SP MORTGAGE BANK PLC

Half- year Report 1 January-30 June 2016

HALF- YEAR REPORT 1 JANUARY–30 JUNE 2016

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SP MORTGAGE BANK PLC'S HALF- YEAR REPORT 1.1.– 30.6.2016

Sp Mortgage Bank Plc's operation was launched

Sp Mortgage Bank Plc received authorisation to operate as a mortgage bank, granted by the European Central Bank 21 March 2016. At the same time the company's name was changed from Sp-KLP Palvelu Oy to Sp Mortgage Bank Plc (hereinafter "Sp Mortgage Bank"). Sp Mortgage Bank is the first Finnish bank that has applied for and granted bank authorisation by the European Central Bank. The mortgage bank operation was launched 29 March 2016.

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 will be 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 take care of the local customer relationship management.

The Savings Banks Group and the Savings Banks Amalgamation

Sp Mortgage Bank is part of the Savings Banks Group and the Savings Banks Amalgamation. Bank's financial statement is consolidated into Savings Banks Group's consolidated financial statement. Sp Mortgage Bank is a member of Savings Banks' Union Coop.

The Savings Banks Group (hereinafter also "the Group") is the most longstanding banking group in Finland. It comprises of Savings Banks that formed the Savings Banks Amalgamation, the Savings Banks' Union Coop which acts as the Central Institution and the subsidiaries and associated companies owned by the Savings Banks.

The member organisations of the Savings Banks Amalgamation (hereinafter also "the Amalgamation") form a financial entity as defined in the Act on the Amalgamation of Deposit Banks (24.6.2010/599), in which the Savings Banks' Union Coop and its member credit institutions ultimately are jointly liable for each other's liabilities and commitments. The Amalgamation comprises the Savings Banks' Union Coop, which acts as the Central Institution of the Amalgamation, 23 Savings Banks, Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc as well as the companies within the consolidation groups of the above-mentioned entities and Sp-Fund Management Company Ltd. The scope of the Savings Banks Group differs from that of the Savings Banks Amalgamation in that the Group also includes institutions other than credit and financial institutions or service companies. The most notable of these are Sb Life Insurance Ltd and Sp-Koti Oy.

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

Description of the operational environment

During the first half of 2016, the central banks continued to engage in exceptionally strong stimulating monetary policy. The main risk factors for economic stability were created by the slow in China's economic growth, the credibility of the central banks' measures from the perspective of the markets, the increase in political risks in Europe and the strong fall in raw material prices. Of the political risks, the most significant factor was the departure of the UK from the European Union. The departure will have a negative impact on economic growth and the development of the investment markets during the last half of the year. If the uncertainty continues for long, it is possible that the global economy will once again plunge into a recession. Global economic growth and world trade have slowed down significantly since the 2008 financial crisis, and the growth outlooks for the coming years remain at a low level. The growth of the global economy will remain close to the 3.5 per cent level in the coming years, with the slowdown in growth being strongest in China and the euro zone. This will have significant impacts on Europe and especially Finland.

In March 2016, the European Central Bank announced a significant recovery programme through which it aims to increase inflation expectations and increase lending in the euro zone. The ECB has committed to continuing its stimulating monetary policy, which, in the future, will focus stronger on recovery occurring by increasing the balance sheet rather than decreasing interest rates. In June 2016, the Central Bank began purchasing bonds issued by companies for the first time. At the same time, the Federal Reserve has been gradually normalising its monetary policy and increasing its key interest rate. This divergence of monetary policy is also reflected in changes in base price inflation in the euro zone and the United States. From the perspective of the euro zone and specifically the Central Bank, one of the largest problems has been deflationary pressure and low inflation expectations.

In the United States, improved outlooks for the labour markets and higher economic growth compared to the euro zone have created conditions for an increase in inflation. This places the Federal Reserve in a challenging situation, wherein it is trying to raise the key interest rate while at the same, the risks facing global economic growth are significant. From the perspective of investment markets, this increases uncertainty and leads to quick fluctuations in share prices. The increase in political risks in the euro zone is also a factor leading to uncertainty. The departure of the UK from the European Union may force the Central Banks to increase recovery measures in order to stabilise the investment markets and the economy. The European Union is living through the largest crisis in its history, and there is strong opposition to the integration process in several member states.

On the investment markets, the first quarter of the year was characterised by uncertainty, and the stock and corporate loan market saw a significant drop in total return index levels. Long-term interest rates dropped to a historical low due to market uncertainty and the ECB's securities purchases. Short-term interest rates also dropped strongly to a negative level, and it is unlikely that they will see an increase in the near future. Risk premiums on corporate loans saw growth in February due to uncertainty in the investment markets, but as a result of the strong demand and measures taken by the ECB, risk premiums had already dropped by the end of the first quarter. For the investment markets, the most significant change could be seen in the raw material markets. The price of crude oil dropped to its lowest rate since 2003. During the second quarter, levels of returns increased in all asset categories, and prices on the raw material markets also increased as investors' confidence improved.

For the second half of the year, uncertainty in the investment markets will remain at a high level and the focus will remain on the acknowledged risk factors for the global economy, such as China's economic development, political risks in Europe and the success of the Central Banks' monetary policy. The dependence of the investment markets on the stimulating monetary policy of the Central Banks poses a great risk, as the economic growth of companies is at a low level and there is little leeway when it comes to the drop in interest rates.

The challenges to the Finnish economy have grown at a stronger rate than in the rest of the euro zone. Efforts to improve competitiveness and profitability have been delayed, while at the same time, the outlooks for the public economy have become weaker. The recently signed competitiveness pact is a step in the right direction in terms of restructuring, but the content of the measures agreed upon is insufficient. From the perspective of credit rating agencies, it is worrisome how difficult a process it was to reach this agreement, and there is little time left for implementing the next measures. Adapting to the sanctions placed on Russian trade is still under way, and the slowdown in global demand has forced the export industry to take adaptive measures and make reductions in the number of employees. The departure of the UK from the European Union will also increase uncertainty regarding the future of the Finnish export sector. The service and construction sectors are areas that have shown signs of recovery, which can be seen in the form of increased salary levels in those sectors. However, the indebtedness of the public economy is growing strongly, and the slow economic growth is not enough to bring enough tax revenue to cover the deficit. Deflation pressures can clearly be seen in the Finnish economy as inflation remains nearly at zero. Finland's credit rating continues to face pressure.

The Savings Banks Group expects the housing market to grow this year by a total of 2–5% and for prices to increase by 1–2% throughout the country. New construction is still expected to pick up. In the first half of the year, prices of old apartments in terraced houses and apartment blocks have been on the rise in the Helsinki Metropolitan Area, whereas prices in the rest of Finland saw a slight decrease. The most significant positive drivers for housing trade were affordable loans and the improvement of their availability, as well as the slight recovery in consumer confidence. First-time home buyers have also returned to the markets. For the Finnish economy, construction activity represents a light at the end of the tunnel, and it is clearly growing brighter: According to Statistics Finland, the construction sector grew by 2.7 per cent from the previous quarter in January–March, and by as much as 8.0 per cent from the previous year. Housing construction has clearly been on the rise. The optimism about the near future of the housing markets is tempered by the general development of the employment situation as well as volume of construction, which continues to be relatively low. According to the views of the Savings Banks Group, however, the Finnish housing markets are, in any case, becoming more established. For the housing market, last year was a considerably more uniform year than the two preceding years, and the fluctuations within the year were also more normal.

Profit and balance sheet

Sp Mortgage Bank converted from the Finnish Accounting Standard (FAS) to the International Financial Reporting Standards (IFRS) practices on 1 January 2016. The Half- year Report released on 30 June 2016 complies with the IAS and IFRS standards and the SIC and IFRIC interpretations that were in effect as of 30 June 2016. International Financial Reporting Standards refer to those standards and interpretations that have been approved according to Regulation (EC) No 1606/2002 of the European Parliament and of the Council. Converting to IFRS reporting has changed the basis of preparation of Sp Mortgage Bank's financial statements as well as the way the calculations of the financial statements are presented. The change does not, however, have an effect on Sp Mortgage Bank's equity or the result for the comparison period, as Sp Mortgage Bank's operations were not initiated until after the change to IFRS reporting, on 29 March 2016. For this reason, the comparison figures presented in the half- year report are not comparable to the figures for the review period, even though the actual conversion to IFRS standards did not affect the figures themselves. The company was established on 20 March 2015.

Sp Mortgage Banks financial highlights

(EUR 1,000)	1.1.-30.6.2016
Revenue	337
Net interest income	-838
% of revenue	-278.3 %
Operating profit	-1,263
% of revenue	-374.3 %
Total operating revenue	-972
Total operating expenses (excluding depreciations)	-291
Cost to income ratio	-29.9 %
Total assets	359,358
Total equity	38,691
Return on equity %	-4.2 %
Return on assets %	-0.5 %
Equity/assets ratio %	10.8 %
Solvency ratio %	31.8 %
Impairment losses on loans and other receivables	0

The comparision figures are not presented because actual mortgage banking operation was initiated on 29 March 2016.

Income statement (comparison period 3-6/2015)

The profit of the reporting period consists of net interest income, net fee and commission income and other operating expenses. The net interest income was EUR -838 thousand (0), net fee and commission income was EUR -134 thousand (0) and other operating expenses were EUR -291 thousand (0). The profit for the period was EUR -1,010 thousand (0). The negative net interest income was due the financing costs caused by launching the mortgage banking operation.

During the comparison period Sp Mortgage Bank had no business, instead preparations for starting the operations were conducted.

Balance sheet and funding (comparison period 31.12.2015)

Sp Mortgage Bank's mortgage loan book grew to EUR 347,365 thousand (0). The majority of the growth resulted from mortgage loan purchases from the owner Savings Banks. By the end of the year Sp Mortgage Bank has committed to repurchase loan portfolio intermediated by Savings Banks from Aktia Real Estate Mortgage Bank Plc. At the end of the reporting period loan portfolio was EUR 364,809 thousand.

Sp Mortgage Bank funded the operation by loans from the Central Bank of Savings Banks Finland Plc. At the end of the reporting period the loan amounted to EUR 320,000 thousand (0).

In June a targeted share issue to the owner banks was carried out, which amounted to EUR 29,789 thousand. At the end of the reporting period equity amounted to EUR 38,691 thousand (9,913).

Capital adequacy and risk position

At the end of June 2016, the Sp Mortgage Bank had a strong capital structure, consisting of CET1 capital. Own funds were EUR 37,798 thousand. Risk-weighted assets amounted to EUR 119,047 thousand. The capital ratio of the Sp Mortgage Bank was 31.8 % and the CET1 capital ratio was 31.8 %.

The standard method is used to calculate the capital requirement for credit risk of the Sp Mortgage Bank. The capital requirement for operational risk is calculated by the basic method.

Sp Mortgage Bank's capital adequacy's main items

Own Funds * (EUR 1,000)	30.6.2016
Common Equity Tier 1 (CET1) capital before regulatory adjustments	38,691
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-894
Common Equity Tier 1 (CET1) capital	**37,798**
Additional Tier (AT1) capital before regulatory adjustments	0
Total regulatory adjustments to Additional Tier (AT1) capital	0
Additional Tier (AT1) capital	**0**
Tier 1 capital (T1 = CET1 + AT1)	**37,798**
Tier 2 (T2) capital before regulatory adjustments	0
Total regulatory adjustments to Tier 2 (T2) Capital	0
Tier 2 (T2) capital	**0**
Total capital (TC = T1 + T2)	**37,798**
Risk Weighted assets	**119,047**
of which: credit and counterparty risk	119,047
of which: credit valuation adjustments (CVA)	0
of which: market risk	0
of which: operational risk	0
Common Equity Tier 1 (as a percentage of total risk exposure amount)	**31.8%**
Tier 1 (as a percentage of total risk exposure amount)	**31.8%**
Total capital (as a percentage of total risk exposure)	**31.8%**

*Own founds and solvency have been presented according to the EU Solvency Regulation 575/2013 that entered into force on 1 January 2014

The comparision figures are not presented because actual mortgage banking operation was initiated on 29 March 2016.

Leverage ratio

The leverage ratio of the Sp Mortgage Bank was 10.3 %. The leverage ratio has been calculated according to the known regulation, and it describes the ratio of the Sp Mortgage Bank's Tier 1 capital to total liabilities. The Sp Mortgage Bank monitors the indebtedness as part of the ICAAP process.

Leverage ratio

(EUR 1,000)	30.6.2016
Tier 1 capital	37,798
Leverage ratio exposure	366,250
Leverage ratio	10.3%

The comparision figures are not presented because actual mortgage banking operation was initiated on 29 March 2016.

Sp Mortgage Bank's risk management and internal control is a central part of the Bank's operations. Sp Mortgage Bank is part of the Savings Banks Amalgamation and it is the obligation and right of the Central Institution of Savings Banks Amalgamation, in order to ensure the liquidity and capital adequacy, to steer and monitor the operations of the member Credit Institutions and to give guidelines in risk management, corporate governance, internal control and compliance of the accounting principles for preparation of Group's consolidated financial statements.

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

- Risk Control
- Compliance
- Internal Audit

The methods of risk management in the Sp Mortgage Bank are maintained and developed by the Risk Control unit in order to ensure that the risk management covers all material risks, including any new and previously unidentified risks.

All significant loans or commitments including significant risk are made in accordance with collegial decision making processes, and there is lending authority limit structure in place. 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. All 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. The most significant risks affecting the Sp Mortgage Bank are credit, liquidity, and interest rate, operational and business risks.

Sp Mortgage Bank's risks and risk management is described in more detail in the risk management and capital adequacy note (Note 4). Savings Banks Group's risks and risk management is described in more detail in the Savings Banks Group's 2015 financial statements.

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.

Administration

The Board of Directors consists of the following:

Chairman of the Board	Pasi Kämäri, Managing Director, Savings Banks' Union Coop
Members	Risto Seppälä, Managing Director, Helmi Säästöpankki Oy
	Kai Brander, Head of Treasury, Central Bank of Savings Bank Finland Plc
Managing Director	Harri Mattinen

Owners

Sp Mortgage Bank is wholly owned by the 23 Savings Banks belonging to the Savings Banks Amalgamation.

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 Half-year Report date.

Outlook for the year

Sp Mortgage Bank's purpose is to issue euro denominated covered bonds under the Act on Mortgage Credit Bank Operations on the capital markets. The first issuance is estimated to take place in the second half of 2016. As collateral for the covered bonds Sp Mortgage Bank uses the mortgage loans intermediated by the Savings Banks and the loan portfolio intermediated by Savings Banks in Aktia Real Estate Mortgage Bank Plc which will be transferred through loan portfolio repurchases to Sp Mortgage Bank.

Sp Mortgage Bank estimates that the financial performance during the end of the year will be negative due the financing costs caused by launching the mortgage bank operation.

Information

Managing Director, Harri Mattinen

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The auditor has submitted a report, compliant with auditing standards, on the general auditing of Sp Mortgage Bank's half-year report (ISRE 2410).

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, net life insurance 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 (excluding depreciations)
Cost to income ratio	$\frac{\text{Total operating expenses}}{\text{Total operating revenue}}$
Return on equity %	$\frac{\text{Profit}}{\text{Equity, incl. non-controlling interests (average)}}$
Return on assets %	$\frac{\text{Profit}}{\text{Total assets (average)}}$
Equity/assets ratio %	$\frac{\text{Equity (incl. non-controlling interests)}}{\text{Total assets}}$

HALF- YEAR REPORT (IFRS)

Sp Mortgage Bank's income statement

(EUR 1,000)	Note	1-6/2016	3-6/2015*
Interest income		332	
Interest expense		-1,170	
Net interest income	5	**-838**	**0**
Net fee and commission income	6	-134	
Total operating revenue		-972	0
Other operating expenses		-291	
Total operating expenses		-291	0
Operating profit		**-1,263**	**0**
Taxes		253	
Profit		**-1,010**	**0**

Sp Mortgage Bank's statement of comprehensive income

(EUR 1,000)	1-6/2016	3-6/2015*
Profit	**-1,010**	**0**
Total comprehensive income	**-1,010**	**0**

*The company was established on 20 March 2015 and actual mortgage banking operation was initiated on 29 March 2016. For this reason, the comparision figures presented in the half- year report are not comparable to the figures for the review period.

Sp Mortgage Bank's statement of financial position

(EUR 1,000)	Note	30.06.2016	31.12.2015*
Assets			
Loans and advances to credit institutions	8	11,032	9,752
Loans and advances to customers	8	347,365	0
Intangible assets		641	172
Tax assets		253	0
Other assets		68	0
Total assets		**359,358**	**9,924**
Liabilities and equity			
Liabilities			
Liabilities to credit institutions	9	320,000	0
Provisions and other liabilities		666	11
Total liabilities		**320,666**	**11**
Equity			
Share capital		26,539	6,670
Reserves		13,250	3,330
Retained earnings		-1,098	-87
Total equity		**38,691**	**9,913**
Total liabilities and equity		**359,358**	**9,924**

*The company was established on 20 March 2015 and actual mortgage banking operation was initiated on 29 March 2016. For this reason, the comparision figures presented in the half- year report are not comparable to the figures for the review period.

Sp Mortgage Bank's statement of cash flows

(EUR 1,000)	1-6/2016	3-6/2015*
Cash flows from operating activities		
Profit	-1,010	0
Adjustments for items without cash flow effect	-253	0
Cash flows from operating activities before changes in assets and liabilities	**-1,263**	**0**
Increase (-) or decrease (+) in operating assets	**-347,432**	**0**
Loans and advances to customers	-347,365	0
Other assets	-67	0
Increase (-) or decrease (+) in operating liabilities	**320,655**	**0**
Liabilities to credit institutions	320,000	0
Other liabilities	655	0
Total cash flows from operating activities	**-28,040**	**0**
Cash flows from investing activities		
Investments in property, plant and equipment and intangible assets	-469	0
Total cash flows from investing activities	**-469**	**0**
Cash flows from financing activities		
Share capital	19,869	15
Other monetary increases in equity items	9,920	8
Total cash flows from financing activities	**29,789**	**23**
Change in cash and cash equivalents	**1,280**	**23**
Cash and cash equivalents at the beginning of the period	**9,752**	**0**
Cash and cash equivalents at the end of the period	**11,032**	**23**
Cash and cash equivalents comprise the following items:		
Receivables from central banks repayable on demand	11,032	23
Total cash and cash equivalents	**11,032**	**23**
Interest received	114	
Interest paid	1,032	
Dividends received	0	

*The company was established on 20 March 2015 and actual mortgage banking operation was initiated on 29 March 2016. For this reason, the comparision figures presented in the half- year report are not comparable to the figures for the review period.

Sp Mortgage Bank's statement of changes in equity

(EUR 1,000)	Share capital	Share premium	Retained earnings	Total equity
Equity 23 March 2015	**0**	**0**	**0**	**0**
Subscription issue	15	8		23
Total equity 30 June 2015*	**15**	**8**		**23**
Equity 23 March 2015	**0**	**0**	**0**	**0**
Comprehensive income				
Profit			-87	-87
Total comprehensive income			**-87**	**-87**
Subscription issue	6,670	3,330		10,000
Total equity 31 December 2015	**6,670**	**3,330**	**-87**	**9,913**
Equity 1 January 2016	**6,670**	**3,330**	**-87**	**9,913**
Comprehensive income				
Profit			-1,010	-1,010
Total comprehensive income			**-1,010**	**-1,010**
Subscription issue	19,869	9,920		29,789
Total equity 30 June 2016	**26,539**	**13,250**	**-1,098**	**38,691**

*The company was established on 20 March 2015 and actual mortgage banking operation was initiated on 29 March 2016. For this reason, the comparision figures presented in the half- year report are not comparable to the figures for the review period.

BASIS OF PREPARATION

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

Sp Mortgage Bank Plc (hereinafter “Sp Mortgage Bank”) is a mortgage bank wholly owned by the Savings Banks that belong to the Savings Banks Amalgamation. The role of Sp Mortgage Bank is, together with Central Bank of Savings Banks Finland Plc, to be responsible for obtaining funding for the Savings Banks Group from money and capital markets. Sp Mortgage Bank will be 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 take care the local customer relationship management.

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

Sp Mortgage Bank is part of the Savings Banks Amalgamation and the Savings Banks Group. The Savings Banks Group (hereinafter also “the Group”) is the most longstanding banking group in Finland. It comprises Savings Banks forming the Savings Banks Amalgamation (hereinafter also “Amalgamation”), the Savings Banks’ Union Coop which acts as the Central Institution and the subsidiaries and associated companies owned by the Savings Banks. The Savings Banks are independent regional and local banks. Together the Savings Banks form a banking group that operates locally as well as nationally. The basic objective of the Savings Banks is to promote thrift, the financial wellbeing of their customers and to operate near their customers. The Savings Banks focus on retail banking, particularly services related to daily business, saving and investments, and lending services. The service and product range offered is complemented with the other financial services and products provided in cooperation with the service and product companies within the Savings Banks Group. The service and product companies within the Group support and promote the operations of the Group via producing centralised services or having responsibility for certain products. The most significant service and product companies of the Group are Sp Mortgage Bank Plc, Central Bank of Savings Banks Finland Plc, Sb Life Insurance Ltd, Sp-Fund Management Company Ltd and Sp-Koti Oy.

The member organisations of the Savings Banks Amalgamation form a financial entity as defined in the Act on the Amalgamation of Deposit Banks, in which the Savings Banks’ Union Coop and its member credit institutions are jointly liable for each other’s liabilities and commitments. The Amalgamation comprises the Savings Banks’ Union Coop, which acts as the Central Institution of the Amalgamation, 23 Savings Banks, the Central Bank of Savings Banks Finland Plc and Sp Mortgage Bank Plc, the companies within the consolidation groups of the above-mentioned entities as well as Sp-Fund Management Company Ltd.

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

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

The head office of Sp Mortgage Bank is in Espoo, and its registered address is Linnoitustie 9, FI-02600 Espoo, Finland. A copy of Sp Mortgage Bank’s Half- year Report is available online at www.saastopankki.fi or at Sp Mortgage Bank’s offices at Linnoitustie 9, FI-02600 Espoo, Finland.

Similarly, copies of the 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 Linnoitustie 9, FI-02600 Espoo, Finland.

NOTE 2. ACCOUNTING POLICIES

1. Overview

Sp Mortgage Bank converted from the Finnish Accountin Standard (FAS) to the International Financial Reporting Standards (IFRS) on 1 January 2016. The Half- year Report released on 30 June 2016 complies with the IAS and IFRS standards and the SIC and IFRIC interpretations that were in effect as of 30 June 2016. International Financial Reporting Standards refer to those standards and interpretations that have been approved according to Regulation (EC) No 1606/2002 of the European Parliament and of the Council. Converting to IFRS reporting has changed the basis of preparation of Sp Mortgage Bank's financial statements as well as the way the calculations of the financial statements are presented. The change does not, however, have an effect on Sp Mortgage Bank's equity or the result for the comparison period, as Sp Mortgage Bank's operations were not initiated until after the change to IFRS reporting, on 29 March 2016. For this reason, the comparison figures presented in the Half-year Report are not comparable to the figures for the review period, even though the actual conversion to IFRS standards did not affect the figures themselves. Because the conversion to IFRS did not impact Sp Mortgage Bank's result or equity, separate calculation nor reconciliation have not been represented.

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

The Half- year Report has been prepared in accordance with the IAS 34 Interim Financial Reporting standard.

The auditor has submitted a report, compliant with auditing standards, on the general auditing of Sp Mortgage Bank's Half- year Report (ISRE 2410).

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 Bank's accounting and functional currency. The Half- year Report is presented in thousands of euros, unless stated otherwise.

Sp Mortgage Bank's financial statements are prepared based on original acquisition cost.

Assets and liabilities are offset only in the event that Sp Mortgage Bank and the counterparty have a legally enforceable right to offset amounts and Sp Mortgage Bank intends either to settle the balance on a net basis or realise the asset and settle the liability simultaneously.

2. Financial instruments

Classification and recognition

In accordance with IAS 39, Sp Mortgage Bank's financial assets are classified into the following category for valuation:

- Loans and receivables

Sp Mortgage Bank's financial liabilities are classified into following category for valuation:

- Other financial liabilities

Classification in the Sp Mortgage Bank's balance sheet is independent of the IAS 39 categories. Different valuation method may therefore apply to assets and liabilities presented on the same line in the balance sheet. Financial assets and liabilities by valuation category are presented in the Note 7.

Purchase and sale of financial instruments is recognised on the trade date. Financial assets are recognised when the Bank gets a contractual right to cash flows or when the risks and income related to the financial asset have, to a significant degree, been transferred to the Bank.

Upon initial recognition, all financial assets and financial liabilities are recognised at fair value. Transaction costs are included in the acquisition cost for the financial instruments.

Financial assets and liabilities are offset on the balance sheet if Sp Mortgage Bank currently has a legally enforceable right of set-off in the normal course of business and in the event of default, insolvency or bankruptcy, and it intends to settle the asset and liability on a net basis. Sp Mortgage Bank has not offset financial assets and liabilities on the balance sheet.

Financial assets are derecognised when the contractual rights to the cash flows of the financial item in the financial assets have expired or when the rights have been transferred to a third party so that substantially all risks and rewards have been transferred. Financial liabilities are derecognised when they are extinguished or when obligations is discharged or expired.

Loans and receivables

Financial assets classified as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognised at fair value net of directly attributable transaction costs. After initial recognition, loans and receivables are measured at amortised cost using the effective interest method.

Other financial liabilities

Other financial liabilities are initially recognised at the fair value of the time the agreement is concluded and subsequently carried at amortised cost using the effective interest method.

Determining the fair value

Fair value is the price that would be received from selling an asset or paid to transfer a liability in a normal transaction between market participants at the measurement date.

The fair value of a financial instrument traded in active markets is based on quoted market prices or, based on the company's own valuation techniques if an active market does not exist. A market is considered active if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted bid price is used as the current market price of financial assets. If the market has a well-established valuation practice for a financial instrument, for which a quoted market price is not available, the fair value is based on a commonly used model for calculating the market price and the market quotation of inputs used in the valuation model.

If the valuation technique is not well established in the market, a valuation model created for the product in question is used to determine its market value. Valuation models are based on widely used calculation techniques, incorporating all factors that market participants would consider in setting a price. The valuation prices used consist of market transaction prices, discounted cash flow method and the current fair value of another substantially similar instrument at the reporting date. The valuation techniques take into account estimated credit risk, applicable discount rates, early repayment option, and other such factors that may impact the fair value of the financial instrument to be determined reliably.

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

- Quoted fair values in active markets for identical assets or liabilities (Level 1)
- Fair values that are determined using inputs other than Level 1 quoted prices that are observable for assets or liabilities, either directly (e.g. as 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 prices (Level 3).

The fair value hierarchy level to which an item measured at fair value is classified in its entirety is determined at the lowest level of input data that is significant for the whole item. The significance of the input data is evaluated in its entirety for the item which is valued at fair value.

Impairment losses of financial assets

Loans and receivables

The impairment losses of loans and other receivables are recognised on a receivable and collective basis. Impairment losses are estimated on a receivable basis if the amount of the customer's liabilities is significant. Other than this, impairment losses are estimated on a collective basis.

Impairment losses on loans and other receivables are recognised once there has appeared objective evidence that no payment will be received for the capital or interests of a loan or another receivable and that the collateral of the receivable is not sufficient to cover its amount. The assessment of objective evidence is based on the assessment of the customer's insolvency and the sufficiency of the collateral. When recognising an impairment loss, the collateral is valued to the amount that can be likely expected to be received for it at the time of realisation. The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows that can be accrued from the receivable, taking into account the fair value of the collateral. The discount rate used is the receivable's original effective interest rate.

When impairment on a collective basis is calculated, loans and other receivables are classified into collectives, after which the need for impairment losses is assessed on a collective basis. The collectives are classified on the basis of similar credit risk characteristics in order to make it possible to assess the need for collective-specific impairment losses with regard to receivables for which no impairment basis applicable to a single receivable has been identified yet.

Impairment losses on loans and receivables are recognised in the allowance account. In the income statement, the impairment losses are recognised under impairment losses on loans and other receivables. If it later appears that the impairment is not permanent it is reversed.

Loans and receivables, whose collection is deemed impossible, are recognised as credit losses. Credit losses are recorded in the allowance account. Non-recoverable loans and receivables are recorded as a permanent credit loss, and the impairment loss is reversed when the normal collection process is completed and the final amount of the individual loan or receivable can be measured.

3. Leases

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

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.

7. Segment information

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

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.

Impairment of financial assets

The management must also regularly assess whether there is objective evidence of the impairment of loans and receivables. Impairment testing is performed on a single receivable or a group of receivables. Receivable-specific impairment is based on the management's estimate of future cash flows of the receivable. Recognising objective evidence and evaluation of future cash flows require management's judgment. The impairment principles are explained in more detail in section "Impairment losses of financial assets" in the accounting policies.

Deferred tax assets

Deferred tax assets arising from tax losses are recognised to the extent that they are expected to be offset against future taxable profits. Recognition of deferred tax assets requires the management to assess the probability and amount of future taxable profit.

RISK MANAGEMENT POLICIES

NOTE 4. RISK MANAGEMENT AND CAPITAL ADEQUACY

General principles and objectives for risk management

Sp Mortgage Bank is part of the Savings Banks Group. The Group is a financial group comprising 23 Savings Banks and their Central Institution, the Savings Banks' Union Coop, as well as their subsidiaries and associated companies. The Group does not form a financial and insurance conglomerate as defined in the Act on the Supervision of Financial and Insurance Conglomerates. A more detailed account of the Group's risks and risk management can be found in the 2015 financial statements of the Savings Banks Group.

The risk and capital adequacy management processes are regulated by Act on Credit Institutions, Amalgamations Act, Act on Mortgage Credit Bank Operations, directly binding EU regulations together with the regulations and guidelines of the FIN FSA. According to the Amalgamations Act the minimum consolidated capital adequacy and liquidity of the companies within the Amalgamation shall be controlled on a consolidated basis at the Amalgamation level.

The objective for the risk management is to recognize the threats and possibilities affecting the implementation of the strategy. The objective of the capital adequacy management is to ensure the risk-bearing capacity of the bank and its member organizations as well as the continuity of their operations.

Sp Mortgage Bank's risk management and internal control is a central part of the bank's operations. Sp Mortgage Bank is part of the Savings Banks Amalgamation and it is the obligation and right of the Central Institution of Savings Banks Group, in order to ensure the liquidity and capital adequacy, to steer and monitor the operations of the member Credit Institutions and to give guidelines in risk management, corporate governance, internal control and compliance of the accounting principles for preparation of Group's consolidated financial statements.

The Board of Directors of the Sp Mortgage Bank is responsible for arranging the internal control framework in accordance with legislation, government regulations and the guidelines of the Board of Directors of the Central Institution. The Banks CEO together with the other senior management of the Sp Mortgage Bank is responsible for arranging internal controls for the bank in accordance with legislation, government regula-tions and the internal guidelines of their own Board of Directors and the Board of Directors of the Central Institution.

Sp Mortgage Bank has established the following functions, independent of business operations, to en-sure an efficient and comprehensive internal control system for the Bank:

- Risk Control
- Compliance
- Internal Audit

The task of the independent Risk Control unit is to ensure and monitor that the risk management frame-work is adequate in relation to the nature, scale, complexity and risk level of the bank's business operations. Risk Control unit assists the Board of Directors and senior management of the 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 the bank complies with the legislation and authorities' regulation and guidelines. The Compliance unit is responsible for monitoring that the bank complies with the internal guidelines, ethical guidelines given to the personnel and other guidelines applied within the financial mar-kets.

As an independent unit, Internal Audit ensures that the Board of Directors, Supervisory Board and senior management of the bank has a fair and comprehensive view of the profitability, efficiency, adequacy of internal control and level of risk positions.

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

The methods of risk management in the Sp Mortgage Bank are maintained and developed by the Risk Con-trol unit in order to ensure that the risk management covers all material risks, including any new and previously unidentified risks.

All significant loans or commitments including significant risk are made in accordance with collegial decision making processes, and there is lending authority limit structure in place. 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. All 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. The most significant risks affecting the Sp Mortgage Bank are credit, liquidity, and interest rate, operational and business risks.

Risk strategies and limit structure for each risk area have been established at the Sp Mortgage Bank. The risk strategies are complemented by the operational guidelines of the Board of Directors of the bank. The risk strategies include the identification, measurement and assessment of risks and the description of limits, monitoring and reporting of the risks.

The risk positions are regularly reported to the Board of Directors of the bank. The Board of Directors also approves the framework for risk appetite by setting risk limits and other thresholds for different risk areas.

Pillar III disclosure principles

The Pillar III information is published as part of the Group's financial statement on annual basis. However, when and if needed the assessment is done for more frequent publication if the market conditions, financial performance or change in the risk position would require that.

Capital adequacy management

The objective of the capital adequacy management process is to ensure that the quantity and quality of capital are adequate and in proportion with the nature, scale and complexity of the Sp Mortgage Bank's operations and with all the risks resulting from its business operations and operating environment. To achieve this objective, the bank identifies and 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 Board of Directors of the Sp Mortgage Bank has the responsibility for the management of the Bank's capital adequacy. The Board of Directors of the Sp Mortgage Bank approves the basis, objectives and principles for the bank's capital adequacy management. The Board of Directors also confirms the overall requirements for the measurement and assessment of capital adequacy and the overall 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 Sp Mortgage Bank's business operations and changes in the operating environment.

The capital adequacy of the Saving Banks Amalgamation is supervised on consolidated basis and on the Amalgamation level.

Stress test

Stress tests are used to assess Sp Mortgage Bank's risk position and capital adequacy. The purpose of stress tests is to estimate how different exceptionally serious but possible scenarios may impact the profitability, capital adequacy and adequacy of own funds. The objective of capital adequacy management is also to maintain and develop the quality of the risk management framework.

Capital contingency plan

The capital contingency plan is made in order to be prepared for unforeseeable events that may threaten bank's capital adequacy. The capital contingency plan includes target levels set by the Board of Directors for the quantity and quality of the capital, which are monitored and controlled quarterly. The capital con-tingency plan includes actions and decisions to be taken by the Board of Directors in the events that capital adequacy falls to the level of or below the early warning threshold.

Capital adequacy

At the end of June 2016, the Sp Mortgage Bank had a strong capital structure, consisting of CET1 capital. Own funds were EUR 37,798 thousand. Risk-weighted assets amounted to EUR 119,047 thousand. The capital ratio of the Sp Mortgage Bank was 31.8 % and the CET1 capital ratio was 31.8 %.

The standard method is used to calculate the capital requirement for credit risk of the Sp Mortgage Bank. The capital requirement for operational risk is calculated by the basic method.

The information concerning Sp Mortgage Bank's capital adequacy is included in the consolidated financial statement of the Savings Banks Group.

The exemptions referred to in Sections 21 and 21a of the Act on the Amalgamation of Deposit Banks do not apply to Sp Mortgage Bank.

Capital adequacyś main items

Own Funds * (EUR 1,000)	30.6.2016
Common Equity Tier 1 (CET1) capital before regulatory adjustments	38,691
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-894
Common Equity Tier 1 (CET1) capital	**37,798**
Additional Tier (AT1) capital before regulatory adjustments	0
Total regulatory adjustments to Additional Tier (AT1) capital	0
Additional Tier (AT1) capital	**0**
Tier 1 capital (T1 = CET1 + AT1)	**37,798**
Tier 2 (T2) capital before regulatory adjustments	0
Total regulatory adjustments to Tier 2 (T2) Capital	0
Tier 2 (T2) capital	**0**
Total capital (TC = T1 + T2)	**37,798**
Risk Weighted assets	**119,047**
of which: credit and counterparty risk	119,047
of which: credit valuation adjustments (CVA)	0
of which: market risk	0
of which: operational risk	0
Common Equity Tier 1 (as a percentage of total risk exposure amount)	**31.8%**
Tier 1 (as a percentage of total risk exposure amount)	**31.8%**
Total capital (as a percentage of total risk exposure)	**31.8%**

*Own founds and solvency have been presented according to the EU Solvency Regulation 575/2013 that entered into force on 1 January 2014

The comparision figures are not presented because actual mortgage banking operation was initiated on 29 March 2016.

Leverage ratio

The leverage ratio of the Sp Mortgage Bank was 10.3 %. The leverage ratio has been calculated according to the known regulation, and it describes the ratio of the Sp Mortgage Bank's Tier 1 capital to total liabilities. The Sp Mortgage Bank monitors the indebtedness as part of the ICAAP process.

Leverage ratio

(EUR 1,000)	30.6.2016
Tier 1 capital	37,798
Leverage ratio exposure	366,250
Leverage ratio	10.3%

The comparision figures are not presented because actual mortgage banking operation was initiated on 29 March 2016.

Recovery and Resolution legislation

As part of the completion of the EU Banking Union, the new recovery and resolution mechanism came into force at the beginning of the year. European-wide framework for the recovery and resolution of credit insti-tutions and investment firms is based on the directive 2014/59/EU, which entered into force on 2 July 2014. Finland implemented the EU resolution and recovery directive for credit institutions and investment firms on 1 of January 2015. In Finland the recovery and resolution directive was implemented mainly through two new acts, namely the Act on Resolution of Credit Institutions and Investment Firms (1194/2014) and the Act on the Financial Stability Authority (1195/2014). The latter regulates the Financial Stability Authority, which will acts as the national resolution authority with counterparts in all EU member states.

The Savings Banks Amalgamation has made a recovery plan to secure the continuation of business in financial distress. The recovery plan includes options how to restore the financial viability of the Amalgamation.

According to the section 7 in the Recovery Act, MREL requirement will not be set for Sp Mortgage Bank.

Credit and counterparty risks

The credit risk is the most significant risk of the banking business. 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 largest source of credit risk is lending, but credit risk (counterparty risk) may also occur with other types of receivables, such as bonds, short-term debt securities and derivative instruments, as well as off-balance sheet commitments, such as unused credit limits, and 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. 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 each Savings Bank.

Management of credit risk

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 the Sp Mortgage Bank and the creditunderwriting 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 are-as 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 operation to the loan distributing Savings Banks and to SP Taustataiturit Oy, which is responsible for the back office operations of the Sp Mortgage Bank.

A distribution agreement has been concluded between Sp Mortgage Bank and Savings Banks distributing the 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. Defaulted loans are returned to the Savings Bank as agreed in the distribution agreement.

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 the 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 with 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.

The residential mortgage loan lodged 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 co-debtors.

In the Sp Mortgage Bank, the 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 the 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 the Sp Mortgage Bank was 347,365 thousand euros at 30.6.2016.

Loan classification

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. The outstanding loans are classified using the behavioral scoring model taking into account the changes in the customers' payment behavior.

The renewal of currently used credit rating models will continue during the year 2016. The new credit scoring models for the corporate customers and agricultural customers have been implemented in spring 2015. The product specific credit scoring models to be used in the credit application process for the private customers together with the credit rating model for the private customers' outstanding lending portfolio will be renewed during the second half of the year 2016. The new credit rating models will include 14 rating classes of which one is for defaulted customers.

Private lending by rating distribution	30.6.2016
A	71.2 %
B	27.0 %
C	1.8 %
Total	**100 %**

The comparison figures are not presented because actual mortgage banking operation was initiated on 29 March 2016.

Concentration of the credit risk

The credit risk concentrations referred to in the credit risk strategy 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 the 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. The Sp Mortgage Bank does not have any non-performing loans at 30.6.2016. 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.

Impairments on loans and other receivables

The impairment losses of loans and other receivables are recognized on an individual and collective basis. Impairment losses are assessed individually if the debtor's total exposure is significant. Otherwise, impair-ments are assessed collectively. Impairment losses on loans and other receivables are recognized when objective evidence has emerged that the capital or interest of the loan or receivable will not be received, and the corresponding collateral is not sufficient to cover the amount. Evaluation of objective evidence is based on evaluation of the client's inability to pay and sufficiency of collateral. When recognizing impairment, the collateral is measured at the amount it is likely to yield on realisation. Impairment loss is determined by the difference between the book value of the receivable and the present value of the estimated recoverable future cash flows, taking into account the fair value of the collateral. Estimated future cash flows are discounted using the receivable's original effective interest rate.

When calculating impairment of receivables on a collective basis, loans and other receivables are classified into groups, after which the need for impairment losses is assessed collectively. The classification of receivables into groups is based on similar credit risk characteristics in order to assess the need for group-specific impairment losses on assets for which grounds for impairment have not yet been identified on an individual receivable basis.

Impairment losses on loans and receivables are recognized in the deduction account and offset against loans and receivables. In the income statement, impairment losses are recognized in the item impairment losses on loans and other receivables. If it later appears that the impairment is not permanent, it is reversed.

Loans and receivables whose recovery is deemed impossible are recognized as credit losses. Credit losses are recognized in the deduction account. Non-recoverable loans and receivables are recognized as perma-nent 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.

Sp Mortgage Bank does not have any impairment at 30.6.2016.

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

The banking business 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 risks arise from the banking book, consisting of lending and deposits, wholesale market funding and investment and liquidity portfolios.

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. Interest rate risk may be further divided into the following risk types:

- yield curve risk, which arises as a result of the impact of changes in the interest rate curve on the present value of the future cash flows of assets and liabilities
- re-pricing risk, which arises from the difference between maturities for fixed rate assets and liabilities and from the timing mismatch between re-pricing for floating rate assets and liabilities
- basis risk, arising from the different interest rate bases of assets and liabilities
- optionality risk, arising from stand-alone and embedded options in which the decision to exercise may depend on interest rates. These include call and put options embedded in bonds which entitle to an early redemption of a loan or an early withdrawal without compensation.

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. Sp Mortgage Bank only grants floating rate residential mortgage loans. 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 monthly, using both the net interest income and the change in the present value of the balance sheet. The current value method measures how much the fair value of the balance sheet changes when interest rates change, and the market value of each balance sheet item is expected to equal the present value of the cash flows generated by such instrument. 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.

Net interest income sensitivity to a 1 % -point parallel shift in the interest rate curve (EUR 1,000)	Change in net interest income	
	30.6.2016	
Period	Down	Up
Change in the coming 12 months	-3	418
Change in 12-24 months	2	605

The comparison figures are not presented because actual mortgage banking operation was initiated on 29 March 2016.

Liquidity risk

Liquidity risk refers to the capability of the bank to meet their commitments. Liquidity risk may arise from the uncontrollability and/or foreseeability of incoming and outgoing cash flows. Liquidity risk also compris-es an uncontrollable rise in funding costs.

Liquidity risk may be further divided into short-term liquidity risk and long-term funding risk.

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 Cen-tral 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 overcollateralisation 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 re-quirement. 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.

Liabilities 30.6.2016 (EUR 1,000)	Total	< 3 mo	3-12 mon	1-5 years	> 5 years
Due to credit institutions and central banks	320,000	60,000	260,000		
Financial liabilities total	320,000	60,000	260,000	0	0

The comparison figures are not presented because actual mortgage banking operation was initiated on 29 March 2016.

Operational risk

Operational risk refers to the risk of loss arising from inadequate or failed internal processes, personnel, systems or external factors. Legal risks are also included in the 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. 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.

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.

Within the Sp Mortgage Bank, operational risks, realised 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 ensures that the Bank comply with its own internal guidelines, ethical principles for personnel and other instructions.

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 minimised through strategic and business planning.

PROFIT FOR THE PERIOD

LIITE 5. NET INTEREST INCOME

(EUR 1,000)	1-6/2016	3-6/2015*
Interest income		
Loans and advances to customers	332	0
Total	**332**	**0**
Interest expense		
Liabilities to credit institutions	138	0
Limits	1 032	0
Total	**1 170**	
Net interest income	**-838**	**0**

*The company was established on 20 March 2015 and actual mortgage banking operation was initiated on 29 March 2016. For this reason, the comparison figures presented in the Half- year Report are not comparable to the figures for the review period.

LIITE 6. NET FEE AND COMMISSION INCOME

(EUR 1,000)	1-6/2016	3-6/2015*
Fee and commission income		
Lending	5	0
Total	**5**	**0**
Fee and commission expense		
Loans	140	0
Total	**140**	**0**
Net fee and commission income	**-134**	**0**

*The company was established on 20 March 2015 and actual mortgage banking operation was initiated on 29 March 2016. For this reason, the comparison figures presented in the Half- year Report are not comparable to the figures for the review period.

ASSETS

LIITE 7. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

30.6.2016 (EUR 1,000)	Loans and receivables	Total
Loans and advances to credit institutions	11,032	11,032
Loans and advances to customers	347,365	347,365
Total assets	**358,397**	**358,397**
Liabilities to credit institutions	320,000	320,000
Total liabilities	**320,000**	**320,000**

31.12.2015* (EUR 1,000)	Loans and receivables	Total
Loans and advances to credit institutions	9,752	9,752
Total assets	**9,752**	**9,752**
Total liabilities	**0**	**0**

*The company was established on 20 March 2015 and actual mortgage banking operation was initiated on 29 March 2016. For this reason, the comparison figures presented in the Half- year Report are not comparable to the figures for the review period.

LIITE 8. LOANS AND ADVANCES

(EUR 1,000)	30.6.2016	31.12.2015*
Loans and advances to credit institutions		
Deposits	11,032	9,752
Total	**11,032**	**9,752**
Loans and advances to customers		
Loans	347,365	0
Impairment losses	0	0
Total	**347,365**	**0**
Total loans and advances	**358,397**	**9,752**

*The company was established on 20 March 2015 and actual mortgage banking operation was initiated on 29 March 2016. For this reason, the comparison figures presented in the Half- year Report are not comparable to the figures for the review period.

LIABILITIES

LIITE 9. LIABILITIES TO CREDIT INSTITUTIONS

(EUR 1,000)	30.6.2016	31.12.2015*
Liabilities to credit institutions		
Other than those repayable on demand	320,000	0
Total liabilities to credit institutions	**320,000**	**0**

*The company was established on 20 March 2015 and actual mortgage banking operation was initiated on 29 March 2016. For this reason, the comparison figures presented in the Half- year Report are not comparable to the figures for the review period.

OTHER NOTES

LIITE 10. FAIR VALUES BY VALUATION TECHNIQUE

Fair value measurement

Financial instruments are presented in the Sp Mortgage Bank's balance sheet at amortised cost. The classification of financial assets and liabilities by valuation technique as well as the criteria for measurement methods and for determining fair value are described in the accounting policies (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 balance sheet date. In respect of cash and deposits payable on demand, the nominal value is considered equivalent to the fair value.

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

Fair value hierarchy

Level 1 consists of financial assets, for which the value is determined based on quotes on a liquid market. Market is considered liquid if the prices are available easily and regularly enough. Level 1 includes securities which are quoted on public. Sp Mortgage Bank does not have financial assets for which the fair value has been determined according to level 1.

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 June 2016, there were no transfers between levels 1 and 2.

Financial assets 30.6.2016 (EUR 1,000)	Carrying amount	Fair value by hierarchy level			Fair value
		Level 1	Level 2	Level 3	total
Measured at amortised cost					
Loans and advances	358,397		463,054		463,054
Total financial assets	**358,397**	**0**	**463,054**	**0**	**463,054**

Financial liabilities 30.6.2016 (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	320,000		321,800		321,800
Total financial liabilities	**320,000**	**0**	**321,800**	**0**	**321,800**

The company was established on 20 March 2015 and actual mortgage banking operation was initiated on 29 March 2016. For this reason, the comparison figures are not presented .

LIITE 11. COLLATERAL RECEIVED

(EUR 1,000)	30.6.2016	31.12.2015*
Collateral received		
Real estate collateral	346,513	0
Other	852	0
Total collateral received	**347,365**	**0**

*The company was established on 20 March 2015 and actual mortgage banking operation was initiated on 29 March 2016. For this reason, the comparison figures presented in the Half- year Report are not comparable to the figures for the review period.

LIITE 12. OFF BALANCE-SHEET COMMITMENTS

(EUR 1,000)	30.6.2016	31.12.2015*
Loan commitments	7,413	0
Total off balance-sheet commitments	**7,413**	**0**

*The company was established on 20 March 2015 and actual mortgage banking operation was initiated on 29 March 2016. For this reason, the comparsion figures presented in the Half- year Report are not comparable to the figures for the review period.

LIITE 13. 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 CEO as well as the Executive Board of Sp Mortgage Bank.

Sp Mortgage Bank had no reportable related party transactions on half- year reporting day nor on the reporting period. The company's actual mortgage banking operations were launched at the end of March 2016.

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

CAPITAL ADEQUACY INFORMATION

LIITE 14. 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 half- year report of the Savings Banks Group. The Financial Supervisory Authority has granted a permission not to deduct internal holdings of credit institutions included in the Amalgamation from own funds instruments when calculating own funds at the individual institution level and sub-consolidation group level. In addition, the Financial Supervisory Authority has granted a permission to apply a 0 per cent risk weight to internal credit institution liabilities included within the scope of the Amalgamation's joint and several liability. These permissions are based on the European Union Capital Requirements Regulation (EU 575/2013) and the Act on the Amalgamation of Deposit Banks (599/2010). A copy of the half- year report of the Savings Banks Group is available online at www.saastopankki.fi or at the Savings Banks' Union Coop offices at Linnoitustie 9, 02600 Espoo, Finland.

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TRANSLATION

Report on review of the interim report of Sp Mortgage Bank Plc as of and for the six-month period ending June 30, 2016

To the Board of Directors of Sp Mortgage Bank Plc

Introduction

We have reviewed the balance sheet as of 30 June 2016, the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement of Sp Mortgage Bank Plc for the six-month period then ended, as well as a summary of significant accounting policies and other explanatory notes to the financial statements. The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of this interim financial information in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and other Finnish rules and regulations governing the preparation of interim reports. We will express our conclusion on the interim report based on our review.

Scope of review

We conducted our review in accordance with the Standard on Review Engagements ISRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the standards on auditing and other generally accepted auditing practices and consequently does not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report does not give a true and fair view of the financial position as at 30 June 2016 and the result of its operations and cash flows for the six-month period then ended, in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU and other applicable rules and regulations governing interim financial reporting preparation in Finland.

Helsinki 10 August 2016

KPMG OY AB

Petri Kettunen
Authorised Public Accountant, KHT