SP MORTGAGE BANK PLC

BOARD OF DIRECTORS' REPORT AND
IFRS FINANCIAL STATEMENTS
31 DECEMBER 2017

Sp Mortgage Bank Plc's Board of Directors' Report and IFRS Financial Statements 31 December 2017

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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 the 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 financial year, Sp Mortgage Bank's operations proceeded as planned and the loan portfolio reached at the end of the year the amount of EUR 1,535 million.

During the financial year two targeted share issues to the owner banks were carried out and the share issues raised at total of EUR 28 million in new capital.

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

Sp Mortgage Bank's operating profit in the financial year amounted to EUR 5.1 million, and the balance sheet total amounted to EUR 1,598 million.

The Savings Banks Group and the Savings Banks Amalgamation

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

The Savings Banks Group (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 *www.saastopankki.fi/saastopankkiryhma*.

Description of the operational environments

Global economic outlook

Global economic growth strengthened substantially in 2017. A particularly positive aspect of the growth was that it occurred on a broad front: none of the world's top 50 economies were in a recession. The average growth rate of the global economy increased to about 3.5%. The industrial countries reached a growth rate of approximately 2.5%, which was reflected in a significant improvement in employment rates. The unemployment rate fell to a level approaching four per cent in the United States and was substantially below nine per cent in the euro zone. Economic growth in the developing markets was also better than anticipated. Growth in China remained stable at slightly under seven per cent, while Russia and Brazil resumed growth after a recession in the previous years. The GDP growth rate of the emerging economies increased to an average of 4.5%.

At the start of 2018, the outlook for the global economy remains very positive. General economic confidence in Europe is the strongest it has been in more than 17 years and, in the United States, consumer confidence has risen to a level that substantially exceeds the highs seen before the financial crisis. Leading economic indicators in summer 2017 showed symptoms of economic growth having already peaked, but these signs dissipated later in the year and the outlook improved, suggesting stronger growth. In the final months of 2017, macroeconomic indicators were systematically and broadly higher than expected.

The global economy has now been expanding for long enough that supply-side constraints may begin to limit growth prospects in certain economic areas. In many European countries, such as Germany and Sweden, capacity utilisation rates are already close to the levels typically seen at the peak of the economic cycle, while in the United States, unemployment has fallen below the natural rate of unemployment. President Trump's tax cuts are likely to support short-term growth in the United States, but they will also exacerbate the federal deficit, which may become a constraint on growth in the long run. In China, the debt-driven growth model based on investments is no longer working and the demand structure will inevitably need to become more balanced and based on private consumption. This structural transformation is underway in China, but its controlled execution involves risks and there may be unexpected bumps on the path to growth.

The most significant uncertainty in the global economy relates to the change in the direction of the central banks' monetary policy. In the United States, the Federal Reserve already began to slowly hike up interest rates in December 2015, but the rate of increase is now expected to pick up. In autumn 2017, the Fed also began to allow its balance sheet to contract. The European Central Bank (ECB) will halve the monthly volume of its securities purchases to EUR 30 billion starting from the beginning of 2018. This level of purchases will be maintained at least until the end of September 2018. The ECB is expected to gradually move away from quantitative easing thereafter, and the first interest rate hikes – if permitted by the economic climate – could be implemented in the second half of 2019. Tighter monetary policy always involves the risk that the tightening measures begin to slow down growth too much. This risk is exceptionally high at the present time because the massive stimulation measures of central banks have perhaps been the key driver of economic growth and higher asset values in the 2010s.

Interest rate environment

Interest rates have remained low and there are no significant changes expected in the near future. Long-term interest rates also increased very little in 2017 in spite of strong growth. In the United States, the gap between long-term and short-term interest rates narrowed quite significantly during the past year. The flattening yield curve may indicate concerns that tighter monetary policy will lead to slower growth. The yield curve is also quite flat in the EU. Combined with the low basic interest rate level, this presents challenges to net interest income in banking. Net interest income are also weighed down by the liquidity regulation requirements (LCR liquidity requirements) and the ECB's negative deposit interest rate.

The economic climate in Finland

The Finnish economy saw a stronger-than-expected upswing in growth in early 2017. The boost from the global economy was reflected in a substantial increase in exports and strong investment growth. As the year went on, the growth levelled off slightly due to a slowing down of exports. It is possible that production capacity constraints began to compromise Finland's ability to respond to external demand. The labour market mismatch problem also seemed to get worse: the number of vacancies was historically high, but filling them was difficult. Thanks to the growth spurt early in the year, the Finnish GDP probably grew by slightly more than three per cent in 2017.

The employment rate improved surprisingly little considering the brisk GDP growth in 2017. However, this is a fairly typical phenomenon in the early stage of recovery, as businesses initially try to satisfy the increased demand by making more efficient use of their existing capacity. The slower-than-expected decrease in unemployment can also be attributed to a reduction in disguised unemployment: people outside the labour force were encouraged to be more active in seeking work. The supply of labour increased, which will eventually be reflected in a higher employment rate. The trend of decreasing unemployment will continue in 2018.

The slight slowing down of growth seen in the second half of 2017 now appears to have been temporary, and economic development is again improving as we enter 2018. As the global economic outlook has become brighter again, the international economy will increasingly boost the Finnish economy. At the same time, the strong growth in investments will reduce capacity constraints. The general economic climate remains favourable with respect to consumer demand: consumer confidence is historically high, the employment rate is improving, interest rates are very low and purchasing power is increasing in spite of the slight acceleration of inflation. However, household debt is starting to become a factor that constrains consumption, and the growth in private consumption may slow down slightly compared to 2017. The Finnish GDP is expected to grow by 2.5–3% in 2018.

Ensuring the long-term growth potential of the Finnish economy requires the continued structural reform of the labour market, social security, social services and health care, higher education, business subsidies and taxation. However, decision-making on these reforms is politically difficult and the results are slow to come. Due to the fiscal sustainability gap caused by the increasing age-related cost of care, the public-sector economy has very little latitude in spite of the favourable macroeconomic conditions.

The housing market in Finland

The factors that influence housing transactions (employment rate, interest rates and consumer confidence) have continued to support a positive climate in the housing market. In 2017, the positive sentiment was largely directed at newly constructed housing, with the transaction volume rising by nearly 35%. The transaction volume for old apartments did not develop in line with expectations during the same period, although it did grow by approximately 2.5%. There was a growing divide between housing markets in different geographic regions. Uusimaa, Southwest Finland and Pirkanmaa saw strong growth, while Kainuu, Kymenlaakso and Southern Savonia moved in the opposite direction. This polarisation is significantly influenced by regional trends in population size and the size of the labour force.

The demand for residential investments remained strong in early 2017 in spite of certain cities seeing an excess supply of rental apartments and the increase in rents being too fast in relation to the development of wages and salaries. The excess supply is partly due to the high level of investment activity among housing funds. Many experts commented in the autumn on the overheating of the residential investment market and the related risks, particularly if the investments are largely made with borrowed capital. This reduced investment demand, which in turn had a positive impact on the ability of first-time home buyers to find homes for themselves. The number of first-time home buyers increased from the autumn onwards.

New construction activity remained very strong in 2017 due to high demand. At the same time, however, the number of issued building permits began to decline, which suggests growing caution among construction firms. This cautious attitude is attributable to the decreasing demand for residential investments as well as the symptoms seen in the housing market of the Stockholm metropolitan area in Sweden. The low availability of plots in good locations is also a factor. Construction firms are responding to this by increasingly focusing on finding urban infill opportunities.

The prices of old apartments and terraced houses increased by approximately four per cent in 2017. There were geographic differences in the development of prices, with the Helsinki Metropolitan Area seeing an increase of approximately 4.5% and the rest of Finland averaging about 1.5 per cent. We predict that the prices of old apartments will increase by approximately 1–3% this year in Finland as a whole. The increase in prices will be kept in check by the demand for small apartments returning to normal, along with a slight decrease in the eagerness to buy apartments.

Sp Mortgage Bank's income statement and statement of financial position

Sp Mortgage Bank's financial highlights

(EUR 1,000)	1.1.-31.12.2017	1.1.-31.12.2016 *
Revenue	18,544	4,083
Net interest income	9,622	-48
% of revenue	51.9 %	-1.2 %
Profit before taxes	5,097	-2,692
% of revenue	27.5 %	-65.9 %
Total operating revenue	6,904	-1,925
Total operating expenses	-1,808	-768
Cost to income ratio	26.2 %	-39.9 %
Total assets	1,598,072	808,008
Total equity	74,695	42,768
Return on equity %	6.9 %	-8.2 %
Return on assets %	0.3 %	-0.5 %
Equity/assets ratio %	4.7 %	5.3 %
Solvency ratio %	13.5 %	16.4 %
Impairment losses on loans and other receivables	0	0

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

Profit trends (comparison period 1-12/2016)

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.

Result of the financial year consisted of net interest income, net fee and commission income and net trading income and operating expenses.

Interest income was EUR 14.4 (3.9) million and consisted mostly of housing loan interest payments. Interest expenses was EUR -4.8 (-4.0) million and consisted mostly of limit interest and interest expenses from liabilities to credit institutions. The net interest income amounted to EUR 9.6 (0.0) million.

The net fee and commission income mainly consisted of fees paid to the intermediating banks amounted to EUR -6.6 (-1.9) million.

Net profit from hedge accounting for the financial year was EUR 3.8 (0.1) million and it is presented under Net trading income on the income statement. The net profit from hedge accounting arose from changes in fair value of hedged items and hedging instruments.

Operating expenses were EUR -1.8 (-0.8) million. Operating expenses mainly consisted of other operating expenses; especially of purchased services.

Operating profit for the financial year was EUR 4.1 (-2.2) million.

Balance sheet and funding (comparison figures 31 December 2016)

The loan portfolio of Sp Mortgage Bank grew to EUR 1,535 (729) during the financial year. 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 financial year 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 loan portfolio bought by Sp Mortgage Bank was EUR 62 million on 31 December 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 bonds was EUR 990 (499) million at the end of the financial year. At the end of the financial year, the amount of short term funding taken from Central Bank of Savings Banks Finland Plc was EUR 528 (265) million.

During the financial year two targeted share issues to the owner banks were carried out, which amounted to EUR 28 million. At the end of the financial year equity amounted to EUR 75 (43) million.

Capital adequacy and risk position

Capital adequacy (comparison figures 31 December 2016)

At the end of the financial year, the Sp Mortgage Bank had a strong capital structure, consisting of CET1 capital. Own funds were EUR 74 (41) million. Risk-weighted assets amounted to EUR 548 (251) million. The capital ratio of the Sp Mortgage Bank was 13.5 (16.4) % and the CET1 capital ratio was 13.5 (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 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 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 met 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 publishes the relevant information with regard to capital adequacy calculation yearly as part of its Annual Report and Notes to the Financial Statement. The central capital adequacy information has been published in the half-year report.

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

Sp Mortgage Bank's capital adequacy's main items

Own funds (EUR 1,000)	31.12.2017	31.12.2016
Common Equity Tier 1 (CET1) capital before regulatory adjustments	74,695	42,768
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-752	-1,618
Common Equity Tier 1 (CET1) capital	73,943	41,150
Additional Tier 1 (AT1) capital before regulatory adjustments	0	0
Total regulatory adjustments to Additional Tier 1 (AT1) capital	0	0
Additional Tier 1 (AT1) capital	0	0
Additional Tier 1 (AT1) capital	73,943	41,150
Tier 2 (T2) capital before regulatory adjustments	0	0
Total regulatory adjustments to Tier 2 (T2) capital	0	0
Tier 2 (T2) capital	0	0
Total capital (TC = T1 + T2)	73,943	41,150
Risk weighted assets	547,507	251,258
of which: credit and counterparty risk	529,621	247,811
of which: credit valuation adjustment (CVA)	4,940	3,446
of which: market risk	0	0
of which: operational risk	12,946	0
Common Equity Tier 1 (as a percentage of total risk exposure amount)	13.5 %	16.4 %
Tier 1 (as a percentage of total risk exposure amount)	13.5 %	16.4 %
Total capital (as a percentage of total risk exposure)	13.5 %	16.4 %
Capital requirement		
Total capital requirement	73,943	41,150
Capital requirement total*	57,499	26,382
Capital buffer	16,445	14,768

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

Leverage ratio

The leverage ratio of the Sp Mortgage Bank was 4.6 (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. Sp Mortgage Bank monitors the indebtedness as part of the ICAAP process.

Leverage ratio

(EUR 1,000)	31.12.2017	31.12.2016
Tier 1 capital	73,943	41,150
Leverage ratio exposure	1,602,220	809,130
Leverage ratio	4.6 %	5.1 %

Resolution plan

The Directive of the European Parliament and of the Union 2014/59/EU on the recovery and resolution framework of credit institutions and investment service firms was brought nationally into force as of 1 January 2015 (the Act on the resolution of credit institutions and investment service firms). To implement the resolution act, the Financial Stability Authority was established (the Act on the Financial Stability Authority, 1995/2014), which created a crisis solution plan for the Savings Banks Amalgamation in the early year 2017. As part of the resolution plan, at the Amalgamation level a requirement will be set on the amount of own funds and deductible liabilities (MREL requirement), and it will enter into force on 31 December 2017. The requirement will not be directed at the member credit institutions, but the member credit institution-specific requirement will be assessed again in 2018. The MREL requirement is in nature a Pillar 2 -type minimum requirement, which must be met continuously.

Risk Position

Sp Mortgage Bank's risk management and internal control is a central part of the bank's operations. As Sp Mortgage Bank is a part of the Savings Banks Amalgamation, 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 approves the internal controls guidelines. 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 risk management covers all material risks, including any new and previously unidentified risks.

Significant or risk bearing commitments are made in accordance with collegial decision making processes, and mandates are limited. Internal operational guidelines are used to steer business operations and processes. Compliance with the internal guidelines as well as the updating process of the guidelines is monitored. Decisions and significant business operations are documented and archived. An essential part of risk management is executed in daily supervision. The execution of made decisions is monitored through approval and verification process, controls and reconciliations together with adequate follow-up, monitoring and reporting. 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 note. Savings Banks Group's risks and risk management is described in more detail in the Savings Banks Group's 2017 financial statements.

Sp Mortgage Bank's Corporate Governance

The Annual General Meeting of Sp Mortgage Bank considers the previous year's financial statement, distribution of the profits, discharges, and selection of Board members. The decisions on Sp Mortgage Bank's business operations and strategic matters are made by the Bank's Board of Directors. Further tasks of the Board include making decisions concerning the main issues related to Sp Mortgage Bank's business operations and selecting its Managing Director. Further tasks of the Board include ensuring that the Sp Mortgage Banks accounting, financial statements practices and financial reporting cover all of its operations and are organised appropriately. Moreover, the Board of Directors is responsible for that Sp Mortgage Bank has adequate and appropriate internal control, internal audit and audit. The work of the Board of Directors follows approved guidelines and the charter for Board of Directors. The Managing Director of Sp Mortgage Bank is responsible for Bank's operational management according to the guidelines set by the Board of Directors.

The independence and integrity of the Board members and Managing Director are ascertained in accordance with the directions issued by the Financial Supervisory Authority. On their selection for the position and annually thereafter, the Board members and Managing Director are obliged to provide an account of the organizations with which they are involved. In addition, on accepting their position, each Board member and Managing Director must submit a fitness and propriety report as stipulated by the Financial Supervisory Authority.

Sp Mortgage Bank's Board of Directors and Auditors

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

The Board of Directors consists of the following:

Tomi Närhinen, Chairman, as from 24 October 2017

Pasi Kämäri, Chairman, until 22 August 2017

Juhani Huupponen, as from 16 March 2017
(chairman from 23 August to 23 October 2017)

Risto Seppälä

Kirsi Autiosalo, as from 16 March 2017

Jussi Hakala, as from 16 March 2017

Kai Brander, until 16 March 2017

Harri Mattinen acted as Managing Director of Sp Mortgage Bank until 9 August 2017, followed by Tero Kangas as the acting Managing Director.

At the annual general meeting of the Sp Mortgage Bank Plc on 16 March 2017, KPMG Oy Ab, Author~~i~~sed Public Accountants, was elected as the auditor of Savings Banks' Union Coop. The chief auditor designated by the firm is Petri Kettunen, Authorised Public Accountant.

Personnel

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

Owners

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

Main outsourced functions

Sp Mortgage Bank's banking systems are outsourced to Oy Samlink Ab, which is an associated company in Savings Banks Group. Sp Mortgage Banks' bookkeeping and accounts are handled by Paikallispankkien PP-Laskenta Oy, which is wholly owned by Samlink.

Social responsibility

The Savings Banks Group publishes as part of the Group's Annual Report a responsibility report. After publication the report is available on the Internet pages www.saastopankki.fi. Sp Mortgage Bank's social responsibility refers to its responsibility for the impacts of its business activities on surrounding society and the company's stakeholder groups. By acting as the mortgage bank of the Savings Banks, Sp Mortgage Bank in its part supports the social responsibility of the local Savings Banks.

Material events after the closing date

IFRS 9 -standard came into effect 1 January 2018 fully replacing the prior IAS 39 standard. The adoption of the standard resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements on the opening balances for 2018. The Group did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Due to IFRS 9, the most significant accounting policy changes relate to changes in classification and measurement as well as calculation of expected credit losses in accordance with IFRS 9. The effects of IFRS 9 are presented as part of the financial statements in Note 2.

Sp Mortgage Bank's Board of Directors are not aware of any facts that would materially influence the financial position of the Sp Mortgage Bank after the completion of the Financial statement.

Outlook for the year 2018

Sp Mortgage Bank expects the loan portfolio to continue to grow through sales of new contracts and the quality of the loan portfolio to remain at a high level. The capital adequacy of Sp Mortgage Bank is estimated to remain strong and the risk position to remain stable. The covered bond programme allows for covered bond issuances in 2018.

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

Sp Mortgage Bank's distributable funds amount to EUR 26.1 million.

The Board of Directors of Sp Mortgage Bank proposes to the Annual General Meeting that the profit for the financial year EUR 4.1 million is entered as accumulated retained earnings with no dividend paid.

Information

Acting Managing Director, Tero Kangas

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

Formulas used in calculating the financial highlights:

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

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

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

SP MORTGAGE BANK PLC'S IFRS FINANCIAL SATEMENTS

Sp Mortgage Bank's income statement

(EUR 1,000)	Note	1-12/2017	1-12/2016*
Interest income		14,377	3,940
Interest expense		-4,756	-3,988
Net interest income	**5**	**9,622**	**-48**
Net fee and commission income	6	-6,558	-1,936
Net trading income	7	3,841	60
Total operating revenue		**6,904**	**-1,925**
Personnel expenses	8	-7	-3
Other operating expenses	9	-1,468	-765
Depreciation of intangible assets	10	-332	0
Total operating expenses		**-1,808**	**-768**
Profit before tax		**5,097**	**-2,692**
Taxes	11	-1,019	538
Profit		**4,077**	**-2,154**

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

Sp Mortgage Bank's statement of comprehensive income

(EUR 1,000)	1-12/2017	1-12/2016*
Profit	**4,077**	**-2,154**
Total comprehensive income	**4,077**	**-2,154**

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

Sp Mortgage Bank's statement of financial position

(EUR 1,000)	Note	31.12.2017	31.12.2016
Assets			
Loans and advances to credit institutions	13	59,227	35,467
Loans and advances to customers	13	1,534,830	729,361
Derivatives	14	0	606
Intangible assets	15	752	1,080
Tax assets	16	0	538
Other assets	17	3,264	40,956
Total assets		**1,598,072**	**808,008**
Liabilities and equity			
Liabilities			
Liabilities to credit institutions	18	528,000	265,000
Derivatives	14	2,315	0
Debt securities issued	19	990,215	499,006
Tax liabilities		481	0
Provisions and other liabilities	20	2,366	1,233
Total liabilities		**1,523,377**	**765,240**
Equity			
Share capital	21	48,597	30,021
Reserves		24,262	14,988
Retained earnings		1,836	-2,241
Total equity		**74,695**	**42,768**
Total liabilities and equity		**1,598,072**	**808,008**

Sp Mortgage Bank's statement of cash flows

(EUR 1,000)	1-12/2017	1-12/2016*
Cash flows from operating activities		
Profit	4,077	-2,154
Adjustments for items without cash flow effect	-3,028	-60
Change in deferred tax	538	-538
Cash flows from operating activities before changes in assets and liabilities	**1,588**	**-2,752**
Increase (-) or decrease (+) in operating assets	**-767,776**	**-770,316**
Loans and advances to customers	-805,469	-729,361
Other assets	37,692	-40,955
Increase (-) or decrease (+) in operating liabilities	**762,103**	**764,682**
Liabilities to credit institutions	263,000	265,000
Debt securities issued	497,970	498,460
Other liabilities	1,133	1,222
Total cash flows from operating activities	**-4,086**	**-8,386**
Cash flows from investing activities		
Investments in property, plant and equipment and intangible assets	-5	-908
Total cash flows from investing activities	**-5**	**-908**
Cash flows from financing activities		
Increase in basic capital	18,576	23,351
Other monetary increases in equity items	9,274	11,658
Total cash flows from financing activities	**27,850**	**35,009**
Change in cash and cash equivalents	**23,760**	**25,715**
Cash and cash equivalents at the beginning of the period	**35,467**	**9,752**
Cash and cash equivalents at the end of the period	**59,227**	**35,467**
Cash and cash equivalents comprise the following items:		
Receivables from central banks repayable on demand	59,227	35,467
Total cash and cash equivalents	**59,227**	**35,467**
Adjustments for items without cash flow effect		
Changes in fair value	-3,841	**-60**
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	332	
Other adjustments	481	
Total	**-3,028**	**-60**
Interest received	13,086	3,379
Interest paid	3,526	3,576
Dividends received	0	0

* The actual mortgage banking operation 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			-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			4,077	4,077
Total comprehensive income			**4,077**	**4,077**
Transactions with owners				
Subscription issue	18,576	9,274		27,850
Total equity 31 December 2017	**48,597**	**24,262**	**1,836**	**74,695**

BASIS OF PREPARATION

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

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

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

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

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

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

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

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

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

Sp Mortgage Banks Board of Directors has approved the Bank’s financial statement 2017 on 6th February 2018, and the financial statement will be presented to the Annual General Meeting of 2018 for approval. The Annual General Meeting has the choice of approving or not approving the financial statement.

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.

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

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

Assets and liabilities are offset 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 13.

Purchase and sale of financial instruments is recognised on the trade date. Financial assets are recognised when the Sp Morgage 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 Sp Morgage 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 fair value and subsequently carried at amortised cost using the effective interest method. With the exception of derivative contracts and the issued bond for which hedge accounting is applied, all financial liabilities are measured at amortised cost in the balance sheet.

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.

Derivatives and hedge accounting

Derivative financial instruments are valued at fair value in the financial statements, and fair value changes are recognized in the balance sheet and income statement or in other comprehensive income.

Sp Mortgage Bank hedges its interest rate risk from changes in fair value and applies hedge accounting for the hedge relationships. The hedged item in the fair value hedge is the issued fixed rate bond.

Changes in the fair value of derivatives hedging fair value are recognized in the income statement under "Net trading income". When hedging fair value, the hedged item is also measured at fair value during hedging even if it would otherwise be measured at amortized cost. A change in the hedged item's fair value is recognized in the balance sheet as an adjustment to the balance sheet amount of the hedged 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.

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 principlest

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.

Net Trading Income

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

7. Segment information

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

New IFRS-standards and interpretations

New and amended standards applied in financial year ended

Sp Mortgage Bank has applied as from 1 January 2017 the following new and amended standards that have come into effect.

- Amendments to IAS 7 Disclosure Initiative (effective for financial years beginning on or after 1 January 2017). The changes were made to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The standard change has an affect the notes of Sp Mortgage Bank
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (effective for financial years beginning on or after 1 January 2017). The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The changes have not had an impact on the financial statements of Sp Mortgage Bank.
- Amendments to IFRS 12 (not yet endorsed for use by the European Union as of 31.12.2017), Annual Improvements to IFRSs (2014-2016 cycle) (effective for financial years beginning on or after 1 January 2017). The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The changes have not had an impact on the financial statements of Sp Mortgage Bank.

Adoption of new and amended standards and interpretations applicable in future financial years

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

* = not yet endorsed for use by the European Union as of 31 December 2017.

- IFRS 15 Revenue from Contracts with Customers, Effective date of IFRS 15 and Clarifications to IFRS 15 (effective for financial years beginning on or after 1 January 2018): The new standard replaces current IAS 18 and IAS 11 -standards and related interpretations. In IFRS 15 a five-step model is applied to determine when to recognise revenue, and at what amount. Revenue is recognised when (or as) a company transfers control of goods or services to a customer either over time or at a point in time. The standard introduces also extensive new disclosure requirements.

  The new standard does not affect the revenue recognition from financial instruments or insurance contracts, and it concerns mainly various net fee and commission income items. The revenue recognition from interest and dividend yield will be based in the future on the IFRS 9 -standard, and no changes are expected for the revenue recognition compared with the current treatment of the IAS 18 -standard. The revenue recognition of Sp Mortgage Bank is thus based to a significant degree on the IFRS 9 -standard with regard to financial instruments (replaces as of 1 January 2018 the current IAS 39 -standard) and with regard to insurance contracts to the IFRS 4 -standard.

The net fee and commission income of Sp Mortgage Bank mainly includes fees that are recorded in a performance-based manner, when a certain service or measure has been performed.

The services consists of services relating to lending. With regard to these services, the fulfillment of the performance obligations can be clearly verified, and no changes are expected to the revenue recognition compared with the current practiceThe impact of the IFRS 15 -standard on the income of Sp Mortage Bank and its financial statements are immaterial, as a whole.

- IFRS 16 Leases (effective for financial years beginning on or after 1 January 2019): The new standard replaces the current IAS 17 –standard and related interpretations. IFRS 16 requires the lessees to recognise the lease agreements on the balance sheet as a right-of-use assets and lease liabilities. The accounting model is similar to current finance lease accounting according to IAS 17. There are two exceptions available, these relate to either short term contacts in which the lease term is 12 months or less, or to low value items i.e. assets of value about USD 5 000 or less. The lessor accounting remains mostly similar to current IAS 17 accounting. Savings Banks Group has started the preliminary assessment of the impact of the standard. According to it, especially the rental facilities used for offices and administrative units by the Savings Banks Group will bring changes to the Group's calculation practices. Saving Bank Group has no financial lease contracts. The impacts of the standard on the profit and loss, balance sheet, financial statements and IT-systems are considered to not be material due to the exceptions and the amount of lease contracts within the Group. However, the impact analysis of the standard on the financial statements of the Savings Banks Group is still unfinished, and the estimation of the final impact will require a more exact analysis of the Group's agreement portfolio.

- IFRIC 22 Interpretation Foreign Currency Transactions and Advance Consideration* (effective for financial years beginning on or after 1 January 2018). When foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21 The Effects of Changes in Foreign Exchange Rates -standard is not clear on how to determine the transaction date for translating the related item. The interpretation clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The standard change does not have a significant impact on the financial statements of Savings Banks Group, as the Group has very few items denominated in foreign currencies and/or operations.

- Annual Improvements to IFRSs (2014-2016 cycle)* (effective for financial years beginning on or after 1 January 2018). The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments relate to IFRS 1 and IAS 28. The amendments have no significant impact on Savings Banks Groups's consolidated financial statements.

- IFRIC 23 Uncertainty over Income Tax Treatments* (effective for financial years beginning on or after 1 January 2019). The interpretation brings clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. The key test is whether the tax authority will accept the company's chosen tax treatment. When considering this the assumption is that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment. The standard change does not have an impact on the financial statements of Sp Mortgage Bank for the foreseeable future.

- Amendments to IFRS 9: Prepayment Features with Negative Compensation* (effective for financial years beginning on or after 1 January 2019). The amendments enable entities to measure at amortised cost some prepayable financial assets with so-called negative compensation. The standard change does not have an impact on the financial statements of Sp Mortgage Bank for the foreseeable future.

- Annual Improvements to IFRSs (2015-2017 cycle)* (effective for financial years beginning on or after 1 January 2019). The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments relate to IFRS 3, IFRS 11, IAS 12 and IAS 23. The amendments have no significant impact.

IFRS 9 Financial Instruments and improvements (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.

Introduction of the IFRS 9 standard

IFRS 9 came into effect 1 January 2018 fully replacing the prior IAS 39 standard. The adoption of the standard resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements on the opening balances for 2018. The Savings Banks Group, to which Sp Mortgage Bank belongs, did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Due to IFRS 9, the most significant accounting policy changes relate to changes in classification and measurement as well as calculation of expected credit losses in accordance with IFRS 9.

The Group has elected to apply the IAS 39 hedge accounting requirements on portfolio hedging and apply IFRS 9 hedge accounting requirements only to general hedge accounting as permitted by the transitional provisions of IFRS 9.

The adoption of IFRS 9 has a significant impact on the Sp Mortgage Bank's accounting policies relating mainly to classification and measurement of financial assets and liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7: Financial Instruments: Disclosures. For notes disclosures, the IFRS 9 consequential amendments to IFRS 7 disclosures have only been applied to the current period. The comparative period disclosures repeat those disclosures in the prior year, therefore not being comparable in the 2018 financial statements. The effects of the adoption of IFRS 9 have been booked directly to retained earning in the 1 January 2018 opening balance.

As permitted by the IFRS 9 transitional provisions the effects of the transition, changes in classification and measurement as well as expected credit losses are booked directly to retained earnings therefore effecting the capital ratios and own funds of the Savings Bank Amalgamation. Going forward, the own funds are mainly effected by the expected credit losses booked through profit and loss. The risk-weighted assets are effected by the accounting principle changes that cause changes to carrying amounts.

The Group has elected to not apply transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds. All effect of IFRS 9 will therefore be accounted fully since the beginning of 2018.

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Groups business model for managing the financial assets and these instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss, available-for-sale, held-to-maturity and amortised cost) have been replaced by:

- Fair value through other comprehensive income (FVOCI)
- Amortised cost
- Fair value through profit or loss (FVTPL)

The classification of financial liabilities remains largely the same and the changes under IFRS 9 have no significant effect on Sp Mortgage Bank.

Classification and measurement of financial assets and liabilities

The classification and measurement of financial assets in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

(EUR 1,000)	Measurement category IAS 39	Measurement category IFRS 9	Carrying amount IAS 39 31 December 2017	Carrying amount IFRS 9 1 January 2018
Loans and advances to credit institutions	Loans and receivables	Amortised cost	59,227	59,227
Loans and advances to customers	Loans and receivables	Amortised cost	1,534,830	1,534,056
Total assets			**1,594,056**	**1,593,283**

There were no changes to the classification and measurement of financial liabilities in IFRS 9.

The reconciliation of the carrying amounts of financial assets in accordance with IAS 39 and IFRS 9:

Financial assets (EUR 1,000)	IAS 39 carrying amount 31 December 2017	Reclassi-fications	Remea-surements	IFRS 9 carrying amount 1 January 2018
Amortised cost				
Loans and advances to credit institutions				
Statement of financial position 31 December 2017	59,227			
Remeasurements				
Statement of financial position 1 January 2018		0	0	59,227
Loans and advances to customers				
Statement of financial position 31 December 2017	1,534,830			
Remeasurements			-773	
Statement of financial position 1 January 2018		0	-773	1,534,056
Financial assets measured at amortised cost, total	**1,594,056**	**0**	**-773**	**1,593,283**

Under IFRS 9 Sp Mortgage Bank has no financial assets or liabilities that have been reclassified to the amortised cost category or have been reclassified out of fair value through profit or loss to fair value through other comprehensive income.

Changes to the impairment calculation

The adoption of IFRS 9 changed the accounting for loan loss impairments by replacing the IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach. The expected credit loss allowance is based on the credit losses expected to arise over the life of the asset, unless there has been no significant increase in credit risk since origination, in which case the allowance is based on the 12 months' expected credit loss.

Expected Credit losses are booked for all loans and other debt financial assets held at fair value through other comprehensive income or amortised cost, together with loan commitments, financial guarantee contracts and account payables.

When measuring impairment of financial assets, the Group applies expected credit losses methodology that incorporates probability of default (PD) and loss given default (LGD). The key components of the models are Probability of Default, which is based on credit rating models and Loss Given Default, which takes into account the collateral of the contract. Forward-looking information is incorporated into calculations by using different scenarios which are based on the financial information provided by the Group's economist.

If credit risk on an exposure has not increased significantly since initial recognition and exposure was not credit impaired upon origination, the Group recognises the loss allowance for that exposure at an amount equal to 12-month expected credit losses and whether the credit risk has significantly increased based on the lifetime expected credit losses. The increase of credit risk can be considered significant if the contract has minor delays in payment (30-90 days) or the credit rating has deteriorated since the origination of the exposure or of the original value. Sp Mortgage Bank can use management judgement and manually book a significant increase to an individual exposure. The definition of unlikely to pay is consistent with the regulatory requirements of the Group.

Reconciliation of equity balances from IAS 39 to IFRS 9

In accordance with the transitional provisions of IFRS 9, the changes relating to IFRS 9 are booked through retained earnings and other funds within the equity. The following table reconciles the most significant changes due to IFRS 9 booked to equity including a reconciliation of impairment allowance balance from IAS 39 to IFRS 9.

(EUR 1,000)	31 December 2017	Change	1 January 2018
Retained earnings	1,836		
Reclassifications			
Reclassification of loan loss provisions			
Expected credit losses		-835	
Expected credit losses, total			-835
Tax effect		167	
Retained earnings	**1,836**	**-668**	**1,168**
Total equity quity*	**74,695**	**-668**	**74,027**

* Total equity 1 January 2018 includes also other items included in equity. The reconciliation only contains the IFRS 9 effects in the fair value reserve and retained earnings.

Sp Mortgage Bank estimates that the other new and amended stand-ards and interpretations applicable in future financial years will not have a significant impact on Sp Mortgage Bank's financial reporting.

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.

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 2017 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 assure that the continuity of the operations is not compromised in the long run.

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 responsibility 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 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. Sp Mortgage Banks' Managing Director together with the other senior management of Sp Mortgage Bank is responsible for arranging internal controls for the bank in accordance with legislation, government regulations 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 ensure 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 framework 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 markets.

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 Sp Mortgage Bank's independent functions.

The methods of risk management in 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.

Significant or risk bearing commitments are made in accordance with collegial decision making processes, and mandates are limited. Internal operational guidelines are used to steer business operations and processes. Compliance with the internal guidelines as well as the updating process of the guidelines is monitored. Decisions and significant business operations are documented and archived. An essential part of risk management is executed in daily supervision. The execution of made decisions is monitored through approval and verification process, controls and reconciliations together with adequate follow-up, monitoring and reporting. The most significant risks affecting Sp Mortgage Bank are credit, liquidity, and interest rate, operational and business risks.

Risk strategies and limit structures for each risk area have been established at 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 Savings Banks Group's financial statement on annual basis. Savings Banks Amalgamation may, if necessary determine the need for a more frequent publication frequency 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 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 Sp Mortgage Bank has the responsibility for the management of the Bank's capital adequacy. The Board of Directors of 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 Sp Mortgage Bank's business operations and changes in the operating environment.

The capital adequacy, liquidity and customer risks of the organizations belonging to Saving Banks Amalgamation is supervised on Amalgamation level.

Stress test

As a part of the capital adequacy assessment process stress tests are used to evaluate 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 contingency plan describes actions and decisions to be taken by the Board of Directors in the event that capital adequacy falls to the level of or below the early warning threshold.

Capital adequacy

At the end of year 2017, Sp Mortgage Bank had a strong capital structure, consisting of CET1 capital. Own funds were EUR 74 (41) million. Risk-weighted assets amounted to EUR 548 (251) million. The capital ratio of Sp Mortgage Bank was 13.5 % and the CET1 capital ratio was 13.5 %.

The standard method is used to calculate the capital requirement for credit risk of 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 Amalgamation.

The Savings Banks' Union Coop has granted a permission to Sp Mortgage Bank not to apply with the requirements set out in the section six of the Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, and accordingly the EU requirements set for liquidity of credit institutions.

Sp Mortgage Bank's capital adequacy's main items

Own funds (EUR 1,000)	31.12.2017	31.12.2016
Common Equity Tier 1 (CET1) capital before regulatory adjustments	74,695	42,768
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-752	-1,618
Common Equity Tier 1 (CET1) capital	73,943	41,150
Additional Tier 1 (AT1) capital before regulatory adjustments	0	0
Total regulatory adjustments to Additional Tier 1 (AT1) capital	0	0
Additional Tier 1 (AT1) capital	0	0
Additional Tier 1 (AT1) capital	73,943	41,150
Tier 2 (T2) capital before regulatory adjustments	0	0
Total regulatory adjustments to Tier 2 (T2) capital	0	0
Tier 2 (T2) capital	0	0
Total capital (TC = T1 + T2)	73,943	41,150
Risk weighted assets	547,507	251,258
of which: credit and counterparty risk	529,621	247,811
of which: credit valuation adjustment (CVA)	4,940	3,446
of which: market risk	0	0
of which: operational risk	12,946	0
Common Equity Tier 1 (as a percentage of total risk exposure amount)	13.5 %	16.4 %
Tier 1 (as a percentage of total risk exposure amount)	13.5 %	16.4 %
Total capital (as a percentage of total risk exposure)	13.5 %	16.4 %
Capital requirement		
Total capital requirement	73,943	41,150
Capital requirement total*	57,499	26,382
Capital buffer	16,445	14,768

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

Leverage ratio

The leverage ratio of the Sp Mortgage Bank was 4.6 (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 internal capital adequacy assessment process (ICAAP).

Leverage ratio

(EUR 1,000)	31.12.2017	31.12.2016
Tier 1 capital	73,943	41,150
Leverage ratio exposure	1,602,220	809,130
Leverage ratio	4.6 %	5.1 %

Resolution plan

The Directive of the European Parliament and of the Union 2014/59/EU on the recovery and resolution framework of credit institutions and investment service firms was brought nationally into force as of 1 January 2015 (the Act on the resolution of credit institutions and investment service firms). To implement the resolution act, the Financial Stability Authority was established (the Act on the Financial Stability Authority, 1995/2014), which created a crisis solution plan for the Savings Banks Amalgamation in the early year 2017. As part of the resolution plan, at the Amalgamation level a requirement will be set on the amount of own funds and deductible liabilities (MREL requirement), and it will enter into force on 31 December 2017. The requirement will not be directed at the member credit institutions, but the member credit institution-specific requirement will be assessed again in 2018. The MREL requirement is in nature a Pillar 2 -type minimum requirement, which must be fulfilled continuously.

Credit and counterparty risks

Credit risk is the most significant risk of the banking business. Managing and monitoring credit risk plays a major role when ensuring sufficient capital adequacy according to business risks and losses caused by risk occurrence.

The definition of credit risk is the probability that the 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 the each Savings Bank.

Management of credit risk

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

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

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

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

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

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

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

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

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

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

The loan portfolio of Sp Mortgage Bank was 31 December 2017 EUR 1,535 (729) million.

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 credit rating models include 14 rating classes of which one is for defaulted customers. New loans are rated by application models and existing loans by portfolio model, which takes into account the customer's payment behavior. The models will be validated annually. The credit rating models will be used for internal reporting purposes, as well as the IFRS 9 impairment calculations from 2018 onwards.

Private customer application and portfolio rating models have been implemented in 10/2016. In the end of 2016 all the credits were not rated with the models and therefore years 2016 and 2017 are not fully comparable.

Private lending by rating distribution

Credit rating	31.12.2017	31.12.2016
AAA	3.2 %	0.5 %
AA1	5.9 %	3.3 %
AA2	30.3 %	25.8 %
AA3	18.8 %	17.6 %
AA4	7.1 %	8.1 %
A1	10.1 %	12.4 %
A2	2.8 %	5.5 %
A3	2.8 %	2.6 %
A4	14.2 %	17.8 %
B1	2.8 %	5.0 %
B2	0.0 %	0.0 %
C1	0.0 %	0.0 %
C2	1.2 %	1.3 %
D	0.6%	0.0 %
Total	**100.0 %**	**100.0 %**

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 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 impairments

The non-performing loans and payment delays are followed regularly. Sp Mortgage Bank does not have any non-performing loans at 31 December 2017. 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 for-bearance measures to the loans is that the customers' financial difficulties are estimated to be short-termed and temporary.

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, impairments 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 permanent credit loss, and the impairment is cancelled when the normal recovery process is completed and the final amount of loss on an individual loan or receivable can be calculated.

Sp Mortgage Bank does not have any impairment at 31 December 2017 .

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 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
- repricing risk, which arises from the difference between maturities for fixed rate assets and liabilities and from the timing mismatch between repricing 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. Any supplementary collateral or bonds in the liquidity buffer will be hedged using short-term market interest rates. Hedge accounting is applied to the hedges implemented. All hedging derivatives will be implemented directly from Sp Mortgage Bank with a credit institution outside the Savings Banks Group.

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

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

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

(EUR 1,000)	Change in net interest income			
	31.12.2017		31.12.2016	
Period	Down	Up	Down	Up
Change in the coming 12 months	4,088	503	-4	255
Change in 12-24 months	8,437	542	-14	291

Liquidity risk

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

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

The liquidity reserve and the liquidity requirement

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

Assets 31.12.2017 (EUR 1,000)	Total	< 3 mo	3-12 mo	1-5 years	> 5 years
Loans and advances to credit institutions	59,227	59,227			
Loans and advances to customers	1,534,830	22,425	70,972	372,261	1,069,172
Financial assets total	**1,594,056**	**81,651**	**70,972**	**372,261**	**1,069,172**

Liabilities 31.12.2017 (EUR 1,000)	Total	< 3 mo	3-12 mo	1-5 years	> 5 years
Due to credit institutions and central banks	528,000	300,000	220,000	8,000	
Debt securities in issue	1,000,000			1,000,000	
Financial liabilities total	**1,528,000**	**300,000**	**220,000**	**1,008,000**	**0**

Assets 31.12.2016 (EUR 1,000)	Total	< 3 mo	3-12 mo	1-5 years	> 5 years
Loans and advances to credit institutions	35,467	35,467			
Loans and advances to customers	729,361	10,545	33,430	184,484	500,902
Financial assets total	**764,828**	**46,012**	**33,430**	**184,484**	**500,902**

Liabilities 31.12.2016 (EUR 1,000)	Total	< 3 mo	3-12 mo	1-5 years	> 5 years
Due to credit institutions and central banks	265,000	60,000	205,000		
Debt securities in issue	500,000			500,000	
Financial liabilities total	**765,000**	**60,000**	**205,000**	**500,000**	**0**

Operational risk

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

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

The Board of Directors of Sp Mortgage Bank has the overall responsibility for the operational risks and for defining risk levels and operational risk management procedures related to their identification, measurement, mitigation, monitoring and control. The Board of Directors of Sp Mortgage Bank approves the principles and key operational guidelines of the operational risk management. The risk and compliance function monitors that the operational risk guidelines are implemented and complied with in all operations and functions in Savings Banks Group. Sp Mortgage has identified the operational risks associated with the most important products, services, operations, processes and systems. Identifying operational risks helps determine their monitoring and controls. Some of the losses caused by operational risks are covered by insurance. The continuity plan of the bank also helps prepare for significant interruptions in operations.

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

Legal risk

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

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

Business risk

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

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

FINANCIAL YEAR

NOTE 5. NET INTEREST INCOME

(EUR 1,000)	1-12/2017	1-12/2016*
Interest income		
Loans and advances to customers	12,825	4,038
Derivative contracts		
Hedging derivatives	1,730	109
Other	-178	-207
Total	**14,377**	**3,940**
Interest expense		
Liabilities to credit institutions	-2,358	-1,444
Derivative contracts		
Hedging derivatives	-11	-
Debt securities issued	-1,027	-79
Limits	-1,267	-2,465
Other	-94	-
Total	**-4,756**	**-3,988**
Net interest income	**9,622**	**-48**

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

NOTE 6. NET FEE AND COMMISSION INCOME

(EUR 1,000)	1-12/2017	1-12/2016**
Fee and commission income		
Lending	325	83
Total	**325**	**83**
Fee and commission expense		
Securities	-2	
Loans*	-6,877	-2,018
Other	-4	-1
Total	**-6,884**	**-2,020**

* Consists mainly of fees paid to the intermediating banks.

Net fee and commission income	**-6,558**	**-1,936**

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

NOTE 7. NET TRADING INCOME

(EUR 1,000)	1-12/2017	1-12/2016*
Net income from hedge accounting		
Change in hedging instruments' fair value	-2,920	606
Change in hedged items' fair value	6,762	-546
Net trading income	**3,841**	**60**

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

NOTE 8. PERSONNEL EXPENSES

(EUR 1,000)	1-12/2017	1-12/2016*
Wages and salaries	-7	-3
Personnel expenses	**-7**	**-3**

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

NOTE 9. OTHER OPERATING EXPENSES

(EUR 1,000)	1-12/2017	1-12/2016*
Other administrative expenses		
Other personnel expenses	-1	-
Office expenses	-739	-486
ICT expenses	-336	-251
Telecommunications	-3	-1
Marketing	-7	-3
Total	-1,086	-741
Other operating expenses		
Other operating expenses**	-383	-24
Total	-383	-24
Other operating expenses total	**-1,468**	**-765**

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

****Audit fees**		
Statutory audit	-14	-7
Other services	-25	-
Total	**-39**	**-7**

NOTE 10. DEPRECIATION OF INTANGIBLE ASSETS

(EUR 1,000)	1-12/2017	1-12/2016*
Depreciation of intangible assets	-332	-
Total depreciation	-332	0
Depreciation of intangible assets	**-332**	**0**

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

NOTE 11. INCOME TAXES

(EUR 1,000)	1-12/2017	1-12/2016*
Current tax	-481	-
Change in deferred tax assets	-538	538
Income taxes	**-1,019**	**538**
Total income taxes	**-1,019**	**538**
Reconciliation between tax expense in the income statement and tax expense calculated by the applicable tax rate		
Reconciliation of effective tax rate		
Accounting profit before tax	5,097	-2,692
Taxable profit	**5,097**	**-2,692**
Tax using the domestic corporation tax rate	-1,019	538
which of use of approved tax losses for prior years	-538	-
Corporate income tax rate	**20 %**	**20 %**

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

Additional information about deferred taxes is displayed in note 16.

ASSETS

NOTE 12. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

31.12.2016 (EUR 1,000)	Loans and receivables	Financial assets at fair value through profit or loss	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 edging		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 13. LOANS AND ADVANCES

(EUR 1,000)	31.12.2017	31.12.2016
Loans and advances to credit institutions		
Deposits*	59,227	35,467
Total	59,227	35,467

* of which Deposits to Credit Institutions belonging to the Savings Banks Amalgamation EUR 59,226 (35,467) thousand.

Loans and advances to customers		
Loans	1,534,830	729,361
Total	1,534,830	729,361
Total loans and advances	1,594,056	764,828

NOTE 14. 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	
31.12.2017	1 - 5 years	Total	Assets	Liabilities
Hedging derivative contracts				
Fair value hedging	1,000 000	1,000 000		2,315
Interest rate derivatives	1,000 000	1,000 000		2,315
Total	1,000 000	1,000 000	0	2,315
Derivatives total			0	2,315

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

NOTE 15. INTANGIBLE ASSETS

(EUR 1,000)	31.12.2017	31.12.2016
Intangible assets	748	-
Intangible assets under development	4	1,080
Total	**752**	**1,080**

The impairment testing of intangible assets not yet available for use have been performed by using market based approach and there was no indicators of impairment.

Intagible assets and intangible assets under development formed a significant part of information systems acquired from external operators.

2017 (EUR 1,000) Changes in intangible assets	Intangible assets	Intangible assets under development	Total
Acquisition cost 1 January	0	1,080	1,080
Increases		5	5
Transfers between items	1,080	-1,080	
Acquisition cost 31 December	1,080	4	1,084
Accumulated depreciation and impairments 1 January			
Depreciation for the financial year	-332		-332
Accumulated depreciation and impairments 31 December	-332	0	-332
Carrying amount 31 December	**748**	**4**	**752**

2016 (EUR 1,000) Changes in intangible assets	Intangible assets	Intangible assets under development	Total
Acquisition cost 1 January	0	172	0
Increases		908	172
Acquisition cost 31 December		1,080	1,080
Accumulated depreciation and impairments 31 December		0	0
Carrying amount 31 December	**0**	**1,080**	**1,080**

NOTE 16. DEFERRED TAXES

(EUR 1,000)	31.12.2017	31.12.2016
Deferred tax assets	-	538
Tax assets	**0**	**538**
Income tax liability	481	-
Tax liability	**481**	**0**

2017 (EUR 1,000)	1.1.2017	Change recognised in profit or loss	31.12.2017
Deferred tax assets			
Approved tax losses	538	-538	0
Total	**538**	**-538**	**0**

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

NOTE 17. OTHER ASSETS

(EUR 1,000)	31.12.2017	31.12.2016
Accrued income and prepaid expenses		
Interest	1,853	561
Other accrued income and prepaid expenses	1,411	395
Money Market Deposits	-	40,000
Other assets total	**3,264**	**40,956**

LIABILITIES AND EQUITY

NOTE 18. LIABILITIES TO CREDIT INSTITUTIONS

(EUR 1,000)	31.12.2017	31.12.2016
Other than those repayable on demand*	528,000	265,000
Total liabilities to credit institutions	**528,000**	**265,000**

*Consists of internal deposits in the Savings Banks Group.

NOTE 19. DEBT SECURITIES ISSUED

	31.12.17		31.12.16	
(EUR 1,000)	Nominal value	Carrying amount	Nominal value	Carrying amount
Measured at amortised cost				
Covered bonds	1,000,000	996,430	500,000	498,460
Fair value hedging on covered bonds		-6,215		546
Total debt securities issued	**1,000,000**	**990,215**	**500,000**	**499,006**

Sp Mortgage Bank Plc's Covered bonds issued

31.12.2017 (EUR 1,000)	Nominal value	Carrying amount	Maturity	Interest base	Coupon	Maturity date
Sp Mortgage Bank 2016	500,000	498,773	5 years	Fixed	0.10 %	29.11.21
Sp Mortgage Bank 2017	500,000	497,658	5 years	Fixed	0.125 %	24.10.22
Total	1,000,000	996,430				

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

NOTE 20. PROVISIONS AND OTHER LIABILITIES

(EUR 1,000)	31.12.2017	31.12.2016
Other liabilities		
Payment transfer liabilities	47	35
Other liabilities	52	199
Total other liabilities	**98**	**234**
Accrued expenses		
Interest payable	837	409
Interest advances received	3	3
Other accrued expenses	1,428	588
Total accured expenses	**2,268**	**1,000**
Total provisions	**-**	**-**
Total provisions and other liabilities	**2,366**	**1,233**

NOTE 21. CAPITAL AND RESERVES

(EUR 1,000)	31.12.2017	31.12.2016
Share capital	48,597	30,021
Reserves		
Reserve for invested non-restricted equity	24,262	14,988
Retained earnings		
Profit (loss) for previous financial years	-2,241	-87
Profit (loss) for the period	4,077	-2,154
Total capital and reserves	**74,695**	**42,768**

Share capital

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

Reserve for invested non-restricted equity

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

Retained earnings

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

OTHER NOTES

NOTE 22. COLLATERALS

(EUR 1,000)	31.12.2017	31.12.2016
Collateral given		
Given on behalf of Group's own liabilities and commitments		
Loans	1,485,159	703,492
Total colateral given	**1,485,159**	**703,492**
Collateral received		
Real estate collateral	1,534,549	729,315
Other	172	-
Total collateral received	**1,534,721**	**729,315**

NOTE 23. OFF BALANCE-SHEET COMMITMENTS

(EUR 1,000)	31.12.2017	31.12.2016
Loan commitments	16,427	6,461
Money Market Deposits*	40,000	-
Total off balance-sheet commitments	**56,427**	**6,461**

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

NOTE 24. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

(EUR 1,000) 31.12.2017				Amounts which are not offset but are subject to enforceablemaster netting arrangements or similar agreements			
	Recog-nised financial assets, gross	Recognised financial lia-bilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Carrying amount of Financial instruments in statement of financial position, net	Carrying amount in balance sheet of financial instru-ments recieved as collateral	Cash held as collateral	Net amount
Liabilities							
Derivative contracts				2,315			2,315
Total	0	0	0	2,315	0	0	2,315

(EUR 1,000) 31.12.2016				Amounts which are not offset but are subject to enforceablemaster netting arrangements or similar agreements			
	Recog-nised financial assets, gross	Recognised financial lia-bilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Carrying amount of Financial instruments in statement of financial position, net	Carrying amount in balance sheet of financial instru-ments recieved as collateral	Cash held as collateral	Net amount
Assets							
Derivative contracts				606			606
Total	0	0	0	606	0	0	606

NOTE 25. FAIR VALUES BY VALUATION TECHNIQUE

Fair value measurement

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

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

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

Transfers between levels

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

In the financial reporting period January to December 2017, there were no transfers between levels 1,2 and 3.

Financial assets 31.12.2017 (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	1,594 056		1,991,940		**1,991,940**
Total financial assets	**1,594 056**	**0**	**1,991,940**	**0**	**1,991,940**

Financial liabilities 31.12.2017 (EUR 1,000)	Fair value	Fair value by hierarchy level			Fair value
		Level 1	Level 2	Level 3	Total
Measured at fair value					
Derivative contracts	2,289		2,289		**2,289**
Measured at amortised cost					
Liabilities to credit institutions	528,000		531,018		**531,018**
Debt securities issued*	990,215	999,075			**999,075**
Total financial liabilities	**1,520,504**	**999,075**	**533,307**	**0**	**1,532,382**

* Carrying amount includes the adjustment from the hedging EUR -6.2 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 26. RELATED PARTIES

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

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

Key management personnel compensation * (EUR 1,000)	2017	2016
Short-term employee benefits	18	3
Total	**18**	**3**

* Key personnel compensation

2017	Salary and remuneration
Seppälä Risto	6
Hakala Jussi	5
Huupponen Juhani	7
Total	**18**

2016	
Seppälä Risto	3
Total	**3**

NOTE 27. SUBSEQUENT EVENTS

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

CAPITAL ADEQUACY INFORMATION

NOTE 28. 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% risk weight to internal credit institution liabilities included within the scope of the Amalgamation's joint and several liability. These permissions are based on the European Union Capital Requirements Regulation (EU 575/2013) and the Act on the Amalgamation of Deposit Banks (599/2010). A copy of the financial statement of the Savings Banks Group is available online at *www.saastopankki.fi* or at the Savings Banks Union Coop offices at Teollisuuskatu 33, 00510 Helsinki, Finland.

Sp Mortgage Bank Plc

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

Auditor's Report

To the Annual General Meeting of Sp Mortgage Bank Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sp Mortgage Bank Plc (business identity code 2685273-8) for the year ended 31 December, 2017. The financial statements comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies.

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

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

Basis for Opinion

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

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

In our best knowledge and understanding, the non-audit services that we have provided to the company in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 9 to the financial statements.

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

Materiality

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

Key Audit Matters

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

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

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Valuation of receivables (loans and receivables from customers); Notes to financial statements 2, 3, 4 and 13	
— The valuation of receivables involves management' judgements, especially in respect of the amount and timing of impairment losses. — Impairment losses on loans and receivables are recognized on an individual and collective basis.	— We observed the impairment principles applied. — Our audit procedures included testing of controls regarding determination and recording of impairment losses on loans. — Furthermore, we assessed the appropriateness of the note disclosures made in relation to receivables and impairment losses.
Valuation of derivative instruments; Notes to financial statements 2, 7 and 14	
— At year-end the nominal value of derivatives is significant, amounting to € 1 billion. As derivatives are measured at fair value in preparing financial statements, this may result in significant volatility in the income statement. — Fair values for the derivatives used by the company are not directly observable in an active market, instead the company determines fair values using applicable fair value models.	— We assessed the appropriateness of the measurement principles applied and the compliance with the applicable financial reporting standards. — We also considered the accuracy of the fair values determined. — Furthermore, we assessed the appropriateness of the note disclosures made in relation to derivatives.

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

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

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

Auditor's Responsibilities for the Audit of Financial Statements

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

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

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

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

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

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

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

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

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

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

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on 16 of April 2015, and our appointment represents a total period of uninterrupted engagement of 3 years. SP-Kiinnitysluottopankki Oyj became a public interest entity on 21.3.2016. We have been the company's auditors since it became a public interest entity.

Other Information

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

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

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

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

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

Helsinki February 6, 2018

KPMG OY AB

PETRI KETTUNEN
Petri Kettunen, Authorised Public Accountant, KHT