank") objective is to strengthen the competitiveness of the Savings Banks Group through competitive funding and to promote the strategy of the Savings Banks Group through its own activity. Sp Mortgage Bank is responsible for the 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 fiscal year, Sp Mortgage Bank's operations proceeded as planned and the loan portfolio reached at the end of the year the amount of EUR 1,957 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.

During the fiscal year, a targeted share issue to the owner banks was carried out, which amounted to EUR 8 million.

Sp Mortgage Bank's operating profit during the financial year amounted to EUR 2.8 million, and the balance sheet total amounted to EUR 2,067 million.

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 is comprised of Savings Banks forming the Savings Banks Amalgamation, the Savings Banks' Union Coop which acts as their Central Institution, as well as 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 Savings Banks Amalgamation comprises the Savings Banks' Union Coop which acts as the Central Institution of the Amalgamation, 20 Savings Banks, Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc and the companies within the consolidation groups of the abovementioned 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.

The Savings Banks Group and other owners of Oy Samlink Ab sold their holdings on 1st of April 2019 to Cognizant Technology Solutions Finland Oy. Before the transaction, the share of The Savings Banks Group of Samlink Oy Ab was 42 percent.

Savings Banks Group entered into agreement with Cognizant on reforming a new core banking system in early 2019. Cognizant will develop together with Savings Banks Group, Oma Sp and POP Bank Group a new core banking system. Cognizant will operate the system and support banks in achieving their digital strategy. Based on Temenos T24 and Temenos Payment Hub (TPH) software, the new system will enhance processes and operations, making them more cost-efficient thanks to its scalability, among other factors. Thus, the Group is able to offer new products and services faster and more cost-efficiently in the future and enhance the customer experience in mobile, internet or office service. This is the largest investments ever made by Savings Banks Group.

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

Description of the operational environment

Global economic outlook

The year 2019 was characterised by slower global economic growth and a high level of political risk. The global economy grew by just over 3.5 per cent in 2018 but, in 2019, the rate of growth was likely to be around 3 per cent. This is about half a percentage point under the longterm average. While the rate of growth was substantially reduced, a recession was avoided.

Uncertainty regarding the development of global economic growth increased already in early 2019 and the economic outlook worsened. Various indicators of future economic development turned negative: business confidence declined globally, particularly with respect to industry. In the service sector, the outlook deteriorated to a lesser extent. Consumers also became more cautious in many countries.

At the same time, the significant uncertainty around Brexit and the trade war contributed to a greater lack of confidence towards the economic outlook. In late summer, the trade war between the United States and China expanded and the increased uncertainty was reflected throughout the global economy. Private sector investments and world trade have been subdued.

After the summer, fears of a recession increased significantly and the yield curve, which is traditionally considered to be a recession indicator, momentarily entered negative territory. In Europe, the economic situation worsened in Germany, in particular, with negative growth recorded in the second quarter.

However, the economic outlook improved slightly towards the end of the year. The decline in confidence indicators levelled off and the yield curve turned back to positive. The feared recession did not materialise, although growth slowed down. At the time of writing this review, the situation in the global economy remains fragile, even if the statistics have shown signs of stabilisation.

As usual, central banks were active in stimulating the economy. Central banks in Europe and the United States lowered interest rates and ramped up their purchasing of securities in 2019. Stimulating monetary policy has also been enabled by the moderate level of inflation. China also engaged in various stimulus measures in its monetary policy and financial policy. The stimulus measures by central banks contributed to stock market returns being excellent in 2019 in spite of the slowing down of economic growth.

Interest rate environment

The level of interest rates in the Euro area has remained very low in 2019. Short rates took a strong dive during May-August but rebounded towards year end. Long rates continued to sink until August whereafter rebounding but not reaching the start of the year level. The situation is expected to remain pretty much unchanged due to the low inflation level in the Euro area.

The current flat interest rate curve is challenging for banking activities as the maturity transformation income is practically non-existent. The regulatory requirements (LCR. MREL) put additional burden on net interest income. However, the two-tiering system of the ECB deposit rate introduced in late October has partially reduced the burden caused by the negative rate. Also the favourable issuance conditions in the debt capital markets have compensated the effect of the flat yield curve and the negative ECB deposit rate.

Investment markets

The year 2019 was very positive from the perspective of the investment markets. Nearly all asset classes generated positive returns. A change in risk appetite among investors was seen in the early part of the year, following changes in central bank monetary policy. Expectations of continued stimulative monetary policy increased significantly. The uncertainty experienced during the year with respect to risks associated with the threat of trade war and the progress of the Brexit negotiations did not counteract the positive development. Long-term interest rates increased during the year in the United States and Europe. This led to higher returns for government bonds. In the low interest rate environment, the demand for corporate bonds increased among investors, contributing to an increase in the returns of corporate bonds. It was a very strong year in the stock markets. Growth was seen across all capital markets.

The Finnish economy

Mirroring the global economy, the predictive indicators of the Finnish economy weakened in 2019. Business confidence declined across all of the main industries, with the outlook in industry deteriorating particularly fast. Consumer confidence has also continued to fall, although the starting level that preceded the decline was record high.

In spite of the negative development of predictive indicators, the statistics reflecting the development of real economy in Finland remained surprisingly strong in 2019. Economic growth even accelerated in the autumn, with the Finnish economy seeing year-on-year growth of 2.2 per cent in the third quarter. However, the statistics may still be revised. Exports still developed quite favourably, and the weak climate characterising world trade did not reach Finland yet. Exports of services have remained strong, particularly in the case of ICT services. Investments, on the other hand, slowed down substantially compared to the previous year. Investment growth was low due not only to the slowing down of construction but also the low level of corporate investments in machinery and equipment.

Among households, the situation remained stable in 2019. The excellent development seen in the labour market in 2018 levelled off, but employment did not decline. The unemployment rate remained relatively stable at just over 6.5 per cent and the employment rate increased slightly. The development of wages was favourable and low inflation supported household purchasing power. The household saving rate turned positive after several years in negative territory.

The housing market in Finland

The level of housing transactions was a positive surprise in 2019. The trends in the early part of the year predicted a weaker year. The transaction volume for old apartments decreased by 1.4 per cent in January–April year-on-year. Starting from May, however, activity clearly picked up in the market for old apartments. This development was attributable to an increase in the supply of old apartments as well as demand and interest shifting from new apartments to old apartments. The increase in supply was due to the fact that several new residential developments were completed and people who bought apartments in them put their old homes on the market. The reasons for the decline in the demand for new apartments included a decrease in the number of residential investors, the price level and the prevailing public discussion on topics such as large housing company loans. In the market for detached houses, activity picked up after several slower years. This was due to the prices of detached houses having fallen over the past few years in several areas, while the prices of apartments have increased. Many people have found that buying a detached house is a more affordable solution to the need for more space. 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. The number of transactions for old apartments grew by approximately 4 per cent during the year.

The decrease in the demand for residential investments that began in the previous year continued throughout 2019. This is due to strong growth in the supply of rental apartments – and even excess supply – in several cities, as well as the favourable development of the value of other equity-based investment instruments. The increased supply of rental apartments 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 remained strong during the year in spite of declining demand. The number of issued building permits and startups of new sites were 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 number of transactions for new apartments carried out by real estate agents decreased by about 7 per cent. In 2019, we predicted that the transaction volume for newly constructed apartments would fall by 10–20 per cent.

The prices of old apartments and terraced houses increased by approximately 2.1 per cent in the Helsinki Metropolitan Area and approximately 1.5 per cent in the rest of Finland, which meant that the divergence in the increase in prices was less pronounced than in the previous year.

Sp Mortgage Bank's profit and balance sheets

Sp Mortgage Bank's financial highlightst

(EUR 1,000)	1.1.-31.12.2019	1.1.-31.12.2018	1.1.-31.12.2017	1.1.-31.12.2016 *
Revenue	25,162	21,838	18,544	4,083
Net interest income	19,216	17,157	9,622	-48
% of revenue	76.4 %	78.6 %	51.9 %	-1.2 %
Operating profit before taxes	2,766	2,686	5,097	-2,692
% of revenue	11.0 %	12.3 %	27.5 %	-65,9 %
Total operating revenue	5,014	4,723	6,904	-1,925
Total operating expenses	-2,224	-2,056	-1,808	-768
Cost to income ratio %	0,44	0,44	0,26	-0,40
Total assets	2,066,789	1,906,481	1,598,072	808,008
Total equity	98,397	88,184	74,695	42,768
Return on equity %	2.4 %	2.7 %	6.9 %	-8.2 %
Return on assets %	0.1 %	0.1 %	0.3 %	-0.5 %
Equity/assets ratio %	4.8 %	4.6 %	4.7 %	5.3 %
Solvency ratio %	13.7 %	13.4 %	13.5 %	16.4 %
Impairment losses on loans and other receivables	-24	20	0	0

*Actual mortgage banking operation was initiated on 29 March 2016..

Profit trends (comparison period 1-12/2018)

The Interest income increased to EUR 24.7 (22.6) million and consisted mostly of housing loan Interest payments. Growth in Interest income comes from in housing loans and interest income from hedging derivatives. The Interest expenses were EUR 5.5 (5.4) million consisted mostly of Interest expenses from liabilities to credit institutions and Interest expenses from covered bonds. The net interest income amounted to EUR 19.2 (17.2) million.

The net fee and commission income mainly consisted of fees paid to the intermediating banks amounted to EUR -14.0 (-11.2) million. The fee and commission expenses increased due to the growth of loan portfolio.

Net profit from hedge accounting for the financial year was EUR -0.2(-1.3) million and it is presented under Net trading income on the income statement.

Operating expenses were EUR 2.2 (2.1) million. Operating expenses mainly consisted of other operating expenses and depreciation of intangible assets.

Operating profit for the financial year was EUR 2.2 (2.2) million.

Balance sheet and funding
(comparison figures 31 December 2018)

The loan portfolio of Sp Mortgage Bank grew to EUR 1,957 (1,854) million during the financial year.

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. Bank issued a EUR 500 million covered bond under its covered bond programme. The value of the covered bonds were EUR 1 505 (1,000) million at the end of the financial year. The amount of short term funding drawn from Central Bank of the Savings Banks Finland Plc was EUR 452 (813) million.

During the financial year a targeted share issue to the owner banks was carried out, which amounted to EUR 8million. At the end of the financial year equity amounted to EUR 98 (88) million.

Capital adequacy and risk position

Capital adequacy (comparison figures 31 December2018)

Sp Mortgage Bank has adopted a capital adequacy management process, the objective of which is to ensure that the bank's riskbearing capacity is sufficient in relation to all the major risks resulting from its business operations. Sp Mortgage Bank identifies and comprehensively assesses the risks associated with its business operations and ensures that its riskbearing capacity is adequate when compared to the sum of all risks. The internal capital requirements specified through the capital adequacy management are based on the capital requirements under Pillar I and risks outside Pillar I, such as interest rate risk of the banking book, market risk of the investment portfolio and business risk. In the internal assessment process, Sp Mortgage Bank estimates the amount of capital that will also be sufficient for covering unexpected losses arising from risks outside Pillar I.

The Board of Directors of the bank has the overall responsibility for capital adequacy management. It approves the basis, objectives and principles of capital adequacy management. Moreover, it confirms the general requirements for the measurement and assessment of capital adequacy and the general principles for the capital adequacy management process. In practice this means that the Board of Directors approves the risk strategies and defines target levels for the capital needed to cover all material risks caused by the business operations and changes in the operating environment.

The capital adequacy, liquidity and risk positions of the entities belonging to the Savings Bank Amalgamation are monitored and consolidated at the Amalgamation level. The Board of Directors of the Central Institution has set target levels for the capital adequacy of the Amalgamation and banks, which are monitored quarterly.

Stress tests

As part of the capital adequacy management process, Sp Mortgage Bank uses stress tests to assess its own risk position and the adequacy of its capital. Stress tests are used when assessing how various exceptionally severe but possible scenarios may affect profitability, capital adequacy and adequacy of own funds. Stress tests are designed to identify the key risks to Sp Mortgage Bank and assess how vulnerable the structure of the Bank is in relation to the occurrence of those risks. The objective of the capital adequacy management is also to maintain and develop the quality of risk management framework.

Capital contingency plan

The capital contingency plan of Sp Mortgage Bank is made in order to be prepared for unforeseeable events that may threaten the bank's capital adequacy. The capital contingency plan includes target levels and thresholds set by the Board of Directors for the quantity and quality of the capital, which are monitored quarterly. The capital contingency plan describes the actions to be taken by the management and the Board of Directors in the event that the capital adequacy ratio falls below the monitoring threshold.

Pillar I capital requirements

The biggest capital requirements of Sp Mortgage Bank are comprised of mortgage loan receivables. The standard method is applied to calculate the capital requirement for credit risk of the Bank. The capital requirement for operational risk is calculated by the basic method.

Own funds and capital adequacy

Sp Mortgage Bank's own funds totalled EUR 98 (88) million. CET1 capital amounted to 98 (88) million euro. Tier 1 capital also amounted to EUR 98 (88) million. The capital and reserves consist entirely of common equity tier 1 capital, core capital, and Sp Mortgage Bank has no equity classified as Tier 2 or other capital. The capital ratio of Sp Mortgage Bank was 13.7 % and the CET1 capital ratio was 13.7 %.

Sp Mortgage Bank's capital adequacy information is included in the consolidated financial statements of the 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 subconsolidation group level. In addition, the Financial Supervisory Authority has granted permission to apply a 0 per cent risk weight to internal credit institution liabilities included within the scope of the Amalgamation's joint 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 capital requirement of Sp Mortgage Bank is formed by:

- 8 % minimum capital requirements set by Capital Requirement Regulation (CRR),
- 2.5% CET1 capital conservation buffer of according to the Act on Credit Institutions, and
- The countryspecific 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 except 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 are taken at least once a year.

In the beginning of the year 2018, the 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 the 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 decisions 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 2019 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.

Sp Mortgage Bank publishes 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.

Pillar III note includes the information in accordance with the EU's Capital Requirements Regulation (575/2013) regarding thecapital adequacy of the Amalgamation. The Savings Banks Group's financial statements and Pillar III capital adequacy information are available online at *www.saastopankki.fi* or from the Savings Banks' Union Coop offices at Teollisuuskatu 33, 00510 Helsinki, Finland.

Sp Mortgage Bank's capital adequacy's main items

Own Funds (EUR 1,000)	31.12.2019	31.12.2018
Common Equity Tier 1 (CET1) capital before regulatory adjustments	98,358	88,184
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-39	-394
Common Equity Tier 1 (CET1) capital	98,358	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)	98,358	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)	98,358	87,791
Risk weighted assets	715,469	654,052
of which: credit and counterparty risk	683,047	634,720
of which: credit valuation adjustment (CVA)	22,022	8,432
of which: market risk		0
of which: operational risk	10,400	10,900
Common Equity Tier 1 (as a percentage of total risk exposure amount)	13.7 %	13.4 %
Tier 1 (as a percentage of total risk exposure amount)	13.7 %	13.4 %
Total capital (as a percentage of total risk exposure)	13.7 %	13.4 %
Capital requirement		
Total capital requirement	98,358	87,791
Capital requirement total*	75,130	68,677
Capital buffer	23,228	19,113

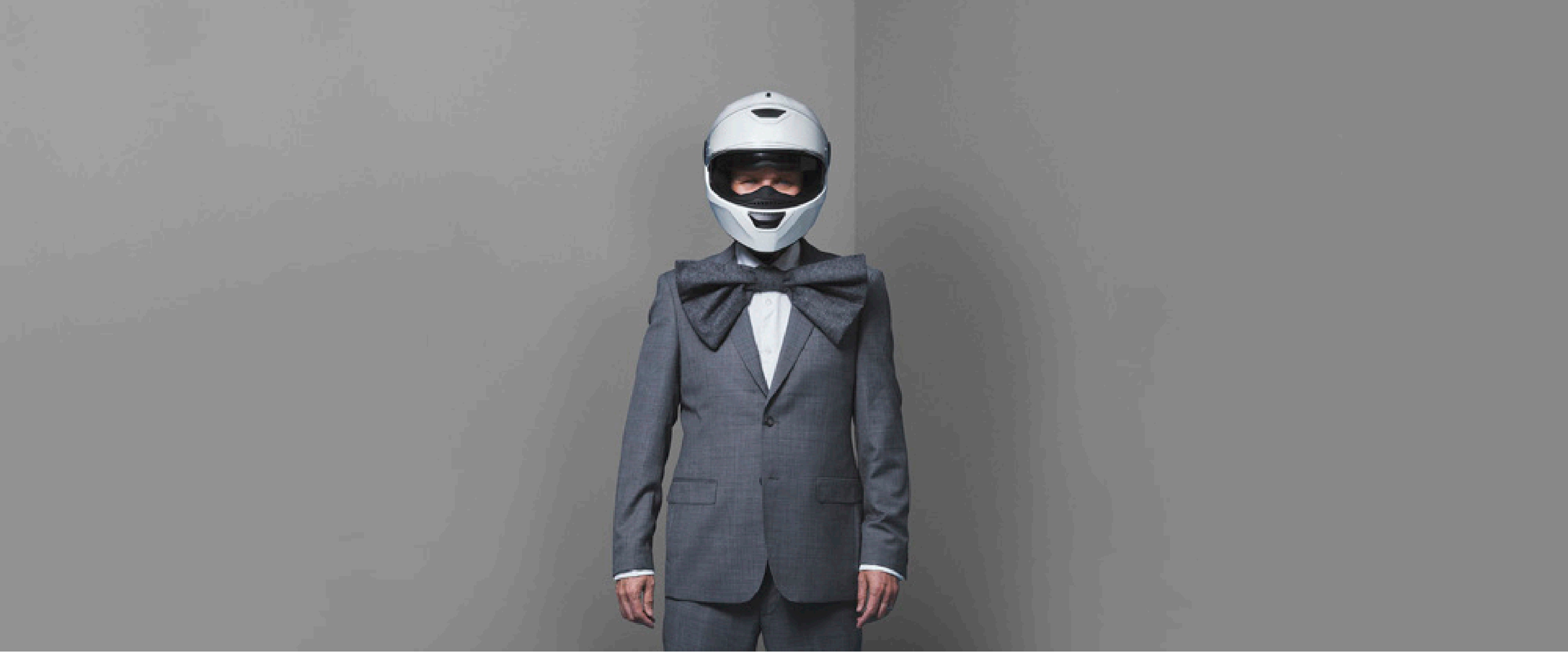
* The capital requirement of 10.5% is formed by the statutory minimum capital adequacy requirement of 8%, the capital conservation buffer of 2.5% according to the Act on Credit Institutions, and the country-specific countercyclical capital requirements of foreign exposures.

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.

Leverage ratio

(EUR 1,000)	31.12.2019	31.12.2018
Tier 1 capital	98,358	87,791
Leverage ratio exposure	2,081,645	1,913,797
Levarage 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 spring 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 31 2018. The requirement will not be directed at the member credit institutions nor at the Sp Mortage Bank.. 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

Objective of risk management

The objective of risk management is to secure the bank's risk-bearing capacity and ensure the continuity of its operations. The risk-bearing capacity comprises adequate and effective risk management based on the nature and scale of the operations, as well as a sufficient degree of liquidity and capitalisation for profitable business operations.

Principles and organisation of risk management

Risk management is defined as the identification, assessment, quantification, limitation and monitoring of risks caused by business operations and closely related risks. The purpose of risk management is to minimize the likelihood of unforeseeable losses or reputational risk in order to ensure the implementation of the Group's strategy. Risk and capital adequacy management are part of internal control. Sp Mortgage Bank has a risk control function that is independent of business operations.

Risk and capital adequacy management enables the identification, assessment and measurement of risks, limiting them to a level of Sp Mortgage Bank's risk appetite. The capital needed for the various risk areas and business lines is determined in a reliable and independent manner and allocated systematically. This is done based on current and planned risk-taking and taking into account the requirements of appropriate liquidity management.

In its operations, Sp Mortgage Bank is exposed to credit, market and operational risks, as well as business and liquidity risks.

Credit and counterparty risks

Credit risk is defined as a possibility that counterparty may not meet its contractual obligations. The main source of credit risk is lending, but credit risks (counterparty risk) may also arise from other types of assets, such as bank deposits, securities in the portfolio and derivative contracts, as well as off balancesheet liabilities, such as undrawn credit facilities and limits as well as granted guarantees.

The business of Sp Mortgage Bank is to issue eurodenominated covered bonds with residential mortgage loans as collateral under the Act on Mortgage Credit Banks and grant residential mortgage loans referred to in the Act on Mortgage Credit Banks. Sp Mortgage Bank finances only retail customers, i.e. are private persons and entrepreneurs. The main target groups according to the Savings Banks Group's strategy are active-age households. The mortgage lending is focused on the private customer sector. The Savings Banks distributing residential mortgage loans comply with the lending goals set and approved by the each Savings Bank.

Liquidity risk

Liquidity risk is the risk that the bank is unable to meet its present or future expected or unexpected obligations as they are due, or is unable to do so without incurring unacceptable losses.

Sp Mortgage Bank does not take deposits from the public. Sp Mortgage Bank has an agreement on the use of liquid assets with the Central Bank of Savings Banks Finland Plc. A distributing Savings Bank or the Central Bank of Savings Banks Finland Plc representing it will finance the loans it has distributed with the amount that corresponds to the collateral requirement set by the rating agency. The overcollateralization amount is funded through the credit facility granted by the Central Bank of Savings Banks Finland Plc.

Market risk management

Limits and thresholds have been set for market risk measurement. The capital adequacy management process (ICAAP), which allocates capital to cover market risks of the banking book in normal and stress scenarios, is the main tool for measuring and monitoring market risks included in the banking book.

Operational risk

Operational risk refers to the risk of loss arising from inadequate or failed internal processes, personnel, systems or external factors. Legal and compliance risks are also included in the operational risks. In addition, reputational risks are managed as a part of operational risks.

Sp Mortgage Bank has identified the operational risks associated with the most important products, services, operations, processes and systems. Identifying operational risks helps determine their monitoring and controls. Some of the losses caused by operational risks are covered by insurance. The continuity plan of the bank also helps prepare for significant interruptions in operations.

Business risk

Business risk describes the impact of uncertainties caused by the operating environment on Sp Mortgage Bank's business. Business risks arise from competition, from changes in markets and customer behavior as well as from unexpected income fluctuations. Business risks may also be caused by choosing a wrong strategy, ineffective management or slow response to changes in the operating environment.

Business risks are managed and minimized through strategic and business planning.

Sp Mortgage Bank's Board of Directors and Auditors

The bank's Board of Directors includes at least three and at most five members according to the Articles of Association.

The Board of Directors consists of the following:

Tomi Närhinen, Chairman
Hannu Syvänen
Pirkko Ahonen as of 14.3.2019
Petri Siviranta as of 14.3.2019
Jussi Hakala until 14.3.2019
Juhani Huupponen until 14.3.2019

Tero Kangas acts as Managing Director of Sp Mortgage Bank .

At the annual general meeting of the Sp Mortgage Bank Plc on 14 March 2019, KPMG Oy Ab, Authorised Public Accountants, was elected as the auditor of Savings Banks' Union Coop. The chief auditor designated by the firm is Petri Kettunen, Authorised Public Accountant.

Personnel

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

Owners

Sp Mortgage Bank is wholly owned by the 20 Savings Banks belonging to the Savings Banks Amalgamation.

Main outsourced functions

Sp Mortgage Bank's key information systems have been outsourced to Samlink Ltd. Savings Banks sold their holdings in Samlink Ltd on 1 April 2019. The bank's accounting operations are carried out by PP-Laskenta Oy, whose shares are owned by Savings Banks' Union Coop and three other banking groups in equal proportions.

Social responsibility

The social responsibility policy report of the Savings Banks Group is published during the year 2020 and is available after publishing on the Savings Banks Group website at www.saastopankki.fi or from the Savings Banks Union Coop offices at Teollisuuskatu 33, 00530 Helsinki, Finland. Sp Mortgage Bank's social responsibility refers to its responsibility for the impacts of its business activities on surrounding society and the company's stakeholder groups. By acting as the Savings Banks' central credit institution, Sp Mortgage Bank in its part supports the social responsibility of the local Savings Banks.

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 Financial statement.

Outlook for the year 2020

Outlook for the operational environment

Fears of a recession gave way in late 2019 when the predictive economic indicators pointed to stabilisation. The situation in the global economy remains uncertain, even if it appears probable that a recession will be avoided. Economic recovery is expected in 2020, but the rate of recovery is likely to be slow. The global economy is expected to grow at a rate of slightly over 3.0 per cent.

Political uncertainty will continue in 2020. The familiar themes of Brexit and the trade war will remain on the agenda, although the uncertainty surrounding them was slightly reduced in late 2019. The United Kingdom is likely to leave the EU at the end of January, but that only marks the beginning of difficult negotiations regarding the subsequent relationship. Partial harmony was achieved in the trade war between the United States and China in late 2019, but this does not mean that all of the tensions will be eliminated, and tariffs remain substantially higher than they were before the start of the trade war. It is also possible that the situation will come to a head again. The U.S. presidential election in late 2020 will also bring tensions to the political front.

Economic growth in the United States is expected to slow down slightly in 2020, to just under 2 per cent. President Trump's tax breaks still supported the economy in 2019, but their impact is starting to wane. The labour market situation in the United

States is very strong, with employment at the lowest level seen in decades. Consumer confidence is also at a good level.

The outlook of the euro zone is weakened by the uncertain situation of the economically powerful Germany. France, on the other hand, has a more favourable outlook. Potential risks include trade policy disputes and possible tariffs on cars in trade with the U.S. The President of the European Central Bank changed in 2019, and the new President intends to review the central bank's monetary policy strategy in 2020. While major changes are unlikely, there may be some new directions in monetary policy.

Growth in China is expected to slow down to about 6 per cent in 2020. The reliability of the official growth figures is questionable, but many other factors also point towards slower growth. Nevertheless, a sharp decline is unlikely, as the centrally planned Chinese economy features a strong tendency to apply stimulus measures using monetary policy as well as financial policy if the economy slows down more than expected.

While the Finnish economy remained surprisingly immune to the weakness of the global economy in 2019, it is expected that Finland will see a post-cyclical slowing down of the economic growth in 2020. Exports and investments, in particular, suffer from the slowing down of global trade and the general uncertainty. At the same time, private consumption will hold strong, with several factors supporting households: the labour market situation will remain stable, the increase in wages outpaces inflation and the prevailing low interest rates continue to support households that are in debt.

Finnish economic growth is expected to be approximately 1.5 per cent in 2019 and subsequently slow down to about one per cent in 2020. This is a slower rate of growth than what has been seen in recent years, but it is close to Finland's potential growth.

The most significant risks for the Finnish economy arise from the international economy. If the expected recovery in the global economy fails to materialise, Finland's growth outlook will be affected. Uncertainty is also introduced into Finland's outlook by the unsettled labour market situation, which already reared its head in the form of the strikes seen in late 2019.

Business outlook

Sp Mortgage Bank expects the loan portfolio to continue to grow through sales of new contracts and the quality of the loan portfolio to remain at a high level. The capital adequacy of Sp Mortgage Bank is estimated to remain strong and the risk position to remain stable. The covered bond programme established in 2016 allows for covered bond issuances 2020.

The Board of Directors' proposal on the disposal of distributable funds

Sp Mortgage Bank's distributable funds amount to EUR 36.5 million.

The Board of Directors of Sp Mortgage Bank proposes to the Annual General Meeting that the profit for the financial year EUR 2.2 million is entered as accumulated retained earnings with no dividend paid.

Information

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

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, 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 %	$\frac{\text{Total operating expenses}}{\text{Total operating revenue}}$
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 financial statement, nor have any changes occurred in the financial highlights.

SP MORTAGE BANK: IFRS FINANCIAL STATEMENT 2019

Sp Mortgage Bank's income statement

(EUR 1,000)	Note	1-12/2019	1-12/2018
Interest income		24,710	22,550
Interest expense		-5,495	-5,394
Net interest income	**6**	**19,216**	**17,157**
Net fee and commission income	7	-13,974	-11,165
Net trading income	8	-228	-1,269
Total operating revenue		**5,014**	**4,723**
Personnel expenses	10	-21	-33
Other operating expenses	11	-1,842	-1,662
Depreciation of intangible assets	12	-361	-361
Total operating expenses		**-2,224**	**-2,056**
Net impairment loss on financial assets	13	-24	20
Profit before tax		**2,766**	**2 686**
Taxes	14	-553	-520
Profit		**2,213**	**2,167**

Sp Mortgage Bank's statement of comprehensive income

(EUR 1,000)	1-12/2019	1-12/2018
Profit	2,213	2,167
Total comprehensive income	2,213	2,167

Sp Mortgage Bank's statement of financial position

(EUR 1,000)	Note	31.12.2019	31.12.2018
Assets			
Loans and advances to credit institutions	16	94,318	44,151
Loans and advances to customers	16	1,956,315	1,852,994
Derivatives	17	12,412	5,776
Intangible assets	18	29	390
Tax assets			96
Other assets	19	3,714	3,074
Total assets		**2,066,789**	**1,906,481**
Liabilities and equity			
Liabilities			
Liabilities to credit institutions	20	460,300	815,240
Debt securities issued	21	1,505,074	1,000,243
Tax liabilities		89	
Provisions and other liabilities	22	2,928	2,814
Total liabilities		**1,968,392**	**1,818,297**
Equity			
Share capital	24	61,937	56,601
Reserves		30,922	28,258
Retained earnings		5,538	3,325
Total equity		**98,397**	**88,184**
Total liabilities and equity		**2,066,789**	**1,906,481**

Sp Mortgage Bank's statement of cash flows

(EUR 1,000)	1-12/2019	1-12/2018
Cash flows from operating activities		
Profit	2,213	2,167
Adjustments for items without cash flow effect	1,167	1,961
Change in deferred tax		169
Cash flows from operating activities before changes in assets and liabilities	**3,379**	**4,297**
Increase (-) or decrease (+) in operating assets	**-103,952**	**-318,801**
Loans and advances to customers	-103,313	-318,991
Other assets	-640	190
Increase (-) or decrease (+) in operating liabilities	**143,109**	**288,355**
Liabilities at fair value through profit or loss		
Liabilities to credit institutions	-354,940	287,240
Liabilities to customers		
Debt securities issued	497,967	668
Other liabilities	82	447
Paid income taxes	-368	-927
Total cash flows from operating activities	**42,168**	**-27,076**
Cash flows from financing activities		
Increase in basic capital	5,336	8,004
Other monetary increases in equity items	2,664	3,996
Total cash flows from financing activities	**8,000**	**12,000**
Change in cash and cash equivalents	**50,168**	**-15,076**
Cash and cash equivalents at the beginning of the period	**44,151**	**59,227**
Cash and cash equivalents at the end of the period	**94,318**	**44,151**
Cash and cash equivalents comprise the following items:		
Receivables from central banks repayable on demand	94,318	44,151
Total cash and cash equivalents	**94,318**	**44,151**
Adjustments for items without cash flow effect		
Impairment losses on financial assets		
Changes in fair value	228	1,269
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	361	361
Other adjustments	577	330
Total	**1,167**	**1,961**
Interest received	24,327	22,898
Interest paid	5,867	4,109
Dividends received	0	0

Sp Mortgage Bank's statement of changes in equity

(EUR 1,000)	Share capital	Share premium	Retained earnings	Total equity
Total equity 31 December 2017	48,597	24,262	1,836	74,695
Impact of transition to IFRS 9 1.1.2018			-678	-678
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			2 213	2,213
Total comprehensive income			2,213	2,213
Transactions with owners				
Subscription issue	5,336	2,664		8,000
Total equity 31 December 2019	61,937	30,922	5,538	98,397

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 (henceforth "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 authorisation to operate as a mortgage bank, granted by the European Central Bank, in March 2016, and the Bank's operations began 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 of 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 Savings Banks Group support and promote the operations of the Savings Banks Group via producing centralised services or having responsibility for certain products. The most significant service and product companies of the Savings Banks 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 Savings Banks Amalgamation comprises the Savings Banks' Union Coop, which acts as the Central Institution of the Amalgamation, 20 Savings Banks, the Central Bank of Savings Banks Finland Plc , Sp Mortgage Bank Plc, Savings Bank Services Ltd and Sp-Fund Management Company Ltd as well as the above-mentioned companies within the consolidation groups.

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 Savings Banks Group.

The Savings Banks Group and other owners of Oy Samlink Ab sold their holdings on 1st of April 2019 to Cognizant Technology Solutions Finland Oy. Before the transaction, the share of The Savings Banks Group of Samlink Oy Ab was 42 percent.

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.

The head office of Sp Mortgage Bank is in Helsinki, and its registered address is Teollisuuskatu 33, FI-00510 Helsinki, Finland. A copy of Sp Mortgage Bank's Annual Report is available online at www.saastopankki.fi/saastopankkiryhma or at Sp Mortgage Bank's offices at Teollisuuskatu 33, FI-00510 Helsinki, Finland.

Similarly, copies of the Savings Banks Group's financial statements and half- year reports are available online at www.saastopankki.fi/saastopankkiryhma or at Savings Banks' Union Coop's offices at Teollisuuskatu 33, FI-00510 Helsinki, Finland.

Sp Mortgage Banks Board of Directors has approved the Bank's financial statement 2019 on 4th February 2020, and the financial statement will be presented to the Annual General Meeting of 2020 for approval. The Annual General Meeting has the choice of approving or not approving the financial statement.

NOTE 2. ACCOUNTING POLICIES

1. General

The financial statements of the Sp Mortgage Bank are prepared in accordance with the International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the European Union.

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.

Sp Mortgage Bank's financial statements are presented in euros, which is the presentation and functional currency of the Bank.

Sp Mortgage Bank's financial statements are prepared under the historical cost convention, except for the derivatives and hedged items in fair value hedges (for hedged risks), which are measured at fair value.

Assets and liabilities are offset with the net amount presented in the balance sheet only if the the Sp Mortgage Bank holds a currently enforceable legal right to set off the recognised amounts and there is intention to settle on net basis or to realize asset and settle the liability simultaneously.

The Sp Mortgage Bank has adopted IFRS 16 Leasing standard as of January 1, 2019. Under IFRS 16 almost all of the lessee's leasing contracts are recognized in the balance sheet. On transition, the Sp Mortgage Bank has applied a simplified approach and the comparison figures have not been adjusted. Implementation of IFRS 16 had no effect on the equity of the Sp Mortgage Bank. The effects arising from the initial application of IFRS 16 are presented in the accounting policies under section 8 Adoption of new IFRS standards and interpretations".

2. Financial instruments

2.1 Financial assets and liabilities

The Sp Mortgage Bank applies IFRS 9 Financial instruments standard on recognition and measurement of financial instruments and for hedging relationships under general hedge accounting.

Classification in the Sp Mortgage Bank's balance sheet is independent of the IFRS 9 categories. Different valuation bases can therefore be applied to assets and liabilities recognised on the same line in the balance sheet. The classification of financial assets and liabilities recognised in the balance sheet into valuation categories is set out in Note 15.

2.1.1 Initial recognition

A financial asset or liability is recognised on the balance sheet when the Sp Mortgage Bank becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of a financial asset is recognised and derecognised using trade date accounting.

Financial assets or liabilities are initially measured at fair value, and in the case of a financial asset or a financial liability not measured at fair value through profit or loss, plus or minus the transaction costs that are directly attributable to the acquisition or issue of that financial asset or financial liability. On subsequent periods transaction costs are recognised through profit or loss as an interest income or expense as a part of the effective interest rate of the financial asset or liability.

2.1.2 Classification of financial assets and the determination of classification

For the purposes of subsequent measurement, the Sp Mortgage Bank classifies financial assets into following measurement categories:

- Amortised cost
- Fair value through other comprehensive income (fair valu reserve)
- Fair value through profit or loss.

Financial assets are classified on initial recognition based on the business model used for managing the group of financial assets in which the financial assets is held and characteristics of the cash flows of the instrument, specifically, whether the contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business model assessment

The business model refers to how Sp Mortgage Bank manages its financial assets in order to generate cash flows. That is, the business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. If cash flows are realised in a way that is different from Sp Mortgage Bank's expectations on the date that Sp Mortgage Bank assessed the business model, that does not give rise to a prior period error in Sp Mortgage Bank's financial statements nor does it change the classification of the remaining financial assets held in that business model.

Assessment of cash flow characteristics

Cash flow characteristics means the characteristics of the contractual cash flows of the financial asset.

When assessing cash flow characteristics, it is determined whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding, for example, interest only consists of consideration for the time value of money, credit risk and other basic lending risks. If the terms of the contract include factors that cannot be considered typical terms for lending, the financial asset is classified as measured at fair value through profit or loss.

Amortised cost

A financial asset is measured at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of interest and payments of principal

Debt instruments are measured at fair value and changes in value, less deferred taxes and expected credit loss, are recognised in the statement of comprehensive income.

For debt instruments, the gain or loss on the transfer or sale of a financial asset measured at fair value through other comprehensive income is recognised through profit or loss.

On initial recognition, the Sp Mortgage Bank may make an irrevocable choice to present the subsequent fair value changes of an equity instrument in other comprehensive income. This election is made on instrument basis. These financial assets are measured at fair value and the change in value is recognised, less deferred taxes, in the statement of other comprehensive income. Dividends from equity instruments are recognised in profit or loss when the right to receive payment is established.

Capital repayments from the share are recognised in the statement of other comprehensive income. For equity instruments, unrealised gains or losses accrued in the fair value reserve are not transferred to be recognised through profit or loss at any stage. Instead, the recognition is made through retained earnings within equity.

Financial assets measured at fair value through profit or loss

All items that are not measured at amortised cost or recognised at fair value through other comprehensive income are recognised at fair value through profit or loss.

However, a financial asset may, at initial recognition, be irrevocably designated as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Also classified as measured at fair value through profit or loss are debt instruments for which the cash flow criteria cannot be considered to be met. Sp Mortgage Bank assesses the cash flow criteria separately for each instrument to determine whether the contractual terms of the item give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Changes in the classification of financial assets

Debt instruments are reclassified only when Sp Mortgage Bank changes the business models applied in the management of financial assets. Sp Mortgage Bank expects such changes to be highly infrequent.

Changes in contractual cash flows

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with IFRS 9, the Sp Mortgage Bank recalculates the gross carrying amount of the financial asset and recognises a modification gain or loss in profit or loss.

2.1.3 Derecognition of financial assets and liabilities

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred and the transfer qualifies for derecognition.

A financial asset is considered to be transferred if the Sp Mortgage Bank either:

- transfers the contractual rights to receive the cash flows of the financial asset; or
- retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions stipulated by IFRS 9. A contract can be considered to meet the conditions for such an arrangement if:
    - There is no obligation to pay amounts to the eventual recipients unless equivalent amounts are collected from the original asset
    - The selling or pledging of the original asset is prohibited by the terms of the transfer contract

When transferring a financial asset, the transfer qualifies for derecognition only if:

- The significant risks and rewards of ownership are transferred; or
- The significant risks and rewards of ownership are not transferred or they have been retained, but control has been transferred.

A financial liability is derecognised from the statement of financial position when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires. An exchange between an existing borrower and lender of debt instruments with substantially different terms must be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount and the consideration paid is recognised in profit or loss.

2.2. Determining fair value

KFair value is the price that would be attained if the asset was sold or would be paid to transfer the liability from one market party to another in a standard business transaction taking place on a valuation day.

A financial instrument's fair value is based on price quotations obtained from active markets or, if active markets do not exist, on the company's own valuation methods. A market is considered active if price quotations are readily and regularly available and if they reflect real and regularly occurring arm's-length market transactions. Current bid price is used as the quoted market price of financial assets. If the market has a well-established valuation technique for a financial instrument for which there is no direct market price available, the fair value is based on the commonly used valuation model and on the market quotations of the input data used in the model.

If there is no well-established valuation technique in the market, the fair value is determined based on a specific valuation model created for the product in question. The valuation models are based on widely used measuring techniques, incorporating all the factors that market participants would consider when setting a price. The valuation prices used include market transaction prices, the discounted cash flow method, as well as the fair value of another substantially similar instrument at the reporting date. The valuation methods take into account an es-timate of credit risk, applicable discount rates, early repayment option, and other such factors that may impact reliable determination of the fair value of the financial instrument.

The fair values of financial instruments are divided into three hierarchical levels, depending on how the fair value is defined:

- Fair values quoted in active markets for identical assets or liabilities (Level 1)
- Fair values that are determined using other input data than the quoted prices at Level 1, which are observable for the assets or liabilities either directly (e.g. prices) or indirectly (e.g. derived from prices) (Level 2)
- Fair values that are determined using input data which is essentially not based on observable market data (Level 3).

The fair value hierarchy level into which an item measured at fair value is fully classified is determined by the input data which is at the lowest level and is significant in respect of the whole item. The significance of input data is evaluated consid-ering the whole item which is valued at fair value.

2.3 Impairment

Sp Mortgage Bank determines impairments for financial based on an expected credit loss model. The loss allowance for expected credit loss is measured and recognised for financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income, debt instruments, loan receivables, guarantees and loan commitments.

For the purposes of measurement of the expected credit loss, the Group assigns financial assets into stages 1, 2 or 3 depending on the change in the credit risk of the financial asset between the date of the initial recognition and reporting date. Stage 1 includes financial assets for which the credit risk has not increased significantly, stage 2 includes financial assets for which the credit risk has increased significantly and stage 3 includes financial assets that are considered to be imapaired.

Sp Mortgage Bank calculates expected credit loss (ECL) for low-risk credit using the Loss Rate model (ECL = Loss Rate * EAD). Low-risk counterparties include the public sector, financial institutions and state-guaranteed student loans. For other credit and securities, the calculation is based on the PD/LGD model (ECL = PD * LGD * EAD).

Loss Rate model components:

- Loss rate %, i.e. the calculation is based on percentage figures established for each counterparty. Determined by the counterparty's sector code.
- EAD, short for Exposure at Default, is the annual average. Due to upcoming instalments, it is usually lower than the contract balance.

The components used in the PD/LGD model:

- PD % (Probability of Default) is based on external and internal credit ratings.
- LGD % (Loss Given Default) takes into consideration the contract's available collateral at the time of default.
- EAD (Exposure At Default). The amount takes into consideration instalments and advance repayments, calculated for the term of the contract and for the year, for products for which early repayment has been modelled. Off-balance sheet items are considered to remain fixed until the end of the lifecycle of the contract. The undrawn commitment component is included in the calculation in full.

Stage 1: 12-month ECL

- If credit risk has not significantly increased since the loan was originated, the expected credit loss is calculated based on 12-month expected credit loss. The expected credit loss is provided for the credit losses that result from default events that are possible within the next 12 months.

Stage 2: Lifetime ECL – not credit-impaired

- If credit risk has significantly increased since the loan was originated, impairment on exposures that are not credit-impaired is calculated based on lifetime expected credit loss. The expected credit loss is provided for the credit losses expected over the remaining life of the exposure.

Stage 3: Lifetime ECL – credit impaired

- If the contract is assessed as credit-impaired, impairment is recognised based on lifetime expected credit loss. Stage 3 consists of exposures involving one or more occurred negative events impacting cash flows.

Incurred loss is deducted from the balance sheet and the proportion of the exposure recognised as a loss is no longer included in the calculation of expected losses.

The assessment of potential changes in credit risk takes into consideration all relevant and available information that can be obtained without unreasonable effort and cost. The contract's credit risk has increased significantly (the contract migrates from stage 1 to stage 2) when the contract involves payments that are more than 30 days past due (backstop), the contract's PD increases either by 10 basis points or 2.5 times its original value, or the contract is subject to forbearance (performing). The contract migrates to stage 3 when the contract is defaulted, i.e. when the contract or customer has a credit rating of D, the contract is more than 90 days past due, the contract is subject to (non-performing) forbearance or a forbearance concession has been made for the contract at the time of application. ECL calculation applies the same definition of default that the Group applies in its lending rules. A contract may migrate to a better stage if the credit risk has improved significantly and it meets the criteria for the stage in question for a period of time specified by Sp Mortgage Bank (known as the probation period).

The calculation takes the time value of money into consideration by discounting the expected credit loss calculated for the contract. The effective interest rate is the contractual interest rate and it is calculated on the gross carrying amount in stages 1 and 2 and on the adjusted carrying amount in stage 3 on the reporting date.

Scenarios used in calculation

Four different scenarios are calculated for each contract using economic scenarios established by the Savings Banks Group's Chief Economist. The scenarios are the base scenario (50%), a mild downside (8%), a more extreme downside (2%) and an optimistic scenario (40%). The loss allowance recognised is calculated by applying weights to the various scenarios.

Allowance for expected credit losses is recognised as an impairment under Impairment losses on financial assets in the income statement. Final credit losses are also recognised under the same item in the income statement.

2.4. Hedging and derivatives

For hedging relationships under general hedge accounting (fair value hedging), Sp Mortgage Bank has adopted IFRS 9.

Derivatives are measured at fair value starting from the contract date in the financial statements, and fair value changes are recognised in the balance sheet and income statement.

Sp Mortgage Bank hedges its interest rate risk from changes in fair value and applies hedge accounting to hedging relationships. The hedged item in the fair value hedge are the issued fixed rate covered bonds.

Changes in the fair value of derivatives hedging fair value are recognised in the income statement under "Net trading income". When hedging fair value, the hedged item is also measured at fair value during hedging even if it would otherwise be measured at amortised cost. A change in the hedged item's fair value is recognised in the balance sheet as an adjustment to the balance sheet item and in the income statement under "Net trading income". Interest on hedging derivatives is presented as interest income and expense depending on their nature.

When hedge accounting begins, the hedging relationship between the hedged item and the hedging derivative is documented, along with the risk management objectives and the strategy for initiating hedging. The effectiveness of the hedging relationship is assessed on a continuous basis and always on reporting dates.

3. Leases

Sp Mortgage Bank as the lessee

At the inception of a contract and when the terms and conditions of a contract are changed, Sp Mortgage Bank assesses whether the contract contains a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement date of a lease, the lease liability is equal to the present value of the lease payments payable during the lease term. The leases consist of fixed payments and variable lease payments, which depend on an index. Lease liabilities are subsequently measured at amortised cost using the effective interest method. Lease liabilities are reassessed if the future considerations change as a result of a contractual change in an index or price, if the lease term or amount of residual value guarantee changes, or if a purchase option is exercised. If the amount of the lease liability is adjusted due to the reassessment, a corresponding adjustment is made to the right-of-use asset.

The lease term begins at the commencement date specified in the lease. The end of the lease term is determined by the lease. The lease term is reassessed if an option to extend the lease is exercised differently than initially assessed. If the lease term is indefinite, the end of the lease term is considered to be the earliest possible date of termination specified in the lease.

The value of a right-of-use asset at the commencement date is the lease liability plus payments made to the lessor at or before the commencement date, estimated restoration costs at the end of the lease term and initial direct costs. A right-of-use asset is subsequently measured at cost and amortised according to the lease term. Sp Mortgage Bank recognises leases as a right-of-use asset under "Right-of-use assets" and a liability under "Provisions and other liabilities".

Short-term leases and assets of low value

IFRS 16 contains two exemptions concerning recognition and measurement. Sp Mortgage Bank has decided that leases with a term of 12 months or less and assets whose value does not exceed EUR 5,000 are not recognised as right-of-use assets and no lease liabilities are recognised for them. Sp Mortgage Bank expenses such short-term leases and assets of low value during the lease term.

Sp Mortgage Bank as the lessor

Sp Mortgage Bank does not act as a lessor.

Basis of preparation effective for the period 1.1.-31.12.2018 (comparative period)

A lease is an agreement whereby the lessor conveys to the lessee the right to use an asset for the agreed period for a payment or a series of payments. When an agreement is concluded, leases are classified as finance leases or operating leases depending on the substance of the business transaction. A lease is a finance lease if it transfers substantially all the risks and rewards to the lessee. Otherwise, it is an operating lease.

Sp Mortgage Bank does not have leased assets under financial lease. Payments made under operating leases are charged to the income statement under other operating expenses on a straight-line basis over the period of the lease. Sp Mortgage Bank is the lessee in laptops, among other things.

4. Intangible assets

An intangible asset is an identifiable asset that has no physical substance. In Sp Mortgage Bank, intangible assets include computer software.

An intangible asset is recognised only when it is probable that economic benefits from the asset are likely to flow to the company and the acquisition cost of the asset can be reliably measured. Future economic benefits may include sales revenue from services, cost savings or other benefits resulting from Sp Mortgage Bank exercising the asset.

Intangible assets are initially measured at cost. The cost comprises the purchase price, including all costs that are directly attributable to the asset from acquisition to preparing it to its intended use. The acquisition cost does not include costs attributable to the asset's use and staff training, administrative expenses and other general overheads.

After initial recognition, an intangible asset is carried at its cost less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised on a straight-line basis over their known or estimated useful lives. The useful life of intangible assets is reviewed annually.

An asset is amortised from the date when it is ready for use. An intangible asset that is not yet ready for use is tested annually for impairment.

The estimated useful lives are mainly as follows:

Information systems purchased from external companies	3-5 years
Other intangible assets	5 years

Intangible assets are recognised in the "Intangible Assets" line item within the balance sheet. Amortisation and impairment losses are recognised in the income statement under “Depreciation, amortisation and impairment losses on tangible and intangible assets”.

5. Taxes

Income taxes comprises tax based on the profit for the financial year, previous financial years’ tax adjustments and changes in deferred taxes. Taxes are recognised in the income statement except if they relate directly to items recognised directly in equity or in other comprehensive income. In these circumstances the tax is also recognised directly in equity or in other comprehensive income, respectively.

Deferred taxes are calculated on the basis of temporary taxable differences between accounting and taxation. Deferred tax is determined on the basis of the IAS 12 standard using tax rates that have been enacted at the balance sheet date and that apply when the related deferred tax is expected to be realised. A change in deferred tax resulting from changing tax rates is recognised in the income statement or other comprehensive income if the tax was recorded there during earlier financial years.

A deferred tax asset is recognised for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be accrued and unused tax credits can be utilised.

6. Revenue recognition principles

Interest income and expenses

Interest income and expenses are amortised using the effective interest method over the contractual period of the loan and receivable or the liability. With this method, the income and expenses of the instrument are amortised in proportion to the remaining carrying amount of the loan and receivable or the liability in the balance sheet.

When a financial asset is impaired, the original effective interest rate is used to calculate the interest income to the carrying amount of the receivable reduced by impairment loss.

Fees and commissions

In accordance with the transfer agreement, Savings Banks are returned a share of the fee income arising from the credit facilities managed by the Sb Mortgage Bank. Fee expenses consist mainly of fee income charged from lending that is paid to Savings Banks.

Fee and commission income and expense are generally recognised on an accrual basis. Fees and commissions for performing an action or a service are recognised when the related actions or services are performed. Fees relating to actions or services performed over several years are amortised over the service period. Fees that are directly attributable to the effective interest of a financial instrument are treated as an adjustment to the effective interest of that financial instrument.

Net Trading Income

Net profit from hedge accounting is recognised as Net Trading Income and consists of changes in fair value of hedged items and hedging instruments.

7. Segment information

Sp Mortgage Bank’s management examines its operations as a single segment, meaning that segment-specific information is not provided in accordance with IFRS 8. Sp Mortgage Bank’s operations are part of the Group’s operations, and its financial statements are included in the consolidated financial statements, which is another reason why Sp Mortgage Bank’s operations have not been divided into segments.

8. New IFRS-standards and interpretations

New and amended standards applied in financial year ended

Sp Mortgage Bank has applied as from 1 January 2019 the following new and amended standards that have come into effect.

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 affect retained earnings, because Sp Mortgage Bank has only leases which are under the IFRS 16 exemptions and Sp Mortgage Bank has decided to choose use exemptions possibility.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation brings clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. The key test is whether the tax authority will accept the company’s chosen tax treatment. When considering this the assumption is that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment. The change in the standard did not have an impact on Sp Mortgage Bank’s financial statements.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

The amendments enable entities to measure at amortised cost some prepayable financial assets with so-called negative compensation. The change in the standard did not have an impact on Sp Mortgage Bank’s financial statements.

Amendments to IAS 19: Plan amendment, Curtailment or Settlement

The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity uses updated actuarial assumptions to determine its current service cost and net interest for the period and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI). The change in the standard did not have an impact on Sp Mortgage Bank’s financial statements.

Annual Improvements to IFRSs (2015-2017 cycle)

The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments relate to IFRS 3, IFRS 11, IAS 12 and IAS 23 standards. The changes in the standards did not have an impact on Sp Mortgage Bank’s financial statements.

Adoption of new and amended standards in future financial years

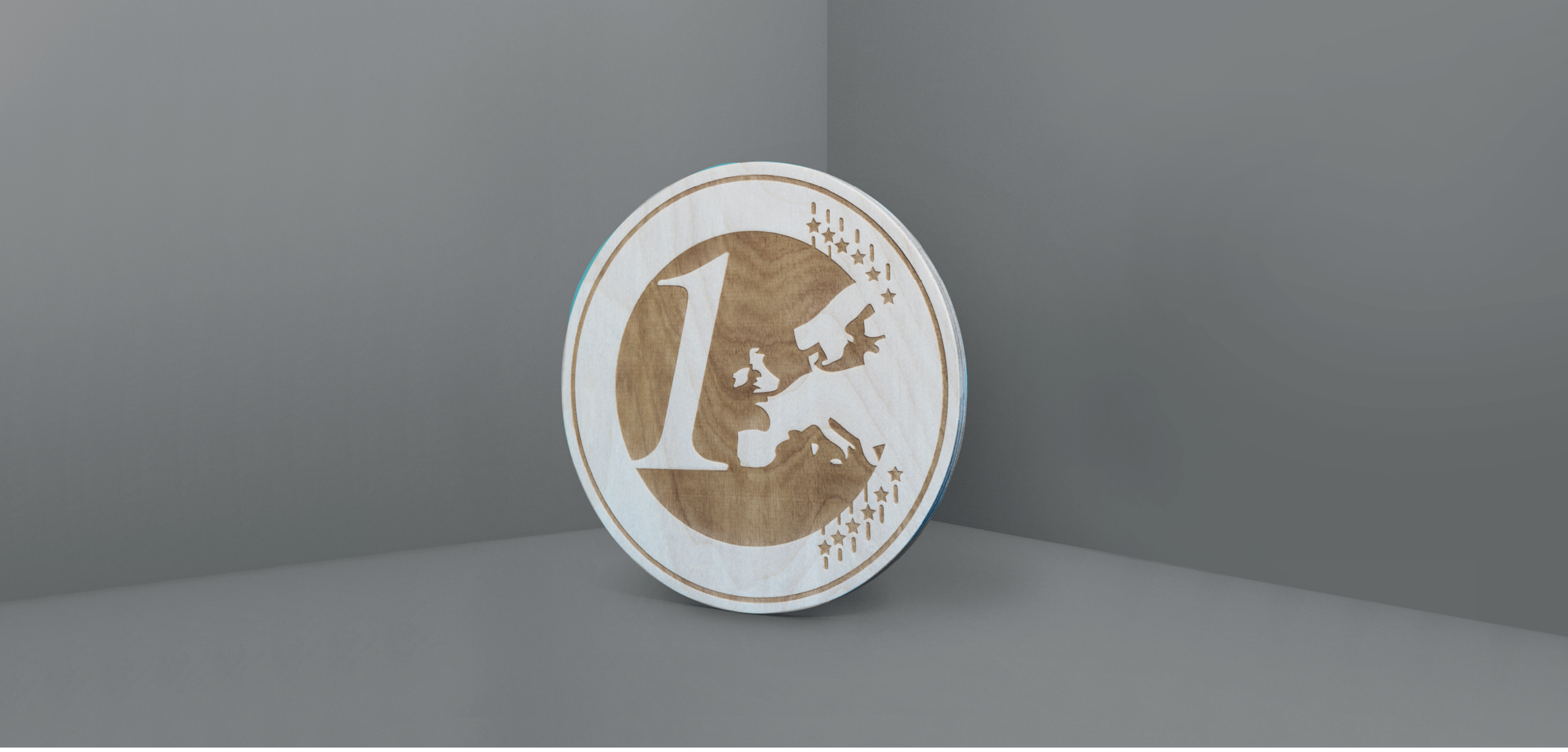
Sp Mortgage Bank has not yet adopted the following new and amended standards and interpretations already issued by the IASB. Sp Mortgage Bank will adopt them as of the effective date or, if that date is not the first day of the financial year, from the beginning of the subsequent financial year.

Amendments to References to Conceptual Framework in IFRS Standards (effective for financial years beginning on or after 1 January 2020)

The revised Framework codifies IASB's thinking adopted in recent standards. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs.

Definition of Material (Amendments to IAS 1 and IAS 8) (effective for financial years beginning on or after 1 January 2020)

The amendments clarify the definition of material and include guidance for the definition. In addition, the explanations accompanying the definition have been improved. The change in the standard will have no significant impact on Sp Mortgage Bank's financial statement.



NOTE 3. 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.

Fair value measurement

The management should consider whether an individual financial instrument is actively traded and whether the market price obtained is a reliable indication of the financial instrument's fair value. In addition, the management must determine when the financial instruments market is not active. The management's judgment is required in cases where the financial instrument's fair value is determined using valuation techniques. If observable inputs are not available in the market for the valuation models used, the management must assess what other inputs should be used in measuring the fair value. Fair value measurement is discussed in more detail in section "Determining the fair value" in the accounting policies.

Determination of expected credit losses

The models used in the calculation of expected credit losses include estimates and assumptions that may deviate from actual outcomes. The calculations involve several discretionary factors that require the management's judgement. The most significant of these factors are as follows:

- Criteria used to assess the significant increase of credit risk
- The bank's internal credit rating model, which determines the probability of credit loss for individual receivables
- The calculation models for expected credit losses, which include assumptions regarding the behaviour of receivables in various economic scenarios
- The macroeconomic scenarios included in the calculation of expected credit losses and their impact on the amount of expected credit losses
- The anticipation of the amounts and timing of future cash flows, the realisable value of collateral and the assessment of the borrower's financial situation.

RISK MANAGEMENT AND PRINCIPLES OF CAPITAL ADEQUACY MANAGEMENT POLICIES

NOTE 4. RISK MANAGEMENT AND GOVERNANCE

Objective of risk management

The objective of risk management is to secure the bank's risk-bearing capacity and ensure the continuity of its business operations. The risk-bearing capacity comprises adequate and effective risk management based on the nature, scale and complexity of Sp Mortgage Bank's business operations, as well as a sufficient amount of liquidity and capitalization based on profitable business operations.

Principles and organization of risk management

Risk management is defined as identification, assessment, quantification, limitation and monitoring of risks arising from business activities and closely related risks. The purpose of risk management is to minimize the likelihood of unforeseeable losses or reputational risk in order to ensure the implementation of the Group's strategy. Risk and capital adequacy management are part of internal control.

Risk and capital adequacy management enables the identification, assessment and measurement of risks, limiting them to a level of Sp Mortgage Bank's risk appetite. The capital needed for the various risk areas and business lines is determined in a reliable and independent manner and allocated systematically. This is done based on current and planned risk-taking and taking into account the requirements of appropriate liquidity management.

Risk management is part of Sp Mortgage Bank's internal control and an integral part of its operational activities.

Internal control covers financial and other supervision. Internal control refers to the part of management and operations which aim to ensure:

- the achievement of set objectives and goals;
- economical and efficient processes;
- the management of the risks involved in operations;
- the fairness and accuracy of financial and other management information;
- compliance monitoring;
- the adequate protection of operations, data, as well as the entity's property and customers' assets; and
- adequate and appropriately organised manual and IT systems for the support of operations.

The purpose of internal control at Sp Mortgage Bank is to ensure that the objectives and aims set for different levels at the bank are reached in compliance with the agreed and set internal control guidelines. Internal control is supervision from the inside managed by the administrative organs and the organisation itself, and it primarily concerns the state, quality and results of operations. Internal control is carried out by the Board of Directors, Managing Director, risk control function, supervisors and employees. In addition, employees are required to report deviations and misconduct to those higher up in the organisation.

Sp Mortgage Bank's risk management is based on the business strategy and risk management guidelines confirmed by the Board of Directors and an authorisation system as well as the risk and deviation reports produced in terms of key business areas.

Sp Mortgage Bank does not have excessively large customer or investment portfolio risk concentrations in relation to its financial capacity, and in accordance with its strategy, Sp Mortgage Bank will take no such risks.

Sp Mortgage Bank maintains its capital adequacy at adequate level.

The Board of Directors is regularly informed on the risk positions and their changes affecting Sp Mortgage Bank. The Board also approves the authorizations and guidelines of risk-taking by determining risk limits for accepted risk types. The implementation of the risk stategy is monitored through monitoring and reporting of risk limits and thresholds, carried out by risk control unit independent of business operations. The Board of Directors also approves the authorities and framework for risk-taking by specifying the permitted risk thresholds for different risk types. The responsibility for daily risk monitoring and control is with the management according to set authorizations. The systems and procedures regarding risk reporting and monitoring fulfil the criteria set for risk management, taking into account the nature, scale and complexity of Sp Mortgage Bank's business operations.

Sp Mortgage Bank has established the following functions, independent of business operations, to ensure effective and comprehensive internal control system:

- independent risk control
- compliance
- internal audit

The task of the independent Risk Control unit is to ensure and monitor that the risk management framework of the Sp Mortgage Bank is adequate in relation to the nature, scale, complexity and risk level of the Sp Mortgage Bank's business operations. The Risk Control unit assists the Board of Directors and senior management of the Sp Mortgage Bank in their task to arrange adequate risk management framework and monitor the functionality and efficiency of the risk management framework.

The Compliance unit ensures that Sp Mortgage Bank complies with the legislation and authorities' regulation and guidelines. The Compliance unit is responsible for monitoring that Sp Mortgage Bank complies with the internal guidelines, ethical guidelines given to the personnel and other guidelines applied within the financial markets.

The Board of Directors of Sp Mortgage Bank has established internal audit for the bank and approved the internal audit plan and reporting principles.

The task of internal audit is to assess the scope and adequacy of the internal control of the bank's operating organisation and monitor and assess the functioning of the risk management systems. Internal audit reports on its observations to the Managing Director and the Board of Directors.

The Board of Directors of Sp Mortgage Bank is responsible for organising internal control in accordance with legislation, requirements of the authorities and guidelines issued by the Board of Directors of the Central Institution.

The Managing Director and other executives of Sp Mortgage Bank are responsible for organising internal control in accordance with legislation, requirements of the authorities and more detailed internal guidelines issued by the Central Institution and the bank's Board of Directors.

The independent functions of Savings Banks' Union Coop are responsible for Sp Mortgage Bank's independent functions.

The methods of risk management in the Amalgamation are maintained and developed by Central Institution's Risk Control unit. The objective is to ensure that the risk management covers all material risks, including any new and previously unidentified risks.

All significant or risk bearing commitments including significant risk are made in accordance with collegial decision making processes, and mandates are limited according to a structure. Internal operational guidelines are used to steer business operations and processes. Compliance with the internal guidelines as well as the updating process of the guidelines is monitored. Decisions and significant business operations are documented and archived. An essential part of risk management is executed in daily supervision. The execution of made decisions is monitored through approval and verification process, controls and reconciliations together with adequate follow-up, monitoring and reporting.

In its operations Sp Mortgage Bank is exposed to credit, market and operational risks, as well as business and liquidity risks

Credit and counterparty risks

The credit risk is the most significant risk of the Banking segment. The management and monitoring of the credit risk plays a major role when ensuring the adequacy of capital compared to business risks and losses caused by risk occurrence.

Credit risk is defined as a possibility that counterparty may not meet its contractual obligations. The main source of credit risk is lending, but credit risks (counterparty risk) may also arise from other types of assets, such as bank deposits, securities in investment portfolio and derivative contracts, as well as off balance-sheet liabilities, such as undrawn credit facilities and limits as well as granted guarantees.

The business of Sp Mortgage Bank is to issue euro-denominated covered bonds with residential mortgage loans as collateral under the Act on Mortgage Credit Banks and grant residential mortgage loans referred to in the Act on Mortgage Credit Banks. Sp Mortgage Bank finances only retail customers, which are private persons and entrepreneurs. The main target groups according to the Savings Banks Group's strategy are families and household of active age. The mortgage lending is focused to the private customer sector. The Savings Banks distributing residential mortgage loans comply with the lending goals set and approved by the each Savings Bank.

Management of credit risk

The Board of Directors of Sp Mortgage Bank steers the credit risk management, the methods used, as well as the monitoring and reporting by approving the credit risk strategy, other guidelines and by setting the risk limits and other thresholds. Sp Mortgage Banks's Risk Control monitors that the bank comply with these principles.

The business strategy of Sp Mortgage Bank and the credit-underwriting policies define the maximum exposure limits to risk concentrations and steer the lending by customer groups, industries and credit ratings. Saving Banks distributing residential mortgage loans mainly grant credits within their operational areas ensuring one of the essentials features for the lending of the Savings Banks: local and comprehensive knowledge of the customers.

Sp Mortgage Bank have outsourced main part of the loan processes and operations the loan distributing Savings Banks and to Savings Bank Services Ltd, which is responsible for the back office operations of Sp Mortgage Bank.

A distribution agreement has been concluded between Sp Mortgage Bank and Savings Banks distributing Sp Mortgage Bank's loans. This distribution agreement determines the right of Savings Banks to grant residential mortgage loans directly on the balance sheet of Sp Mortgage Bank. In the agreement, the Savings bank is defined as having an obligation/right to repurchase a loan from Sp Mortgage Bank which does not qualify for the cover pool of the mortgage credit bank or which has become a defaulted loan.

In the Savings Banks the Board of Directors makes the most significant credit decisions. Each Board of Directors delegates the necessary lending authorities to the banks' senior management/management team/credit committee and other named persons involved in the lending. The credit decisions are made according to Sp Mortgage bank's credit-underwriting policy as approved by the Board of Directors. The main principle is decision making by two persons having lending authorization. The credit decisions are based on the customers' credit worthiness, ability to pay and other criteria, for example regarding acceptable collaterals, applied to credit decision making. The collaterals are valued at fair value conservatively and their fair values are regularly monitored using both statistical information and bank's comprehensive knowledge about its operating area. The Board of Directors approves the instructions and guidelines for the valuation of the different collateral types and their collateral value applied in lending. The evaluation of the fair value of the collateral is always done on a case-by-case basis.

The loans to private customers are granted against sufficient residential collateral. Sp Mortgage Bank's loans have to continuously meet the criteria of the Act on Mortgage Credit Bank operations and the separate instructions given by the Board of Directors of Sp Mortgage Bank. The collateral is required to be the first priority residential collateral.

Residential mortgage loan pledged as collateral for a covered bond may not exceed the fair value of the shares or real estate used as collateral. Only 70 per cent of the fair value of the shares or real estate used as collateral for each residential mortgage loan is counted in the total amount of collateral for covered bonds.

The credit risk instructions laid down by the Savings Banks Amalgamation are used to calculate the fair value of the collaterals. Sufficient information is required regarding collaterals when making credit decisions. The fair value of the collateral is approved by the credit decision which is based on the valuation of the collateral. Credit decision is done based on the current and valid Savings Bank's lending authorization.

The fair value of the real estate is measured based on good real estate practice. The value of the collateral is updated when material changes occur which increases Sp Mortgage Bank's risks; e.g. when the fair value of the collateral has decreased materially or when there are changes in the codebtors.

In Sp Mortgage Bank, credit risk is regularly assessed by monitoring, for example, the amount of loans in arrears and the amount of non-performing loans. The customer account managers monitor the loan and collateral position of the customer based on the payment behavior and customers other activity. The Board of Directors of Sp Mortgage Bank receives regular reporting on customer exposures and non-performing loans. The reporting includes, among other things, the risk position and its development by customers, industries and credit ratings.

The loan portfolio of Sp Mortgage Bank increased during 2019 by 100 million and was 31.12.2019 EUR 1,957 (1,854) million. Loans on the balance sheet to private persons are 98 per cent and loans to entrepreneurs 2 per cent.

Breakdown of loans by customer groups

Customer group (EUR 1,000)	31.12.2019	31.12.2018	change %
Private persons	1,921,177	1,823,909	5 %
Entrepreneurs	35,956	29,911	20 %
Total	**1,957,133**	**1,853,820**	**6 %**

The credit worthiness of a private customer is based on the local Savings Bank's comprehensive customer knowledge and the assessment of the customer's ability to pay. The credit decision is mainly based on the customer's sufficient repayment ability. The customer's ability to pay, earlier repayment behavior, the credit scoring of the application together with the loan-to-value ratio forms the basis for the credit decision and the risk-based pricing.

According to the IFRS 9 Financial instruments standard effective on 1 January 2018 loans are classified into 9 different risk-rating classes.

Private lending by rating distribution

(EUR 1,000)			31.12.2019			% of portfolio	
Description	**12 M PD**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**31.12.19**	**31.12.18**
1 Excellent	0.0-0.3%	25,135			25,135	1 %	1 %
2 Good	0.3-0.4%	284,735	1,936		286,671	15 %	12 %
3 Good	0.4-1.0%	668,283	12,675		680,958	35 %	30 %
4 Average	1.0-1.9%	619,167	39,148	19	658,334	34 %	38 %
5 Average	1.9-3.7%	198,514	49,553	188	248,254	13 %	16 %
6 Weak	3.7-7.8%	21,752	15,857	252	37,861	2 %	2 %
7 Past due but not impaired	7.8-9.9%	3,852	15,136	253	19,240	1 %	1 %
8 Past due but not impaired	9.9-22.3%		576	102	678	0 %	0 %
Non-performing	100.0 %				0	0 %	0 %
Total		**1,821,437**	**134,881**	**815**	**1,957,133**	**100 %**	**100 %**

Retail customer ratings are mainly good. The retail customer's ratings improved during 2019. There are several reasons for improving credit portfolio, the most important of which is the initiation of the debt collection process before customer has more than 30 days past due receivables.

Concentration risks

The credit risk concentrations arise or may arise when the loan portfolio contains large amounts of loans and other exposures to the following

- Single counterparty
- Groups consisting of single counterparties and their interest groups
- Certain industries
- Against certain collateral
- With identical maturity
- Same product/instrument

The total amount of credit granted by Sp Mortgage Bank to a single customer and/or customer group must not exceed the maximum amounts set in the Credit Institutions Act or other acts, or the regulations given by the Financial Supervisory Authority or other regulatory authority. The concentration risks caused by an individual counterparty are restricted with limits and guidelines related to the maximum customer exposure.

Non-performing loans and payment delays

The non-performing loans and payment delays are followed regularly. Sp Mortgage Bank does not have any non-performing loans at 31.12.2019. In certain circumstances if the customer would otherwise face financial difficulties in the future the customer may be granted a change in the terms and conditions of the loan, for example interest-only period or restructuring the loan. The reason for these arrangements is to ensure the customers' ability to pay and avoid possible credit losses. The prerequisite for granting any forbearance measures to the loans is that the customers' financial difficulties are estimated to be short-termed and temporary.

Expected credit losses (ECL)

Expected credit losses have calculated on the contract level and those have divided by three different stages based on the condition of contract. On the top of the information about customer and contract, the calculations consider also the economy forecast from the Savings Banks Group Chief Economist. Note 2 Accounting policies includes the further description about ECL model.

The contract is in stage 1, if credit risk has not increased significantly since initial recognition, expected credit loss is calculated based on 12 months credit loss. The contract will be switched to stage 2, if credit risk has increased significantly since initial recognition, expected credit loss has calculated based on credit loss expected during the remaining duration. Lastly, stage 3 has used if contract has defaulted. Then expected credit loss has 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. All the stage 3 ECL amounts are evaluated at least quarterly.

Exposures is returning to stage 1, when it has fulfilled the stage 1 requirements for past 12 months. The same can be implemented for returning to stage 2 from stage 3. All returned exposures from stage 3 to stage 2 are under the monthly evaluations of expected credit losses.

Loans and receivables whose recovery is deemed impossible are recognized as credit losses. Credit losses have recognized in the deduction account. Non-recoverable loans and receivables are recognized as permanent credit loss and the impairment is cancelled when the normal recovery process is completed and the final amount of loss on an individual loan or receivable can be calculated.

Expected credit losses on loans and receivables was EUR 851 thousand 31.12.2019. Expected credit losses are 0.04 % of the credit portfolio. Note 2 explains more about the level movements of expected credit losses.

Market risk

In general, market risk refers to the impact of a change in market prices on the market value of financial assets and liabilities. The most important market risk in banking activities is the interest rate risk in the banking book, which is measured through both net present value and net interest income.

The business of Sp Mortgage Bank is to issue euro-denominated covered bonds with residential mortgage loans as collateral and grant residential mortgage loans as defined in the Act on Mortgage Credit Bank operations.

As defined, Sp Mortgage Bank does not have a trading book. Sp Mortgage Bank may acquire bonds used as temporary supplementary collateral or as a liquidity buffer, but otherwise it will not have an investment portfolio.

Sp Mortgage Bank does not take any equity risk, commodity risk or currency risk. Both the issued covered bonds and the residential mortgage loans used as their collateral and any temporary supplementary collateral and other balance sheet items and off-balance sheet items are all euro-denominated.

Market risk management

Limits and thresholds have been set for market risk measurement. The capital adequacy management process (ICAAP), which allocates capital to cover market risks of the banking book in normal and stress scenarios, is the main tool in measuring and monitoring market risks included in the banking book.

Interest rate risk in the banking book

Sp Mortgage Bank's key market risk is the interest rate risk in the banking book, which is monitored using both present value risk and income risk.

Interest rate risk refers to the adverse effect of interest rate changes on the market value (present value risk) or on the net interest income (income risk) of the balance sheet and off-balance sheet items.

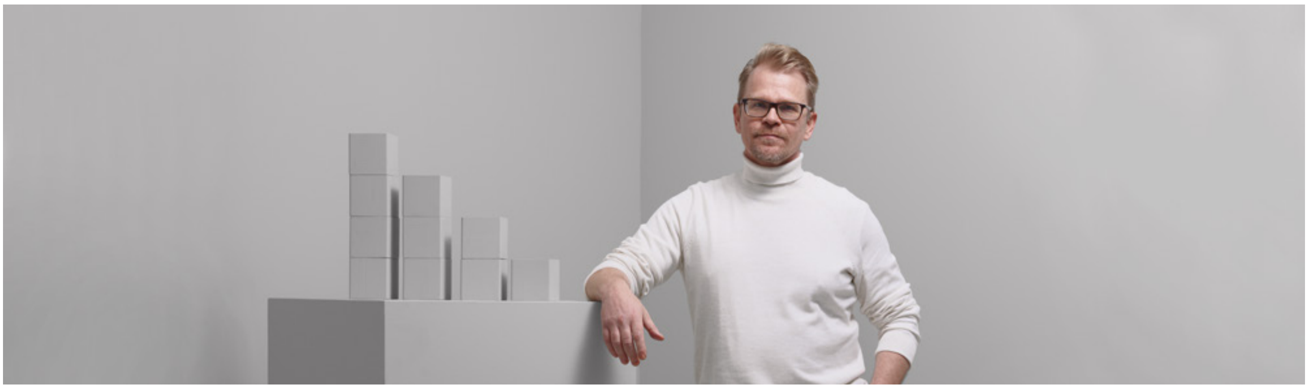
In Sp Mortgage Bank interest rate risk arises from the different interest rate bases of lending and funding.

In Sp Mortgage Bank derivative contracts will only be concluded to hedge against risks. Sp Mortgage Bank manages its interest rate risks by pegging both sides of its balance sheet to short-term market interest rates. Any supplementary collateral or bonds in the liquidity buffer will be hedged using short-term market interest rates. Hedge accounting is applied to the hedges implemented. All hedging derivatives will be implemented directly from Sp Mortgage Bank with a credit institution outside the Savings Banks Group.

The interest rate risks are measured using both the net interest income and the change in the present value of the balance sheet. The net present value method measures the change of the net present value of the balance sheet resulting from a change in interest rates when each balance sheet item is valued as the present value of its cashflows. The income risk model predicts the future net interest income over one year with changing market interest rates.

The table below shows the net interest income's sensitivity to a 1 percentage point's parallel shift in the interest rate curve.

Liquidity risk



Net interest income sensitivity to a 1 % -point parallel shift in the ineterest rate curve

(EUR 1,000)	Change in net interest income			
	31.12.2019		31.12.2018	
Period	Down	Up	Down	Up
Change in the coming 12 months	6,264	-97	4,281	1,083
Change in 12-24 months	13,623	-1,214	9,087	1,793

Liquidity risk is the risk that the bank is unable to meet its present or future expected or unexpected obligations as they come due, or is unable to do so without incurring unacceptable losses.

Sp Mortgage Bank does not take deposits from the public. Sp Mortgage Bank has an agreement on the use of liquid assets with the Central Bank of Savings Banks Finland Plc. A distributing Savings Bank or the Central Bank of Savings Banks Finland Plc representing it will finance the loans it has distributed with the amount that corresponds to the collateral requirement set by the rating agency. The overcollateralization amount is funded through the credit facility granted by the Central Bank of Savings Banks Finland Plc.

The liquidity reserve and the liquidity requirement

Sp Mortgage Bank has a reserve of free liquid assets in case of a rapid and unexpected weakening of the liquidity situation. The size of the liquidity reserve is determined on the basis of the liquidity coverage requirement. The liquidity reserve, i.e. the liquidity portfolio, consists of assets held in a payment transaction account and an LCR account. The sufficiency of the liquidity reserve will be measured by the LCR ratio defined in the Delegated Regulation.

Assets 31.12.2019 (EUR 1,000)	Total	< 3 months	3-12 months	1-5 years	> 5 years
Loans and advances to credit institutions	94,318	94,318			
Loans and advances to customers	1,956,315	29,722	94,821	511,020	1,320,753
Financial assets total	**2,050,634**	**124,041**	**94,821**	**511,020**	**1,320,753**

Liabilities 31.12.2019 (EUR 1,000)	Total	< 3 months	3-12 months	1-5 years	> 5 years
Due to credit institutions and central banks	460,300	72,800	354,000	12,000	**21,500**
Debt securities in issue	1,500,000			1,000,000	**500,000**
Financial liabilities total	**1,960,300**	**72,800**	**354,000**	**1,012,000**	**521,500**

Assets 31.12.2018 (EUR 1,000)	Total	< 3 months	3-12 months	1-5 years	> 5 years
Loans and advances to credit institutions	44,151	44,151			
Loans and advances to customers	1,853,820	28,706	87,849	460,906	1,276,359
Financial assets total	**1,897,971**	**72,857**	**87,849**	**460,906**	**1,276,359**

Liabilities 31.12.2018 (EUR 1,000)	Total	< 3 months	3-12 months	1-5 years	> 5 years
Due to credit institutions and central banks	813,000	160,000	640,000	10,000	**3,000**
Debt securities in issue	1,000,000			1,000,000	
Financial liabilities total	**1,813,000**	**160,000**	**640,000**	**1,010,000**	**3 000**

Operational risk

Operational risk refers to the risk of loss arising from inadequate or failed internal processes, personnel, systems or external factors. Legal and compliance risks are also included in the operational risks. In addition, reputational risks are managed as a part of operational risks. The various stages of lending and trading processes also involve operational risks as well credit, liquidity and market risks, which are assessed in the evaluation of operational risks at the Group and Amalgamation level. Strategic risks have here been excluded from operational risks.

Sp Mortgage Bank's operations comply with the current legislation, government regulations, the rules of good banking practices as confirmed by the Federation of Finnish Financial Services and the principles of the management of operational risks, along with other internal guidelines of Sp Mortgage Bank.

The Board of Directors of Sp Mortgage Bank has the overall responsibility for the operational risks and for defining risk levels and operational risk management procedures related to their identification, measurement, mitigation, monitoring and control. The Board of Directors of Sp Mortgage Bank approves the principles and key operational guidelines of the operational risk management. The risk and compliance function monitors that the operational risk guidelines are implemented and complied with in all operations and functions in Savings Banks Group.

Sp Mortgage has identified the operational risks associated with the most important products, services, operations, processes and systems. Identifying operational risks helps determine their monitoring and controls. Some of the losses caused by operational risks are covered by insurance. The continuity plan of the bank also helps prepare for significant interruptions in operations.

Within Sp Mortgage Bank, operational risks, realized losses and near misses are regularly reported to the management.

Legal risk

Legal risks refer to risk of loss due to an invalid contract or incomplete documentation and the risk of sanctions, liability to compensate customers and loss of goodwill due to non-compliance with laws or official regulations. Sp Mortgage Bank complies with standard terms worked out jointly by the banking industry. When finalizing non-standard agreements, legal services are used and external experts are consulted when needed.

Compliance function has been established to ensure that Sp Mortgage Bank comply with regulations and internal guidelines. Compliance function's responsibility is to ensure that the bank comply with laws, regulations and guidelines. Compliance function also monitors that the bank comply with its own internal guidelines, ethical principles for personnel and other instructions. There are no risk tolerance for compliance risks and necessary means are taken to prevent any compliance risks to materialize in Savings Banks Group.

Business risk

Business risk describes the impact of uncertainties caused by the operating environment on Sp Mortgage Bank's business. Business risks arise from competition, from changes in markets and customer behavior as well as from unexpected income fluctuations. Business risks may also be caused by choosing a wrong strategy, ineffective management or slow response to changes in the operating environment.

Business risks are managed and minimized through strategic and business planning.

NOTE 5. CAPITAL ADEQUACY MANAGEMENT

Sp Mortgage Bank has adopted capital adequacy management process, the objective of which is to ensure the bank's risk-bearing capacity is sufficient in relation to all the major risks resulting from its business operations. Sp Mortgage Bank identifies and comprehensively assesses the risks associated with its business operations and ensures that its risk-bearing capacity is adequate when compared to the sum of all risks. The internal capital requirements specified through the capital adequacy management are based on the capital requirements under Pillar I and risks outside Pillar I, such as interest rate risk of the banking book, market risk of the investment portfolio and business risk. In the internal assessment process, Sp Mortgage Bank estimates the amount of capital that will also be sufficient to cover unexpected losses arising from risks outside Pillar I.

The Board of Directors of the bank has overall responsibility for capital adequacy management. The Bank's Board of Directors approves the basis, objectives and principles of capital adequacy management. Moreover, the Board of Directors confirms the general requirements for the measurement and assessment of capital adequacy and the general principles for the capital adequacy management process. In practice this means that the Board of Directors approves the risk strategies and defines target levels for the capital needed to cover all material risks caused by the business operations and changes in the operating environment, The capital adequacy, liquidity and riskpositions of the entities belonging to the Savings Bank Amalgamation are monitored and consolidated at the Amalgamation level. The Board of Directors of the Central Institution has set target levels for the capital adequacy of the Amalgamation and banks, which are monitored quarterly.

Stress tests

As part of the capital adequacy management process, Sp Mortgage Bank uses stress tests to assess its own risk position and the adequacy of its capital. Stress tests are used when assessing how various exceptionally severe but possible scenarios may affect profitability, capital adequacy and adequacy of own funds. Stress tests are designed to identify the key risks to Sp Mortgage Bank and assess how vulnerable the structure of the Bank is in relation to the occurrence of those risks. The objective of the capital adequacy management is also to maintain and develop the quality of risk management framework.

Capital contingency plan

The capital contingency plan of Sp Mortgage Bank is made in order to be prepared for unforeseeable events that may threaten the bank's capital adequacy. The capital contingency plan includes target levels and thresholds set by the Board of Directors for the quantity and quality of the capital, which are monitored quarterly. The capital contingency plan describes the actions to be taken by the management and the Board of Directors in the event that the capital adequacy ratio falls below the threshold.

Pillar I capital requirements

The biggest capital requirements of Sp Mortgage Bank are comprised of mortgage loan receivables. The standard method is applied to calculate the capital requirement for credit risk of the Bank. The capital requirement for operational risk is calculated by the basic method.

Own funds and capital adequacy

Sp Mortgage Bank's own funds totalled EUR 98 (88) million. CET1 capital amounted to 98 (88) million euro. Tier 1 capital amounted also to EUR 98 (88) million. The capital and reserves consist entirely of common equity tier 1 capital, core capital, and Sp Mortgage Bank has no equity classified as Tier 2 or other capital. The capital ratio of Sp Mortgage Bank was 13.7 % and the CET1 capital ratio was 13.7 %.

The information concerning Sp Mortgage Banks' capital adequacy is included in the consolidated financial statement of the 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 capital requirement of Sp Mortgage Bank is formed by:

- 8 % minimum capital requirements set by Capital Requirement Regulation (CRR),
- 2.5 % CET1 capital conservation buffer of according to the Act on Credit Institutions

The country-specific countercyclical CET1 capital requirements of foreign exposures.

The Finnish Financial Supervisory Authority is responsible for domestic macro prudential deciion 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 taken at least once a year.

In the beginning of the year 2018 Credit Institution Act was changed to include a new macroprudential measure, Systemic Risk Buff er. Due to this change FIN-FSA is allowed to use a new macro prudential measure which purpose is to handle the fi nancial system risks from the long term perspective and outside the business cyclicals. FIN-FSA made decision to keep the level of SRB unchanged on 28th of June 2019. The systemic risk buff er requirement for Savings Banks Amalgamation will be 1 % of risk weighted assets, and this requirement enters into eff ect 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 to Savings Banks Amalgamation 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 fi rst 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 fulfi lled 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 eff ective 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 fi rst-home loans came into eff ect on 1 July 2018. In the year 2018 FIN-FSA decided not to impose countercyclical buff er 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.

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.

Pillar III note includes the information in accordance with the EU's Capital Requirements Regulation (575/2013) regarding the capital adequacy of the Amalgamation. The Savings Banks Group's financial statements and Pillar III capital adequacy information are available online at *www.saastopankki.fi/saastopankkiryhma* or from the Savings Banks Union Coop offices at Teollisuuskatu 33, 00510 Helsinki, Finland.

Sp Mortgage Bank's capital adequacy's main items

Own funds (EUR 1,000)	31.12.2019	31.12.2018
Common Equity Tier 1 (CET1) capital before regulatory adjustments	98,397	88,184
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-39	-394
Common Equity Tier 1 (CET1) capital	98,358	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)	98,358	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)	98,358	87,791
Risk weighted assets	715,469	654,052
of which: credit and counterparty risk	683,047	634,720
of which: credit valuation adjustment (CVA)	22,022	8,432
of which: market risk		0
of which: operational risk	10,400	10,900
Common Equity Tier 1 (as a percentage of total risk exposure amount)	13.7 %	13.4 %
Tier 1 (as a percentage of total risk exposure amount)	13.7 %	13.4 %
Total capital (as a percentage of total risk exposure)	13.7 %	13.4 %
Capital requirement		
Total capital requirement	98,358	87,791
Capital requirement total*	75,130	68,677
Capital buffer	23,228	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 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 Bank's Tier 1 capital to total liability.

Leverage ratio

(EUR 1,000)	31.12.2019	31.12.2018
Tier 1 capital	98,358	87,791
Leverage ratio exposure	2,081,645	1,913,797
Levarage 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 31 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.

PROFIT FOR THE FINANCIAL YEAR

NOTE 6. NET INTEREST INCOME

(EUR 1,000)	1-12/2019	1-12/2018
Interest income		
Loans and advances to customers	20,234	18,682
Derivative contracts		
Hedging derivatives	4,410	3,850
Other	67	18
Total	**24,710**	**22,550**
Interest expense		
Liabilities to credit institutions	-2,696	-2,819
Derivative contracts		
Hedging derivatives		11
Debt securities issued	-2,149	-1,793
Limits	-546	-661
Other	-103	-131
Total	**-5,495**	**-5,394**
Net interest income	**19,216**	**17,157**

NOTE 7. NET FEE AND COMMISSION INCOME

(EUR 1,000)	1-12/2019	1-12/2018
Fee and commission income		
Lending	679	557
Total	**679**	**557**
Fee and commission expense		
Asset management*	-14,651	-11,719
Other	-2	-3
Total	**-14,653**	**-11,722**
Net fee and commission income	**-13,974**	**-11,165**

* Consists mainly of fees paid to the intermediating banks.

NOTE 8. NET TRADING INCOME

(EUR 1,000)	1-12/2019	1-12 2018
Net income from hedge accounting		
Change in hedging instruments' fair value	6,636	8,091
Change in hedged items' fair value	-6,865	-9,360
Net trading income	**-228**	**-1,269**

NOTE 9. INCOME AND EXPENSES FROM FINANCIAL INSTRUMENTS

(EUR 1,000)	1-12/2019	1-12/2018
Interest income on		
Unimpaired amortized cost investments	20,301	18,701
Total interest income arising from financial assets not measured at fair value through profit or loss	**20,301**	**18,701**
Finance income	**20,301**	**18,701**
Financial liabilities measured at amortized cost - interest expense	-5,495	-5,405
Loan receivables - impairment loss	-24	20
Finance expenses	**-5,519**	**-5,385**
Net income and expenses from financial instruments	**14,782**	**13,316**

NOTE 10. PERSONNEL EXPENSES

(EUR 1,000)	1-12/2019	1-12/2018
Wages and salaries	-21	-33
Personnel expenses	**-21**	**-33**

NOTE 11. OTHER OPERATING EXPENSES

(EUR 1,000)	1-12/2019	1-12/2018
Other administrative expenses		
Other personnel expenses	-1	-2
Office expenses	-908	-799
ICT expenses	-529	-515
Telecommunications	-7	-5
Marketing	-7	-6
Total	**-1,452**	**-1,327**
Other operating expenses		
Other operating expenses*	-390	-335
Total	**-390**	**-335**
Other operating expenses total	**-1,842**	**-1,662**

***Audit fees**		
Statutory audit	-18	-15
Other services	-27	-1
Total	**-45**	**-16**

NOTE 12. DEPRECIATION OF INTANGIBLE ASSETS

(EUR 1,000)	1-12/2019	1-12/2018
Depreciation of intangible assets	-361	-361
Total depreciation	**-361**	**-361**
Depreciation of intangible assets	**-361**	**-361**

NOTE 13. 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 31 December 2019				
Loans and advances	1,821,437	134,881	815	1,957,133
Off-balance sheet items	15,533	381		15,915
Total	**1,836,971**	**135,262**	**815**	**1,973,048**
Financial asset 31 December 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	145	103	3	251
Assets derecognised or repaid (excluding write offs)	-147	-82	-3	-232
Transfers from Stage 1 to Stage 2	-23	133		110
Transfers from Stage 1 to Stage 3				
Transfers from Stage 2 to Stage 1	20	-125		-105
Transfers from Stage 2 to Stage 3				
Transfers from Stage 3 to Stage 2		2	-2	
Net change in ECL				-24
Expected Credit Losses 31 December 2019	**497**	**350**	**4**	**851**

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 1				
Transfers from Stage 3 to Stage 2		3		3
Net change in ECL				-20
Expected Credit Losses 31 December 2018	**502**	**320**	**6**	**827**

NOTE 14. INCOME TAXES

(EUR 1,000)	1-12/2019	1-12/2018
Current tax	-553	-368
Tax for prior years		17
Change in deferred tax assets		-167
Change in deferred tax liabilities		-2
Income taxes	**-553**	**-520**
Total income taxes	**-553**	**-520**

Reconciliation between tax expense in the income statement and tax expense calculated by the applicable tax rate

Reconciliation of effective tax rate		
Accounting profit before tax	2,766	2,686
Differences between accounting and taxable profit		-847
Taxable profit	**2,766**	**1,839**
Tax using the domestic corporation tax rate	-553	-537
Tax for prior years		17
Tax expense as specified above	**-553**	**-520**
Corporate income tax rate	**20 %**	**20 %**

ASSETS

NOTE 15. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

31.12.2019 (EUR 1,000)	Amortized costs	Financial assets at fair value through profit or loss	Total
Loans and advances to credit institutions	94,318		94,318
Loans and advances to customers	1,956,315		1,956,315
Derivatives		12,412	
hedging derivatives		12,412	
fair value		12,412	12,412
Total assets	**2,050,634**	**12,412**	**2,063,046**
Liabilities to credit institutions	460,300		460,300
Debt securities issued	1,505,074		1,505,074
Total liabilities	**1,965,374**		**1,965,374**

31.12.2018 (EUR 1,000)	Amortized costs	Financial assets at fair value through profit or loss	Total
Loans and advances to credit institutions	44,151		44,151
Loans and advances to customers	1,852,994		1,852,994
Derivatives		5,776	
hedging derivatives		5,776	
fair value		5,776	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 16. LOANS AND ADVANCES

2019 (EUR 1,000)	Not impaired (gross)	Expected credit losses (ECL)	Balance sheet value
Loans and advances to credit institutions			
Deposits*	94,318		94,318
Total	**94,318**		**94,318**

*of which Deposits to Credit Institutions belonging to the Savings Banks Amalgamation EUR 94,318 thousand.

Loans and advances to customers			
Loans	1,957,133	-817	1,956,315
Total	**1,957,133**	**-817**	**1,956,315**
Loans and advances total	**2,051,451**	**-817**	**2,050,634**

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 17. 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)	Norminal value / remaining maturity		Fair value	
31.12.2019	1 - 5 years	Total	Assets	Liabilities
Hedging derivative contracts				
Fair value hedging	1,500,000	1,500,000	12,412	
Interest rate derivatives	1,500,000	1,500,000	12,412	
Total	**1,500,000**	**1,500,000**	12,412	
Derivatives total			**12,412**	

(EUR 1,000)	Norminal 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**	0

NOTE 18. INTANGIBLE ASSETS

(EUR 1,000)	31.12.2019	31.12.2018
Intangible assets	29	390
Intangible assets under development		
Total	**29**	**390**

Intagible assets formed a significant part of information systems acquired from external operators.

2019 (EUR 1,000) Changes in intangible assets	Intangible assets	Intangible assets under development	Total
Acquisition cost 1 January	752		752
Transfers between items			
Acquisition cost 31 December	752		752
Accumulated depreciation and impairments 1 January			
Depreciation for the financial year	-361		-361
Accumulated depreciation and impairments 31 December	-723		-723
Carrying amount 31 December	**29**		**29**

2018 (EUR 1,000) Changes in intangible assets	Intangible assets	Intangible assets under development	Total
Acquisition cost 1 January	748	4	752
Transfers between items	4	-4	
Acquisition cost 31 December	752	0	752
Accumulated depreciation and impairments 1 January			
Depreciation for the financial year	-361		-361
Accumulated depreciation and impairments 31 December	-361		-361
Carrying amount 31 December	**390**	**0**	**390**

NOTE 19. OTHER ASSETS

(EUR 1,000)	31.12.2019	31.12.2018
Accrued income and prepaid expenses		
Interest	2,855	2,307
Other accrued income and prepaid expenses	859	767
Other assets total	**3,714**	**3,074**

LIABILITIES AND EQUITY

NOTE 20. LIABILITIES TO CREDIT INSTITUTIONS

(EUR 1,000)	31.12.2019	31.12.2018
Other than those repayable on demand*	460,300	815,240
Total liabilities to credit institutions	**460,300**	**815,240**

*of which Liabilities to Credit Institutions belonging to the Savings Banks Amalgamation EUR 451 500 (813,000) thousand.

NOTE 21. DEBT SECURITIES ISSUED

	31.12.2019		31.12.2018	
(EUR 1,000)	Nominal value	Carrying amount	Nominal value	Carrying amount
Measured at amortised cost				
Covered bonds	1,500,000	1,495,065	1,000,000	997,099
Fair value hedging on covered bonds		10,009		3,145
Total debt securities issued	**1,500,000**	**1,505,074**	**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	499,399	5 v	Fixed	0.10 %	29.11.2021
Sp Mortgage Bank 2017	500,000	498,369	5 v	Fixed	0.125 %	24.10.2022
Sp Mortgage Bank 2019	500,000	497,297	7 v	Fixed	0.050 %	19.6.2026
Yhteensä	**1,500,000**	**1,495,065**				

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

NOTE 22. PROVISIONS AND OTHER LIABILITIES

(EUR 1,000)	31.12.2019	31.12.2018
Other liabilities		
Payment transfer liabilities	108	63
Expected credit losses (ECL), off-balance sheet items	33	
Total other liabilities	**141**	**63**
Accrued expenses		
Interest payable	1,111	1,484
Interest advances received	4	4
Other accrued expenses	1,761	1,263
Total accured expenses	**2,876**	**2,750**
Total provisions and other liabilities	**3,018**	**2,813**

NOTE 23. CAPITAL AND RESERVES

(EUR 1,000)	31.12.2019	31.12.2018
Share capital	61,937	56,601
Reserves		
Reserve for invested non-restricted equity	30,922	28,258
Retained earnings		
Profit (loss) for previous financial years	3,325	1,159
Profit (loss) for the period	2,213	2,167
Total capital and reserves	**98,397**	**88,184**

Share capital

This item includes the paid share capital. If share capital is wholly or partly not entered in trade register, the unregistered amount must be presented in the balance sheet separately as a sub-item of this item.

Reserve for invested non-restricted equity

Reserve for invested non-restricted equity includes the portion of subscription price which is not recognised in share capital and, according to the Accounting Act, is not recognised in liabilities, as well as other equity investments which are not recognised in other reserves. Furthermore, the reserve includes the amount by which share capital is reduced and which is not used to cover confirmed loss nor is distributed to shareholders.

Retained earnings

This item includes the profit for the period as indicated by the income statement, as well as profit for prior periods to the extent that it has not been transferred to other equity items or distributed to shareholders.

OTHER NOTES

NOTE 24. COLLATERALS

(EUR 1,000)	31.12.2019	31.12.2018
Collateral given		
Given on behalf of Group's own liabilities and commitments		
Loans	1,881,238	1,782,148
Total colateral given	**1,881,238**	**1,782,148**
Collateral received		
Real estate collateral	1,957,039	1,853,574
Other	8,894	246
Total collateral received	**1,965,933**	**1,853,820**

NOTE 25. OFF BALANCE-SHEET COMMITMENTS

(EUR 1,000)	31.12.2019	31.12.2018
Loan commitments	10,818	13,473
Money Market Deposits*	40,000	60,000
Total off balance-sheet commitments	**50,818**	**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 26. 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) 31.12.2019				Amounts which are not offset but are subject to enforceable master netting arrangements or similar agreements			
	Recognised financial assets, gross	Recognised financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Carrying amount of Financial instruments in balance sheet, net	Carrying amount in balance sheet of financial instruments recieved as collateral	Cash held as collateral	Net amount
Assets							
Derivative contracts				12,412			12,412
Total				**12,412**			**12,412**
Liabilities							
Derivative contracts						8,800	8,800
Total						**8,800**	**8,800**

(EUR 1,000) 31.12.2018				Amounts which are not offset but are subject to enforceable master netting arrangements or similar agreements			
	Recognised financial assets, gross	Recognised financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Carrying amount of Financial instruments in balance sheet, net	Carrying amount in balance sheet of financial instruments recieved 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 27. FAIR VALUES BY VALUATION TECHNIQUE

Fair value measurement

Financial instruments are presented in the Sp Mortgage Bank's balance sheet at amortised cost and at 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 (Note 2).

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 reporting 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 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. 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.

In the financial reporting period January to December 2019, there were no transfers between levels 1, 2 and 3.

Financial assets 31.12.2019 (EUR 1,000)	Carrying amount	Fair value by hierarchy level			Fair value
		Level 1	Level 2	Level 3	total
Measured at fair value					
Derivatives	12,412		12,412		**12,412**
Measured at amortised cost					
Loans and advances	2,050,634		2,275,344		**2,275,344**
Total financial assets	**2,063,046**		**2,287,756**	**0**	**2,287,756**

Financial liabilities 31.12.2019 (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	460,300		465,697		**465,697**
Debt securities issued*	1,505,074	1 505 074			1 505 074
Total financial liabilities	**1,965,374**	**1 505 074**	**465,697**		**1 970 771**

* Carrying amount includes the adjustment from the hedging EUR 10.0 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					
Derivatives	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**	**0**	**2,351,209**	**0**	**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	1 000 243			**1 000 243**
Total financial liabilities	**1,815,483**	**1 000 243**	**817,936**		**1 818 180**

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

NOTE 28. 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.

Key management personnel compensation * (EUR 1,000)	2019	2018
Short-term employee benefits	21	24
Total	**21**	**24**

Key personnel compensation*

2019	**Salary and remuneration**
Ahonen Pirkko	5
Hakala Jussi	1
Syvänen Hannu	8
Siviranta Petri	5
Huupponen Juhani	2
Total	**21**

2018	
Seppälä Risto	2
Hakala Jussi	7
Syvänen Hannu	7
Huupponen Juhani	10
Total	**24**

NOTE 29. SUBSEQUENT EVENTS

The Board of Directors of Sp Mortgage Bank is not aware of any other factors, which would materially influence the financial position of Sp Mortgage Bank after the completion of the financial statements.

CAPITAL ADEQUACY INFORMATION

NOTE 30. 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.

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This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

Auditor's Report

To the Annual General Meeting of Sp Mortgage Bank Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sp Mortgage Bank Plc (business identity code 2685273-8) for the year ended 31 December, 2019. The financial statements comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies.

In our opinion the financial statements give a true and fair view of the bank's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Our opinion is consistent with the additional report submitted to the Board of Directors.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the company in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the company in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 11 to the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Valuation of receivables (loans and receivables from customers); Notes to financial statements 2, 3, 4 and 13	
— Sp Mortgage Bank adopted the IFRS 9 *Financial instruments* –standard on 1 January 2018. — The Calculation of expected credit losses is based on the valuation models used by the bank. The calculation of expected credit losses involves assumptions, estimates and management judgements for example in respect to the probability and amount of the expected credit losses, the realizable value of the collateral as well as determining significant increases in credit risk. — Due to the significance of the carrying amount involved, complexity of the accounting methods and management judgement involved, receivables from customers are addressed as a key audit matter.	— We assessed principles and controls over recognition and monitoring of loan receivables. Our audit procedures included testing of controls regarding determination and recording of expected credit losses on loans. — Furthermore, we assessed the appropriateness of the note disclosures made in relation to receivables and impairment losses.
Valuation of derivative instruments; Notes to financial statements 2, 8 and 17	
— Sp Mortgage Bank hedges its interest rate risk from changes in fair value and applies hedge accounting to hedging relationships. — At year-end the nominal value of derivatives is significant, amounting to € 1,5 billion. As derivatives are measured at fair value in preparing financial statements, this may	— We assessed the appropriateness of the measurement principles applied and the compliance with the applicable financial reporting standards. — We also considered the accuracy of the fair values determined.

result in significant volatility in the income statement.

— Fair values for the derivatives used by the company are not directly observable in an active market, instead the company determines fair values using applicable fair value models.

— Furthermore, we assessed the appropriateness of the note disclosures made in relation to derivatives.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and that financial statements comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the bank's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the company or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on 16 of April 2015, and our appointment represents a total period of uninterrupted engagement of 5 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. Our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the report of the Board of Directors, we are required to report that fact. We have nothing to report in this regard.

Helsinki, 4 February 2020

KPMG OY AB

PETRI KETTUNEN
Authorised Public Accountant, KHT