SP MORTGAGE BANK PLC

HALF-YEAR REPORT

1 JANUARY-30 JUNE 2017

Sp Mortgage Bank Plc's Half-year Report 1 January - 30 June 2017

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SP MORTGAGE BANK PLC'S HALF-YEAR REPORT

Board of Directors' Report for 1 January – 30 June 2017

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

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

During the review period Sp Mortgage Bank's operations proceeded as planned and the loan portfolio reached EUR 1 billion at the beginning of June.

Sp Mortgage Bank's operating profit January – June amounted to EUR 1.5 million, and the total assets amounted to EUR 1,175 million.

Sp Mortgage Bank's Managing Director Harri Mattinen announced on 20 June 2017 that he will vacate his position as Managing Director. Tero Kangas was nominated as Acting Managing Director. Harri Mattinen will continue to work in his current position until 9 August 2017.

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

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

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

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

Description of the operational environment

Global economic outlook

The growth outlook of the global economy improved significantly in the first half of 2017 on a very broad front. Europe and emerging economies have accelerated their growth and begun to catch up with the United States. The outlook for emerging economies has stabilised compared to the recent years, and investor confidence in emerging markets has improved. The controlled development of the Chinese economy, in particular, has supported global economic growth and trade. From the perspective of the investment markets, the risks associated with the Chinese economy have been the subject of attention, and the positive developments relative to expectations have supported returns on investments. In the United States, economic growth is approaching the peak of the current cycle in the next few years, and there are already signs that the period of the strongest growth has been passed. Global economic growth will increase to exceed three per cent, possibly next year. However, it is very unlikely that economic growth will reach the level seen before the financial crisis.

In Europe, economic growth has accelerated and it is also noteworthy that the industrial outlook has seen a recovery. The recovery of the labour markets, which began in 2013, has continued. Unemployment in the euro zone has fallen to 9.3 per cent. The growth of industrial production and GDP have remained stable in the first half of 2017. Capacity utilisation has risen to its highest level since the financial crisis, which reflects a strong increase in industrial confidence indicators. The economic situation among households improved and consumer confidence has risen rapidly. Low interest rates and energy prices have increased the disposable income of households. Increases in housing prices and the favourable development of the investment markets have also boosted household confidence regarding the future. The European Central Bank is preparing to gradually tighten its monetary policy. Changes in monetary policy will be implemented gradually and over the long term, as inflation expectations remain low and actual inflation has not increased at the expected rate. The significance of political risks was highlighted in Europe due to a number of elections. However, the result of the French presidential elections was a favourable one for the markets and it helped stabilise expectations regarding the future of the European Union. The parliamentary elections in the United Kingdom produced a disappointing outcome for the ruling party. This can complicate the progress of the Brexit negotiations this year and next.

In the United States, the economic growth cycle has continued for a record-long time, and there were signs of growth slowing down in the first half of 2017. The situation in the U.S. labour market is exceptionally good, with unemployment having fallen to a historically low level of 4.3 per cent. The rate of new job creation has, however, declined. Growth in the financial performance of U.S. corporations has also slowed down, although it remains at a good level. Profit margins have been supported by low interest rates and low wage inflation. Industrial production continues to increase and the growth of the global economy is reflected in a higher capacity utilisation rate. In the U.S., the Trump presidency got off to a challenging start. Many legislative changes were met with resistance in the Congress and expectations towards Trump's reform programme were significantly reduced. The Federal Reserve continued to tighten its monetary policy, but the slow increase of inflation in the U.S. is reducing the pressure to increase interest rates.

Interest rate environment

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

Investment markets

The first half of 2017 was a very favourable period for the investment markets. The improved profit performance of businesses in Europe and emerging markets has been a positive surprise, which has supported strong returns in the equity markets. Long-term interest rates being low relative to expectations and corporate loans having lower risk margins have led to higher returns for fixed income investments. Consumer confidence has been very strong, which is particularly reflected in the historically low level of volatility indices. The dissipation of political risks in Europe has also supported high returns in the equity markets. The next significant risk factor is the Italian parliamentary election in early 2018. Returns in emerging markets have been exceptionally strong. The growth outlook of businesses has been supported by the depreciation of the U.S. dollar and the decrease in long-term interest rates. The currency indices of emerging markets have improved after declining for several years.

The development of the global economy will remain favourable in the second half of the year. Expected returns in the investment markets have decreased due to high returns, but there are fewer identified risk factors than there were a year ago. Problems related to the high debt of the Chinese national economy or a petering out of economic growth in the United States would quickly lead to a weaker outlook for global economic growth. This would also have a significant negative impact on the returns of equity investments and corporate loans. Nevertheless, the strong profit performance of businesses suggests that a deterioration of the trend in the equity markets is unlikely.

The economic climate in Finland

The Finnish economy has seen a clear positive turn. The factors underlying the improved situation include growth in investments and consumption as well as the strong recovery of exports. Household and business confidence in the future has improved significantly. Consumer confidence has risen to a record high level, while the household saving rate has turned negative. Willingness to make new investments has increased among businesses, which is reflected in the higher demand for loans. The demand for labour among businesses has also grown, which supports expectations of a decrease in the unemployment rate in the coming years. The long-term unemployment rate decreased for the first time since the 2008 financial crisis. The number of bankruptcies is declining and the recovery of the export market, in particular, supports positive development. However, the public-sector economy continues to face major challenges and the government's action to push forward with structural reforms has not been adequate. Changes in the political front may weaken the government's ability to operate and potentially compromise the planned actions and projects aimed at stabilising the public-sector economy. The deterioration of the economic dependency ratio adds to the pressure to implement reforms. Nevertheless, the outlook of the Finnish economy will improve in the second half of the year, and the full-year economic growth for 2017 will be close to three per cent.

The housing market in Finland

The factors that influence housing transactions (employment rate, interest rates and consumer confidence) have supported a positive climate in the housing market. In spite of speculation, the Finnish housing market has developed – and will continue to develop – moderately this year. The Savings Banks Group predicts that the housing market transaction volume will increase by 2–3 per cent this year. The number of transactions carried out by real estate agencies involving old apartments grew by approximately 0.7 per cent year-on-year. However, it should be noted that the high level of new construction activity is creating substantial differences in the housing transaction volume between different cities.

The demand for residential investments has also remained strong, in spite of certain cities seeing an excess supply of rental apartments. The excess supply is partly due to the high level of investment activity among housing funds. New construction activity in 2017 is at its highest level in more than 25 years, which is partly due to housing funds buying large quantities of apartments in newly constructed properties.

The prices of old apartments have increased in the Helsinki Metropolitan Area, while prices have decreased elsewhere in Finland. We predict that the prices of old apartments will increase by approximately 1.5–2 per cent this year in Finland as a whole. The increase in prices will be kept in check by higher supply resulting from the high level of new construction.

Sp Mortgage Bank's profit and balance sheet

Sp Mortgage Bank's financial highlights

(EUR 1,000)	1.1.-30.6.2017	1.1.-31.12.2016 *	1.1.-30.6.2016
Revenue	7,212	4,083	337
Net interest income	3,343	-48	-838
% of revenue	46.4 %	-1.2 %	-248.3 %
Operating profit	1,534	-2,692	-1,263
% of revenue	21.3 %	-65.9 %	-374.3 %
Total operating revenue	2,212	-1,925	-972
Total operating expenses (excluding depreciations)	-525	-768	-291
Cost to income ratio	0.24	-0.40	-0.30
Total assets	1,175,366	808,008	359,358
Total equity	63,546	42,768	38,691
Return on equity %	2.3 %	-8.2 %	-4.2 %
Return on assets %	0.1 %	-0.5 %	-0.5 %
Equity/assets ratio %	5.4 %	5.3 %	10.8 %
Solvency ratio %	17.0 %	16.4 %	31.8 %
Impairment losses on loans and other receivables	0	0	0

* The actual mortgage banking operation was initiated on 29 March 2016.

Profit trends (comparison period 1-6/2016)

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

The Interest income was EUR 5.6 (0.3) million and consisted mostly of housing loan Interest payments. The Interest expenses was EUR 2.2 (1.2) million consisted mostly of limit Interest and Interest expenses from liabilities to credit institutions. The net interest income amounted to EUR 3.3 (-0.8) million.

The net fee and commission income mainly consisted of fees paid to the intermediating banks amounting to EUR -2.7 (-0.1) million.

Net profit from hedge accounting for the review period was EUR 1.5 (0) million and it is presented under Net trading income on the income statement.

Operating expenses were EUR -0.7 (-0.3) million. Operating expenses mainly consisted of other operating expenses; epecially of purchased services.

Operating profit for the review period was EUR 1.5 (-1.3) million.

The actual mortgage banking operation was initiated on 29 March 2016. For this reason, the comparison figures presented are not fully comparable to the figures for the review period.

Balance sheet and funding (comparison figures 31 December 2016)

The loan portfolio of Sp Mortgage Bank grew to EUR 1,075 (729) during the review period. The majority of the growth of the loan portfolio was based on the residential mortgage loans purchased by Sp Mortgage Bank from the owner banks.

During the review period Sp Mortgage Bank has together with the Savings Banks bought the remaining loan portfolio intermediated by Savings Banks' at Aktia Real Estate Mortgage Bank Plc. The balance sheet value of the bought loan portfolio by Sp Mortgage Bank was EUR 69 million on 30 June 2017.

Sp Mortgage Bank funds its operations with covered bonds. Financial credit from Central Bank of Savings Banks Finland Plc is used as short-term bridge financing.

The value of the covered bond was EUR 499 (498) million at the end of the review period.

At the end of the review period, the amount of short term funding taken from Central Bank of Savings Banks Finland Plc was EUR 613 (265) million, of which EUR 60 million has been agreed to be drawn during the end of the year.

During the review period a targeted share issue to the owner banks was carried out, which amounted to EUR 20 million. At the end of the review period equity amounted to EUR 64 (43) million.

Capital adequacy and risk position

Capital adequacy (comparison figures 31 December 2016)

At the end of the review period, the Sp Mortgage Bank had a strong capital structure, consisting of CET1 capital. Own funds were EUR 62 (42) million. Risk-weighted assets amounted to EUR 367 (251) million. The capital ratio of the Sp Mortgage Bank was 17.0 (16.4) % and the CET1 capital ratio was 17.0 (16.4) %.

At the beginning of 2015, the capital requirement on banks became higher as Finland adopted the capital conservation buffer and the countercyclical capital buffer. The capital conservation buffer increased the capital adequacy requirement from 8% to 10.5% when calculated on the basis of risk-weighted assets. The countercyclical capital buffer will vary between 0% and 2.5%. The decision on the adoption and percentage of the countercyclical capital buffer is made quarterly by the Board of the Financial Supervisory Authority on the basis of its macroprudential analysis. In the first half of 2017, the Financial Supervisory Authority did not set a countercyclical capital buffer requirement for Finnish credit institutions.

In December 2016, the Financial Supervisory Authority set a discretionary capital conservation buffer for the Savings Banks Amalgamation of Savings Banks in accordance with the Act on Credit Institutions as part of the supervisor's assessment (SREP) related to the process. The discretionary capital conservation buffer is 0.5%, and it must be fulfilled with CET1 capital. The discretionary capital conservation buffer became operative on 30 June 2017, and it is fulfilled at the Amalgamation level.

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

The Financial Supervisory Authority has granted a permission to apply a 0 per cent risk weight to internal credit institution liabilities included within the scope of the Amalgamation's joint 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 exemptions referred to in sections 21 and 21a of the Act on the Amalgamation of Deposit Banks do not apply to Sp Mortgage Bank.

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

Capital adequacy's main items

Own Funds (EUR 1,000)	30.6.2017	31.12.2016
Common Equity Tier 1 (CET1) capital before regulatory adjustments	63,546	42,768
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-1,160	-1,618
Common Equity Tier 1 (CET1) capital	62,386	41,150
Additional Tier 1 (AT1) capital	0	0
Tier 1 capital (T1 = CET1 + AT1)	62,386	41,150
Tier 2 (T2) capital	0	0
Total capital (TC = T1 + T2)	62,386	41,150
Risk weighted assets	366,940	251,258
of which: credit and counterparty risk	364,527	247,811
of which: credit valuation adjustment (CVA)	2,413	3,446
of which: market risk	0	0
of which: operational risk	0	0
Common Equity Tier 1 (as a percentage of total risk exposure amount)	17.0 %	16.4 %
Tier 1 (as a percentage of total risk exposure amount)	17.0 %	16.4 %
Total capital (as a percentage of total risk exposure)	17.0 %	16.4 %
Capital requirement		
Total capital requirement	62,386	41,150
Capital requirement total*	38,534	26,382
Capital buffer	23,852	14,768

* The capital requirement 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 5.3 (5.1) % 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)	30.6.2017	31.12.2016
Tier 1 capital	62,386	41,150
Leverage ratio exposure	1,179,386	809,130
Leverage ratio	5.3 %	5.1 %

Risk Position

On 24 May 2017, the Finnish Financial Stability Authority decided to impose a minimum amount of debt eligible for bail-in on the Savings Banks Amalgamation pursuant to Chapter 8, Section 7 of the Act on the Crisis Resolution of Credit Institutions and Investment Firms (1194/2014). The minimum amount of debt eligible for bail-in must be met starting from 31 December 2018. The requirement only applies at the amalgamation level, but the Finnish Financial Stability Authority will re-evaluate whether to impose the requirement at the member credit institution level in 2018.

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

The objectives, principles and organization of risk management in Sp Mortgage Bank are the same as those presented in the 2016 financial statements.

Material events after the closing date

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

Outlook for the year 2017

Sp Mortgage Bank expects the loan portfolio to continue to grow and its quality to remain good. Sp Mortgage Banks' plans to issue its historically second euro dominated covered bond during the end of the year 2017.

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

Information

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

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

Formulas used in calculating the financial highlights:

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

Alternative Performance Measures

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

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

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

Sp Mortgage Bank's income statement

(EUR 1,000)	Note	1-6/2017	1-6/2016*
Interest income		5,561	332
Interest expense		-2,217	-1,170
Net interest income	4	**3,343**	**-838**
Net fee and commission income	5	-2,652	-134
Net trading income	6	1,521	0
Total operating revenue		**2,212**	**-972**
Personnel expenses		-2	0
Other operating expenses		-523	-291
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets		-152	0
Total operating expenses		**-677**	**-291**
Operating profit		**1,534**	**-1,263**
Taxes	10	-307	253
Profit		**1,228**	**-1,010**

Sp Mortgage Bank's statement of comprehensive income

(EUR 1,000)	1-6/2017	1-6/2016*
Profit	**1,228**	**-1,010**
Total comprehensive income	**1,228**	**-1,010**

*The actual mortgage banking operations was initiated on 29 March 2016.

Sp Mortgage Bank's statement of financial position

(EUR 1,000)	Note	30.6.2017	31.12.2016
Assets			
Loans and advances to credit institutions	8	36,412	35,467
Loans and advances to customers	8	1,075,142	729,361
Derivatives	9	0	606
Intangible assets		928	1,080
Tax assets	10	232	538
Other assets	11	62,652	40,956
Total assets		**1,175,366**	**808,008**
Liabilities and equity			
Liabilities			
Liabilities to credit institutions	12	613,000	265,000
Derivatives	9	1,904	0
Debt securities issued	13	495,131	499,006
Provisions and other liabilities		1,785	1,233
Total liabilities		**1,111,820**	**765,240**
Equity			
Share capital		43,061	30,021
Reserves		21,498	14,988
Retained earnings		-1,013	-2,241
Total equity		**63,546**	**42,768**
Total liabilities and equity		**1,175,366**	**808,008**

Sp Mortgage Bank's statement of cash flows

(EUR 1,000)	1-6/2017	1-6/2016*
Cash flows from operating activities		
Profit	1,228	-1,010
Adjustments for items without cash flow effect	-1,368	
Change in deferred tax	307	-253
Cash flows from operating activities before changes in assets and liabilities	**166**	**-1,263**
Increase (-) or decrease (+) in operating assets	**-367,477**	**-347,432**
Loans and advances to customers	-345,781	-347,432
Other assets	-21,696	-67
Increase (-) or decrease (+) in operating liabilities	**348,707**	**320,655**
Liabilities to credit institutions	348,000	320,000
Debt securities issued	155	
Other liabilities	552	655
Total cash flows from operating activities	**-18,604**	**-28,040**
Cash flows from investing activities		
Investments in property, plant and equipment and intangible assets	-1	-464
Total cash flows from investing activities	**-1**	**-464**
Cash flows from financing activities		
Increase in share capital	13,040	19,869
Other monetary increases in equity items	6,510	9,920
Total cash flows from financing activities	**19,550**	**29,789**
Adjustments for items without cash flow effect		
Changes in fair value	-1,521	
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	152	
Total	**-1,368**	**0**
Change in cash and cash equivalents	**945**	**1,280**
Cash and cash equivalents at the beginning of the period	**35,467**	**9,752**
Cash and cash equivalents at the end of the period	**36,412**	**11,032**
Cash and cash equivalents comprise the following items:		
Receivables from central banks repayable on demand	36,412	11,032
Total cash and cash equivalents	**36,412**	**11,032**
Interest received	4,102	144
Interest paid	1,626	1,032

*The actual mortgage banking operations was initiated on 29 March 2016.

Sp Mortgage Bank's statement of changes in equity

(EUR 1,000)	Share capital	Share premium	Retained earnings	Total equity
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**
Transactions with owners				
Subscription issue	19,869	9,920		29,789
Total equity 30 June 2016	**26,539**	**13,250**	**-1,098**	**38,691**
Equity 1 January 2016	**6,670**	**3,330**	**-87**	**9,913**
Comprehensive income				
Profit			-2,154	-2,154
Total comprehensive income			**-2,154**	**-2,154**
Transactions with owners				
Subscription issue	23,351	11,658		35,009
Total equity 31 December 2016	**30,021**	**14,988**	**-2,241**	**42,768**
Equity 1 January 2017	**30,021**	**14,988**	**-2,241**	**42,768**
Comprehensive income				
Profit			1,228	1,228
Total comprehensive income			**1,228**	**1,228**
Transactions with owners				
Subscription issue	13,040	6,510		19,550
Total equity 30 June 2017	**43,061**	**21,498**	**-1,013**	**63,546**

BASIS OF PREPARATION

NOTE 1. INFORMATION ON SP MORTGAGE BANK AND DESCRIPTION OF THE SAVINGS BANKS GROUP AND THE SAVINGS BANKS AMALGAMATION

Sp Mortgage Bank Plc (hereinafter "Sp Mortgage Bank") is a mortgage bank wholly owned by the Savings Banks that belong to the Savings Banks Amalgamation. The role of Sp Mortgage Bank is, together with Central Bank of Savings Banks Finland Plc, to be responsible for obtaining funding for the Savings Banks Group from money and capital markets. Sp Mortgage Bank is responsible for the Group's covered bond issurance. Sp Mortgage Bank does not have its own 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 is part of the Savings Banks Amalgamation and the Savings Banks Group. The Savings Banks Group (hereinafter also "the Group") is the most longstanding banking group in Finland. It comprises Savings Banks forming the Savings Banks Amalgamation (hereinafter also "Amalgamation"), the Savings Banks' Union Coop which acts as the Central Institution and the subsidiaries and associated companies owned by the Savings Banks. The Savings Banks are independent regional and local banks. Together the Savings Banks form a banking group that operates locally as well as nationally. The basic objective of the Savings Banks is to promote thrift, the financial wellbeing of their customers and to operate near their customers. The Savings Banks focus on retail banking, particularly services related to daily business, saving and investments, and lending services. The service and product range offered is complemented with the other financial services and products provided in cooperation with the service and product companies within the Savings Banks Group. The service and product companies within the Group support and promote the operations of the Group via producing centralised services or having responsibility for certain products. The most significant service and product companies of the Group are Sp Mortgage Bank Plc, Central Bank of Savings Banks Finland Plc, Sb Life Insurance Ltd, Sp-Fund Management Company Ltd, Savings Bank Services Ltd and Sp-Koti Oy.

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

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

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

NOTE 2 ACCOUNTING POLICIES

1. Overview

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

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

The half-year report has been prepared in accordance with the IAS 34 Interim Financial Reporting standard. Accounting principles applied in the half-year report are essentially the same as in the financial statement of 2016.

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 publishes a half-year report during the year 2017.

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

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

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

2. Critical accounting estimates and judgments

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

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

There has not been any major changes regarding the uncertainty requiring management to exercise judgment and make estimates and assumptions compared to the financial statement of 2016.

Implementation of the IFRS 9 standard

IFRS 9 Financial Instruments (effective for financial years beginning on or after 1 January 2018): IFRS 9 replaces the existing guidance in IAS 39. The new standard includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

In Savings Banks Group is ongoing an IFRS 9 project that covers the whole Group. A Group-level project ensures the uniform application of the IFRS 9 standard across the Group. The project is at a deployment stage, and the objective is full IFRS 9 readiness on 1 January 2018, when the application of the IFRS 9 -standard will begin. The project has been scheduled so that parallel accounting would be possible in the second half-year period of 2017. The project is advancing in accordance with the prepared schedule and plan.

Sp Mortgage Bank has disclosed the effects of IFRS 9 in its Financial Statements 2016, including the most significant effects to the profit and financial position of the Bank as well as the capital adequacy of the Sp Mortgage Bank

NOTE 3. SEGMENT INFORMATION

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

PROFIT FOR THE PERIOD

NOTE 4. NET INTEREST INCOME

(EUR 1,000)	1-6/2017	1-6/2016*
Interest income		
Loans and advances to customers	5,002	332
Derivative contracts		
Hedging derivatives	634	
Other	-75	
Total	**5,561**	**332**
Interest expense		
Liabilities to credit institutions	886	138
Debt securities issued	403	
Limits	900	1,032
Other	29	
Total	**2,217**	**1,170**
Net interest income	**3,343**	**-838**

*The actual mortgage banking operations was initiated on 29 March 2016.

NOTE 5. NET FEE AND COMMISSION INCOME

(EUR 1,000)	1-6/2017	1-6/2016*
Fee and commission income		
Lending	130	5
Total	**130**	**5**
Fee and commission expense		
Securities	1	
Loans	2,780	140
Other	1	
Total	**2,782**	**140**
Net fee and comission income	**-2,652**	**-134**

*The actual mortgage banking operations was initiated on 29 March 2016.

NOTE 6. NET TRADING INCOME

(EUR 1,000)	1-6/2017	1-6/2016*
Net income from hedge accounting		
Change in hedging instruments' fair value	-2,510	
Change in hedged items' fair value	4,031	
Net trading income	**1,521**	**0**

*The actual mortgage banking operations was initiated on 29 March 2016.

ASSETS

NOTE 7. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

30.6.2017 (EUR 1,000)	Loans and receivables	Held-for-trading	Other financial liabilities	Total
Loans and advances to credit institutions	36,412			36,412
Loans and advances to customers	1,075,142			1,075,142
Total assets	**1,111,554**	**0**	**0**	**1,111,554**
Liabilities to credit institutions			613,000	613,000
Derivatives				
hedging derivatives				
of which fair value hedging		1,904		1,904
Debt securities issued			495,131	495,131
Total liabilities	**0**	**1,904**	**1,108,131**	**1,110,035**

31.12.2016 (EUR 1,000)	Loans and receivables	Held-for-trading	Other financial liabilities	Total
Loans and advances to credit institutions	35,467			35,467
Loans and advances to customers	729,361			729,361
Derivatives				
hedging derivatives				
of which fair value hedging		606		606
Total assets	**764,828**	**606**	**0**	**765,434**
Liabilities to credit institutions			265,000	265,000
Debt securities issued			499,006	499,006
Total liabilities	**0**	**0**	**764,006**	**764,006**

NOTE 8. LOANS AND ADVANCES

(EUR 1,000)	30.6.2017	31.12.2016
Loans and advances to credit institutions		
Deposits*	36,412	35,467
Total	36,412	35,467

* of which Deposits to Credit Institutions belonging to the Savings Banks Amalgamation EUR 36,411 (35,467) thousand.

Loans and advances to customers		
Loans	1,075,142	729,361
Total	1,075,142	729,361
Total loans and advances	1,111,554	764,828

NOTE 9. DERIVATIVES AND HEDGE ACCOUNTING

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

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

(EUR 1,000)	Nominal value / remaining maturity				Fair value	
30.6.2017	less than 1 year	1 - 5 years	more than 5 years	Total	Assets	Liabilities
Hedging derivative contracts						
Fair value hedging						
Interest rate derivatives		500,000		500,000		1,904
Total	0	500,000	0	500,000	0	1,904
Total derivatives					0	1,904

(EUR 1,000)	Nominal value / remaining maturity				Fair value	
31.12.2016	less than 1 year	1 - 5 years	more than 5 years	Total	Assets	Liabilities
Hedging derivative contracts						
Fair value hedging	0					
Interest rate derivatives		500,000		500,000	606	0
Total	0	500,000	0	500,000	606	0
Total derivatives					606	0

NOTE 10. DEFERRED TAXES

(EUR 1,000)	30.6.2017	31.12.2016
Deferred tax assets	232	538
Tax assets	**232**	**538**
Tax liability	**0**	**0**

30.6.2017 (EUR 1,000)	1.1.2017	Change recognised in profit or loss	30.6.2017
Deferred tax assets			
Approved tax losses	538	-307	232
Total			**232**

1-12/2016 (EUR 1,000)	1.1.2016	Change recognised in profit or loss	31.12.2016
Deferred tax liabilities			
Approved tax losses		538	538
Total	**0**	**538**	**538**

Sp Mortgage Banks's deffered tax assets arising from unused tax losses are recognized to the extent that it is probable that future taxable profit will be available and the assets can be utilized. Sp Mortgage Bank's losses from the first operating year have arisen with the objective that taxable income would accrue in the coming years. When determining the recognition principle for deferred tax assets, the management of Sp Mortgage Bank has assessed the future operations, taking into account the general market circumstances, the development prospects of Savings Banks Group, particularly with respect to refinancing, and changes in Sp Mortgage Bank's own operations. According to the forecasts prepared, the result is expected to improve in the following years and start showing profit on a permanent basis.

The tax losses will expire in 2026.

NOTE 11. OTHER ASSETS

(EUR 1,000)	30.6.2017	31.12.2016
Accrued income and prepaid expenses		
Interest	1,132	561
Other accrued income and prepaid expenses	1,520	395
Money Market Deposits	60,000	40,000
Total other assets	**62,652**	**40,956**

LIABILITIES

NOTE 12. LIABILITIES TO CREDIT INSTITUTIONS

(EUR 1,000)	30.6.2017	31.12.2016
Other than those repayable on demand*	613,000	265,000
Total liabilities to credit institutions	**613,000**	**265,000**

*Consists of internal deposits in the Savings Banks Group.

NOTE 13. DEBT SECURITIES ISSUED

(EUR 1,000)	30.6.2017	31.12.2016
Measured at amortised cost		
Covered bonds	498,615	498,460
Fair value hedging on covered bonds	-3,484	546
Total debt securities issued	**495,131**	**499,006**
Of which		
Fixed interest rate	498,615	498,460

In November 2016 Sp Mortgage Bank established a EUR 3 billion covered bond programme under which the Bank issued in November 2016 a covered bond of EUR 500 million. The euro dominated covered bond has maturity of five years and the bond has a fixed annual 0.1 % coupon. S &P Global Ratings granted a credit rating of AAA for the bond and the bond is listed on the Irish Stock Exchange .

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

OTHER NOTES

NOTE 14. COLLATERALS

(EUR 1,000)	30.6.2017	31.12.2016
Collateral given		
Given on behalf of own liabilities and commitments		
Loans	1,036,761	703,492
Total collateral given	**1,036,761**	**703,492**
Collateral received		
Real estate collateral	1,075,142	729,315
Total collateral received	**1,075,142**	**729,315**

NOTE 15. OFF BALANCE-SHEET COMMITMENTS

(EUR 1,000)	30.6.2017	31.12.2016
Loan commitments	21,051	6,461
Total off balance-sheet commitments	**21,051**	**6,461**

NOTE 16. 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 Federation of Finnish Financial Services. Under these agreements, derivative payments may be offset by payment transaction on each payment date as well as in the event of counterparty default or bankruptcy. In addition, it is possible to agree on collateral on a counterparty-specific basis in the terms and conditions of the agreement. These derivatives are presented in the statement of financial position on a gross basis.

(EUR 1,000) 30.6.2017				Amounts which are not offset but are subject to enforceable			
	Recognised financial assets, gross	Recognised financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Financial instruments	Financial instruments held as collateral	Cash held as collateral	Net amount
Liabilities							
Derivative contracts				1,904			1,904
Total	0	0	0	1,904	0	0	1,904

(EUR 1,000) 31.12.2016				Amounts which are not offset but are subject to enforceable			
	Recognised financial assets, gross	Recognised financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Financial instruments	Financial instruments held as collateral	Cash held as collateral	Net amount
Assets							
Derivative contracts				606			606
Total	0	0	0	606	0	0	606

NOTE 17. 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.

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

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

Fair value hierarchy

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

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

Level 3 includes financial assets whose fair value cannot be derived from public market quotations or through valuation techniques or models which are based on observable market data. Level 3 comprises 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 instruments 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 review period January to June 2017, there were no transfers between levels 1 and 2.

Financial assets 30.6.2017 (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	1,111,554		1,394,239		**1,394,239**
Total financial assets	**1,111,554**	**0**	**1,394,239**	**0**	**1,394,239**

Financial liabilities 30.6.2017 (EUR 1,000)	Carrying amount	Fair value by hierarchy level			Fair value
		Level 1	Level 2	Level 3	total
Measured at fair value					
Derivative contracts	1,904		1,904		**1,904**
Measured at amortised cost					
Liabilities to credit institutions	613,000		556,460		**556,460**
Debt securities issued*	495,131	497 520			**497,520**
Total financial liabilities	**1,110,035**	**497,520**	**558,364**	**0**	**1,055,884**

* Carrying amount includes the adjustment from the hedging EUR -3.5 million.

Financial assets 31.12.2016 (EUR 1,000)	Carrying amount	Fair value by hierarchy level			Fair value
		Level 1	Level 2	Level 3	total
Measured at fair value					
Derivative contracts	606		606		**606**
Measured at amortised cost					
Loans and advances	764,828		833,975		**833,975**
Total financial assets	**765,434**	**0**	**834,581**	**0**	**834,581**

Financial liabilities 31.12.2016 (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	265,000		266,629		**266,629**
Debt securities issued *	499,006	499,710			**499,710**
Total financial liabilities	**764,006**	**499,710**	**266,629**	**0**	**766,339**

* Carrying amount includes the adjustment from the hedging EUR 0.5 million.

NOTE 18. RELATED PARTIES

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

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

CAPITAL ADEQUACY INFORMATION

NOTE 19. PILLAR III DISCLOSURES

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

Sp Mortgage Bank Plc