

# Savings Banks Group & Sp Mortgage Bank

Investor presentation  
*November 2016*

Savings Bank



Sp Mortgage Bank

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# Agenda

I	Introduction to the Savings Banks Group
II	Operating environment
III	Group structure and the Amalgamation
IV	Strategy and operations
V	Key financials
VI	Funding overview
VII	Sp Mortgage Bank

# Introduction to the Savings Banks Group

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# Summary of the Savings Banks Group

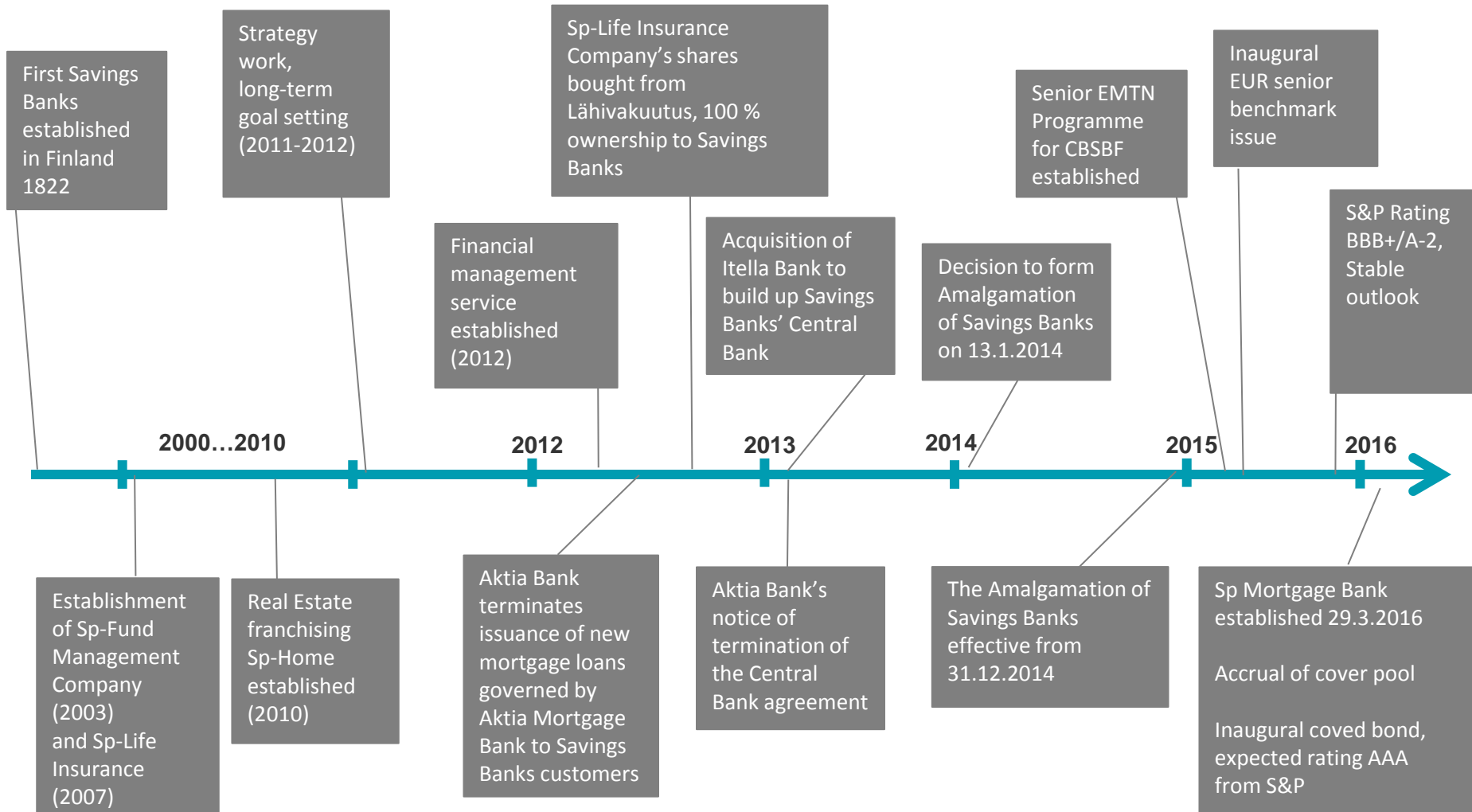
<h2>The Savings Banks Group</h2>	<ul style="list-style-type: none"> <li>• The Savings Banks Group is the oldest banking group in Finland consisting of 23 Savings Banks as well as entities providing products and services to the Savings Banks</li> <li>• The Group has close to 500,000 customers and about 150 branch offices across Finland</li> <li>• The main focus is on retail customers which comprise 72% of lending and is predominantly in form of mortgages. Other target groups include SMEs (20 % of lending) and agricultural customers (8 % of lending)</li> <li>• The Group has close to a 5% market share in household lending and close to a 6 % market share in household deposits. The market shares have been growing steadily over the past years</li> <li>• At the close of H1 2016, the Savings Banks Group had 1,349 employees</li> </ul>
<h2>The Amalgamation of Savings Banks</h2>	<ul style="list-style-type: none"> <li>• The 23 Savings Banks, The Central Banks of Savings Banks Finland (CBSBF), Sp Mortgage Bank (SPMB) and their central institution Union Co-op together with certain other product and service companies form the Amalgamation of Savings Banks (as laid down in The Amalgamations Act)</li> <li>• Under the Amalgamations Act, the Savings Banks, CBSBF, Sp Mortgage Bank Plc and the Union Co-op are jointly and severally liable for each others' debts and commitments</li> </ul>
<h2>Solid financial position</h2>	<ul style="list-style-type: none"> <li>• Total assets were EUR 9.7bn at the end of H1 2016. The Group's earnings before taxes amounted to EUR 40.2m in H1 2016 and return on equity was 3.6%.</li> <li>• High quality loan book consists mainly of residential mortgages &amp; low loan loss impairments of 0.4% in H1 2016</li> <li>• Large and stable deposit base of EUR 6.0bn comprises the largest part of the Group's funding</li> <li>• Strong capital position reflected by a CET1 ratio of 18.1% and a total capital ratio of 19.3% at the end of H1 2016</li> <li>• Solid leverage ratio of 9.0% at the end of H1 2016 (Tier 1 Capital / Total Liabilities)</li> </ul>
<h2>Funding &amp; Rating</h2>	<ul style="list-style-type: none"> <li>• Standard &amp; Poor's has assigned 'BBB+/A-2' long- and short-term counterparty credit ratings to CBSBF, the entity responsible for senior unsecured financing, the outlook on the ratings is stable. The ratings of CBSBF reflect the wider Group's franchise and creditworthiness.</li> <li>• Sp Mortgage Bank Plc is responsible for mortgage covered bond funding within the Group, the rating of the cover bond is expected to be AAA by Standard &amp; Poor's.</li> <li>• The 100% Finnish prime mortgage cover pool is well diversified, with a majority of the pool located in growth centers and their close proximity. The pool has no non-performing loans.</li> </ul>

# The Savings Banks Group operates countrywide

- A group of 23 financially solid Savings Banks as well as collectively owned product and service companies
- The Group operates across Finland and offers its customers a complete package of financial products and services
- 470,000 customers, with main focus on private customers (72 % of lending), small and medium sized businesses (20 %) and agricultural and forestry customers (8 %)
- Established player in the Finnish market with EUR 9.7bn in assets and a loan book of EUR 6.5bn
- Solid financial profile with a CET1 capital ratio of 18.1% and a leverage ratio of 9.0%
- Savings Banks' customers have access to:
  - About 150 branches - 3<sup>rd</sup> largest branch network in Finland
  - An advanced online and mobile banking platform
- A part of the European Savings Banks network (ESBG)
  - Representing 887 savings banks in 21 countries



# Steps taken to ensure our competitiveness



# Operating Environment

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# Finnish economic growth expected to pick up

## Moderate national debt to GDP in European context

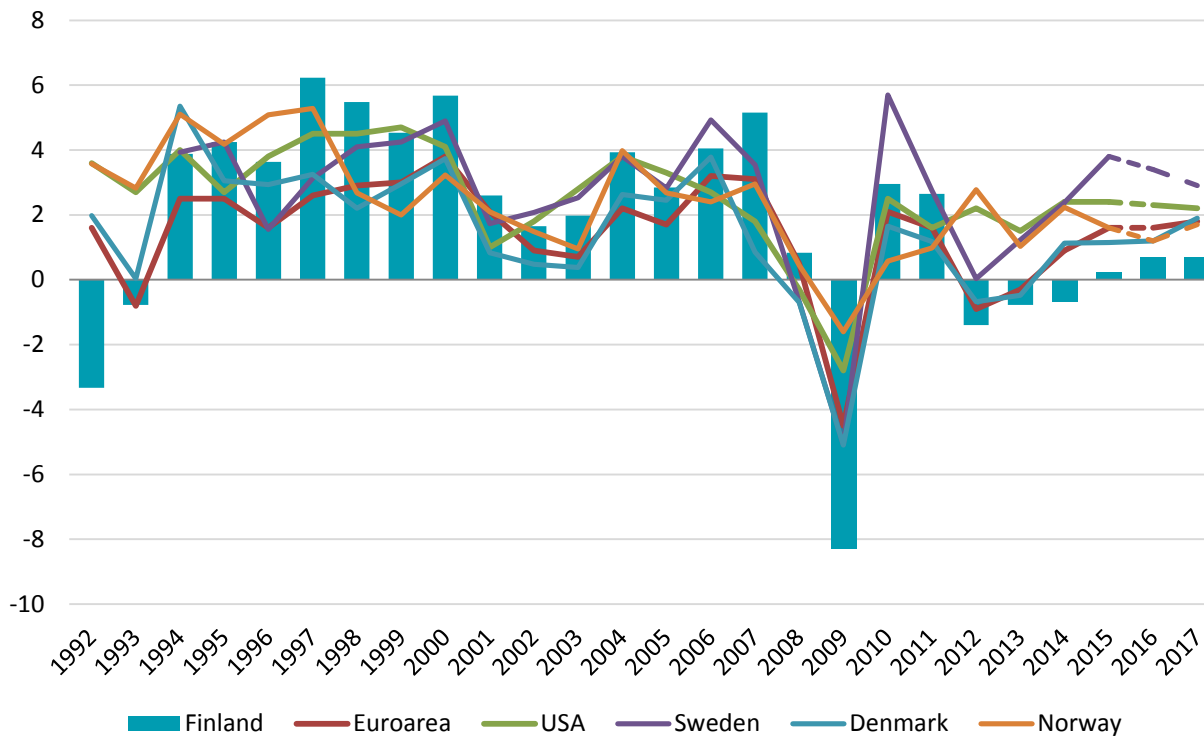
Finland	2014	2014	2015	2016f	2017f
	EUR bn	YoY % change			
GDP	205.3	-0.7	0.5	0.7	0.7
Exports	77.6	-0.9	0.6	1.2	2.5
Imports	79.5	0.0	-0.4	2.0	2.4
Private Consumption	113.7	0.6	1.4	0.7	0.5
Public Consumption	50.8	-0.3	-0.9	-0.1	0.0
Gross Fixed Capital Formation	42.2	-2.6	-1.1	2.5	2.1
Government Gross Debt/GDP	<i>Finland</i>	59.3%	63.1%	65.2%	66.9%
	<i>Euro area</i>	94.4%	92.9%	92.2%	91.1%
Government deficit/GDP		-3.2%	-2.7%	-2.5%	-2.3%
Unemployment rate		8.7%	9.4%	9.4%	9.3%
Consumer Price Index YoY		1.2%	-0.2%	0.0%	1.3%
Current account balance/GDP		-1.2%	0.1%	0.3%	0.4%

- GDP growth expected to pick up in the coming years
- National gross debt level remains low in the European comparison
- Current Finnish government agenda focuses on productivity growth, improvement of labor market and stabilization of the public finances

Source: European Commission: European Economic Forecast Spring 2016

# Growth prospects gradually looking up

## Real GDP Development



“The ratings on Finland are supported by its wealthy economy, low but increasing general government net debt levels, as well as its track record of stable, transparent, and effective governance and political institutions.”

“We expect Finnish growth will recover gradually as exports stand to benefit from competitiveness-boosting measures and the potential drag on household consumption is offset by corresponding tax cuts.”

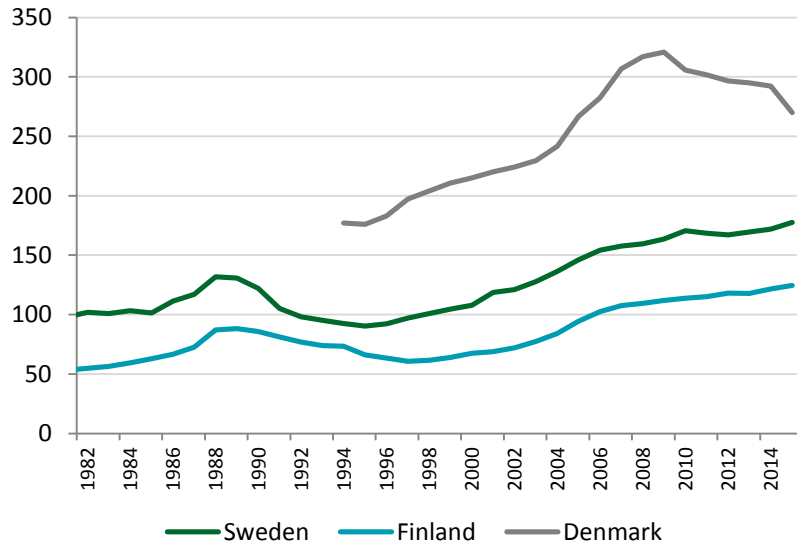
Standard & Poor’s Rating Report, September 2016

Source: European Commission: European Economic Forecast Spring 2016

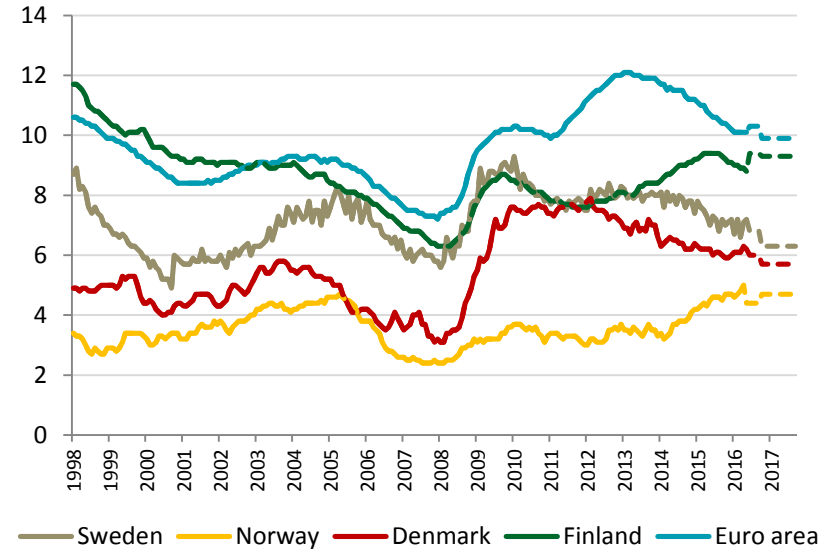
# Household debt remains contained

## Unemployment below Euro area average

Household debt as share of disposable income



Unemployment rates

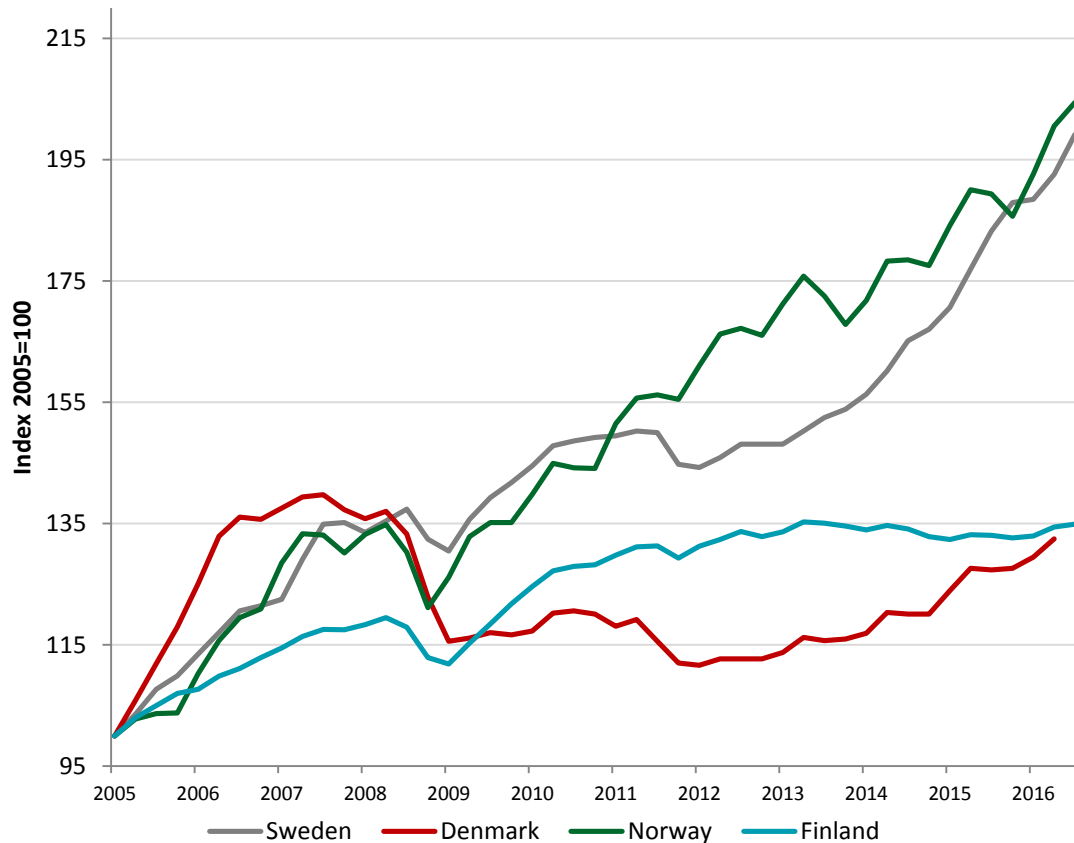


- Finnish household debt in relation to income remains low in Nordic comparison
- Unemployment rate in Finland has increased somewhat over the past years but is well below the Euro area average

Sources: Macrobond, Bloomberg, European Commission, Statistics Finland & Denmark

# Moderate house price development in Finland

House price development in Finland vs. selected other countries

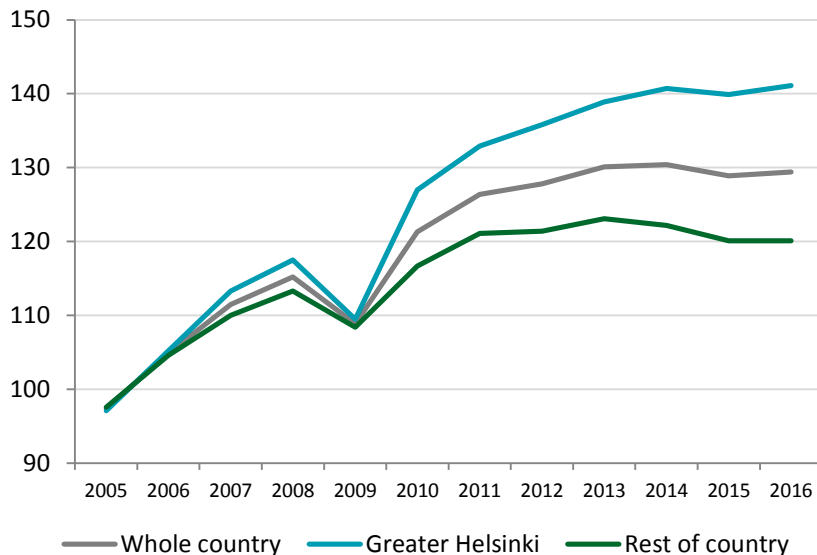


Source: Macrobond

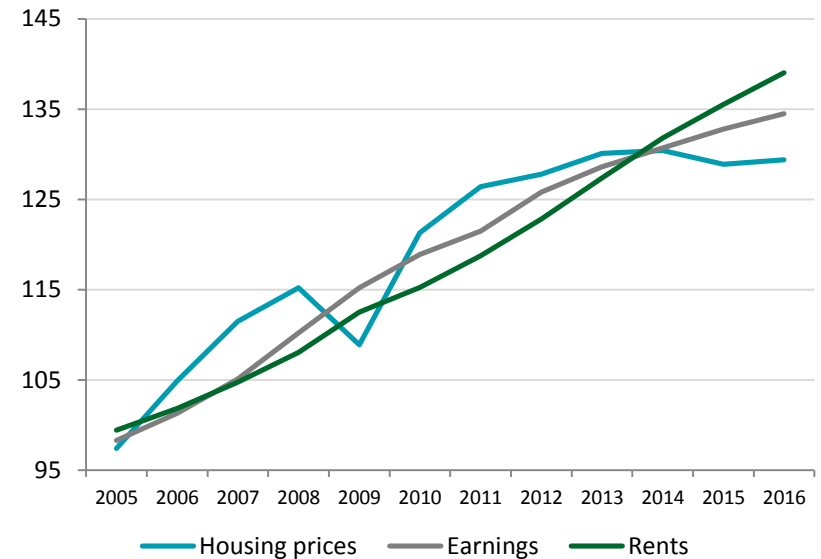
- House prices in Finland have remained stable over the past years, and have increased only modestly in comparison to Norway and Sweden over a ten-year period
- Low interest rate level is supportive of the housing market, as most of the mortgage loans carry a variable interest rate
- The outlook for 2016 and beyond looks slightly improving. Prices are expected to increase on average by 1% to 2%, however with some geographical differences
- Housing market development is strongly linked to the employment situation, consumer confidence and functioning of the financial markets

# Stable price development across the country

## Price index of old dwellings in housing companies



## Housing prices, rents and earnings



- Housing price development has continued as relatively stable across the country, area-specific differences in the market are however significant
- Compared to the rise in both rents and earnings, housing price increase is clearly lower
- For the remainder of 2016, the housing market is expected to continue in the same direction as during the first nine months of the year

Source: Statistics Finland

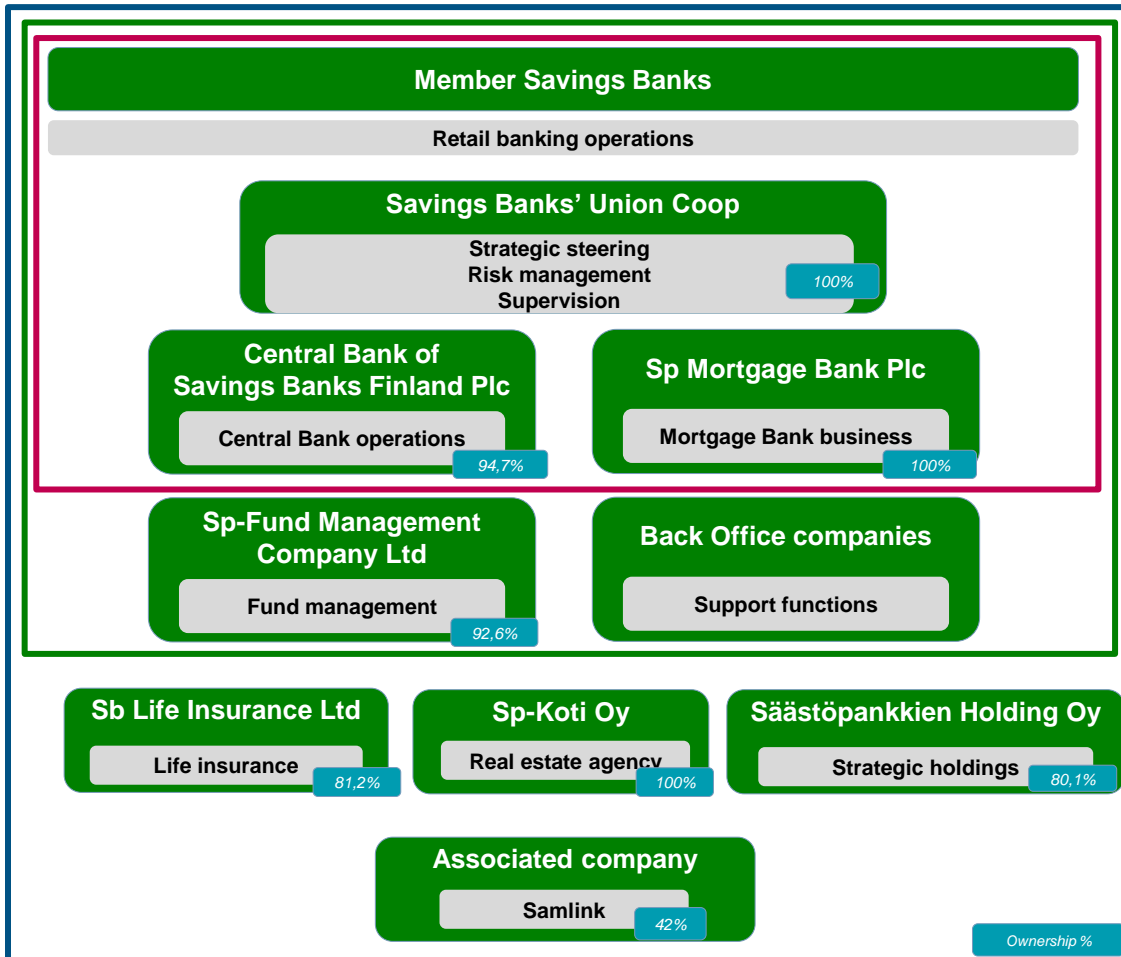
# Group structure and the Amalgamation

Savings Bank



Sp Mortgage Bank

# Structure of the Savings Banks Group



## JOINT AND SEVERAL LIABILITY

*The member credit institutions in the Amalgamation share joint and several liability for each others' debts and commitments*

## THE AMALGAMATION

*Sp-Fund Management and Back Office companies are part of the Amalgamation but not part of the joint liability since they are not member credit institutions*

## THE SAVINGS BANK GROUP

*The Group includes also product companies jointly owned by the Savings Banks as well as two associated companies which do not belong to the Amalgamation but are consolidated to the Group*

# The Amalgamation of Savings Banks

- The Amalgamation of Savings Banks is an amalgamation defined in the Act on the Amalgamation of Deposit Banks (“Amalgamations Act”, Laki talletuspankkien yhteenliittymästä 599/2010).
- **Under the Amalgamation Act, the Union Coop as the central institution has the obligation to supervise the operations of the member credit institutions and issue instructions to them on risk management, good corporate governance and internal control to secure liquidity and capital adequacy, as well as instructions on compliance with uniform accounting policies in the preparation of the amalgamation's consolidated financial statements.**
- The Union Coop may confirm general operating policies for the member credit institutions to be followed in their operations that are significant for the Amalgamation.
- The minimum capital requirement and liquidity of the companies within the Amalgamation of Savings Banks is controlled on a consolidated basis.



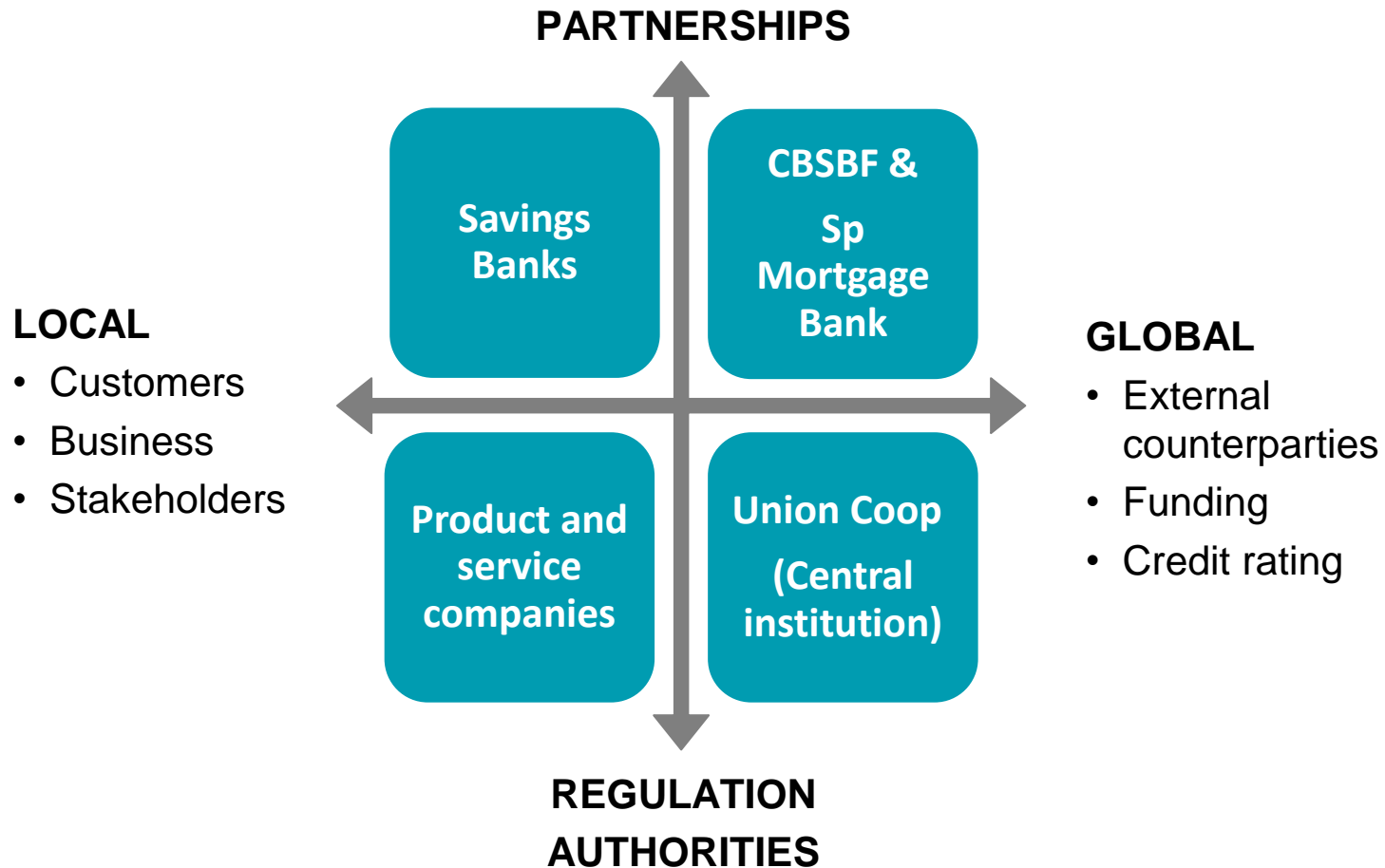
# Investors' position is stronger in the Amalgamation

## Joint and several liability

- **The Amalgamation improves investors' position because the liability for repayment of debt does not lie with an individual entity but within the central institution and the member credit institutions in accordance with the Amalgamations Act**
- The Amalgamation is based on the principle that it is a stable and permanent structure. In practise, it acts like one operator without being a conglomerate
- Under the Amalgamations Act, the central institution and the member credit institutions are **jointly and severally liable for each others' debts and commitments:**
  - The central institution is liable to pay, as a support measure, to any of its member credit institutions an amount that is necessary to prevent that member credit institution from being placed in liquidation
  - Each member credit institution shall be liable to pay to the central institution, in proportion to their last adopted balance sheets, the amount paid by the central institution
  - Furthermore, upon insolvency of the central institution, a member credit institution shall have unlimited refinancing liability for the central institution's debts
- **In the Amalgamation of Savings Banks the joint and several liability currently comprises 23 Savings Banks, CBSBF, Sp Mortgage Bank and the Union Coop (the central institution)**

# The Amalgamation brings synergies

## Economies of scale enhances our growth strategy



# Early intervention model

Prevents a bank from going in a wrong direction at an early stage

**The Act on the Amalgamation of  
Deposit Banks**

**The bylaws of the Savings  
Banks' Union Coop**

**The Internal operational  
principles**

(No legal requirement for these  
principles)

**The Early Intervention  
model**

- The Union Co-op oversees the Group's liabilities and reports to the regulator, Finnish FSA
- For decision making and prevention of any savings bank in the Group from going to a wrong direction, there is an additional internal framework and an early intervention model which have been agreed and adopted within the Group
- Sp Mortgage Bank fully benefits from the joint liability based on the Act on the Amalgamation of Deposit Banks. In addition covered bond investors benefit from the ring-fencing of the assets in its Cover Pool.

# Strategy and operations

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# Our goals

*Best customer satisfaction*

**The best customer satisfaction and recommendation rate in the sector**

**More and more Finns choose us as their primary bank**

*Solid financial profile*

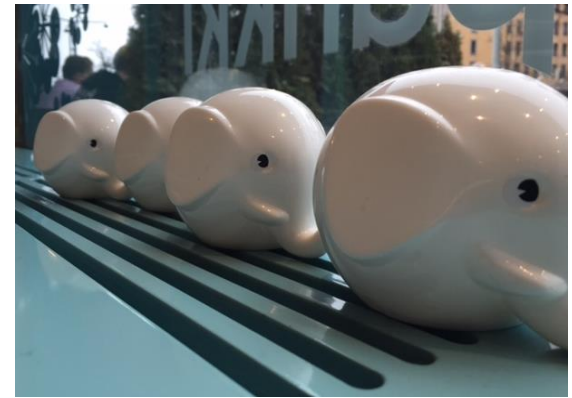
**Profitable and solvent—sustainably growing and capable of bearing risks**

**Reliable investment option with a good credit rating**

*High brand awareness*

**Good reputation and appealing brand**

**The best workplace that attracts the leading multitalents of the digital age**



# We offer a complete service package

## Savings and investments

### Savings and fixed-period accounts

- Savings Banks

### Funds and asset management

- Sp-Fund Management Company

### Saving and life insurance

- Sp-Life Insurance Company

### Book-entry securities

- Savings Banks
- SEB

### Securities trade

- Account operator  
Central Bank of Savings Banks
- Broker S-Bank

## Day-to-day banking

### Branch and online services

- Savings Banks

### Debit and credit cards

- Savings Banks
- Central Bank of Savings Banks
- Nets

### ATMs and cash services

- Automatia Oy

### Clearing and settlement

- Central Bank of Savings Banks

## Financing

### Mortgage loans

- Sp Mortgage Bank

### Balance sheet lending

- Savings Banks

### Payment protection insurance

- Sp-Life Insurance Company

### Capital financing products

- Siemens Financial Services

## Insurance

### Life insurance

- Sp-Life Insurance Company

### Non-life insurance

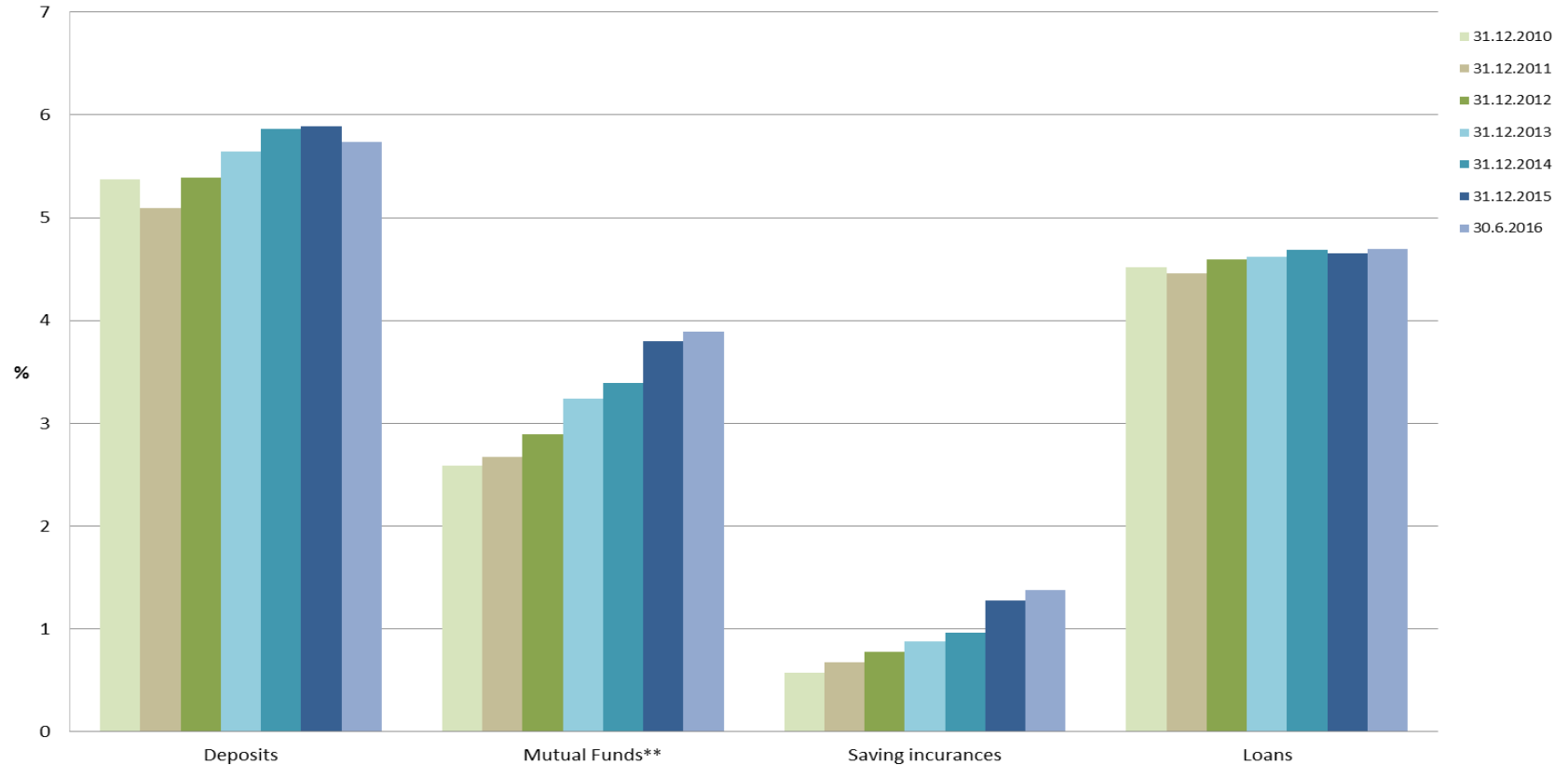
- Finnish P&C Insurance Company

### Statutory pension insurance

- ELO Pension Insurance Company

# Consistent market share growth

## Market share development of Savings Banks Group in different segments\*



Source: The Bank of Finland

\* Market shares including households and non-profit organisations

\*\*Market share for mutual funds is including funds which are registered in Finland and excluding funds which are in Savings Banks' own investments

# Diversified client base and loan book

30 largest regions represent 56% of mortgage loans



As of September 2016

Complete loan book well diversified across Finland



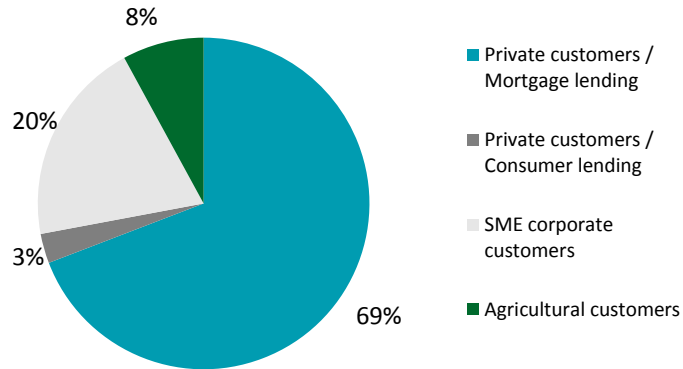
As of September 2016, including municipalities with more than 1,000 clients



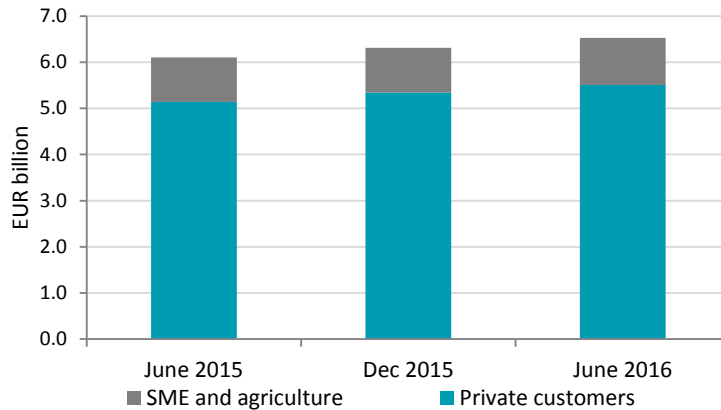


# Loan portfolio with good credit quality

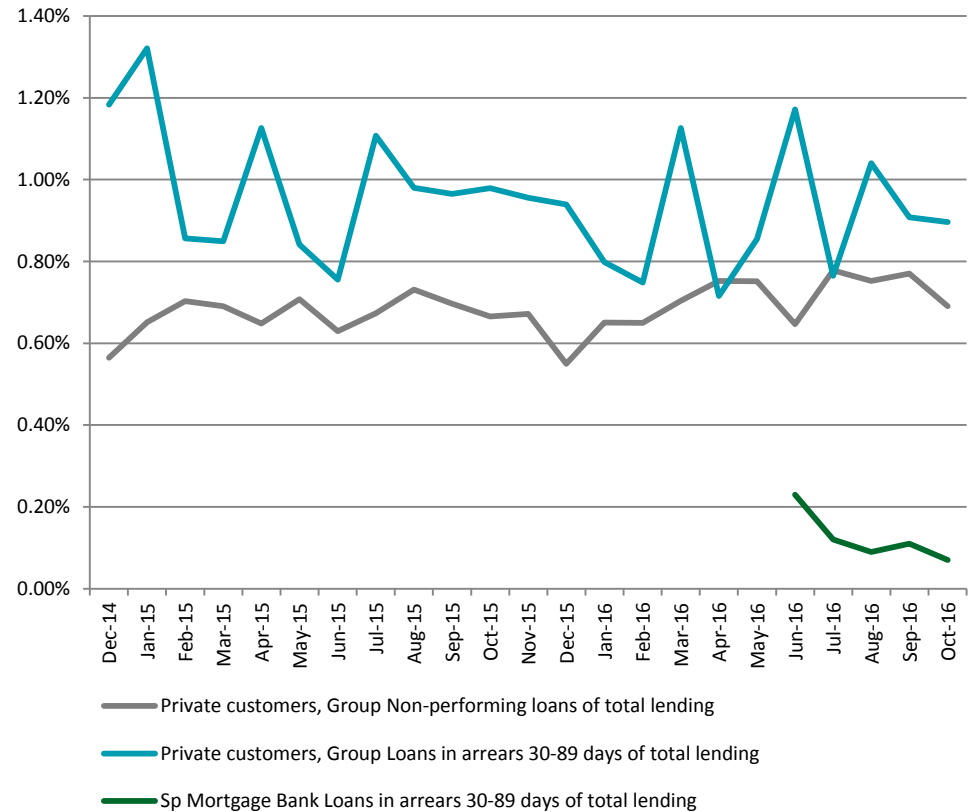
## Loan exposure by customer group (H1/2016)



## Loan portfolio development



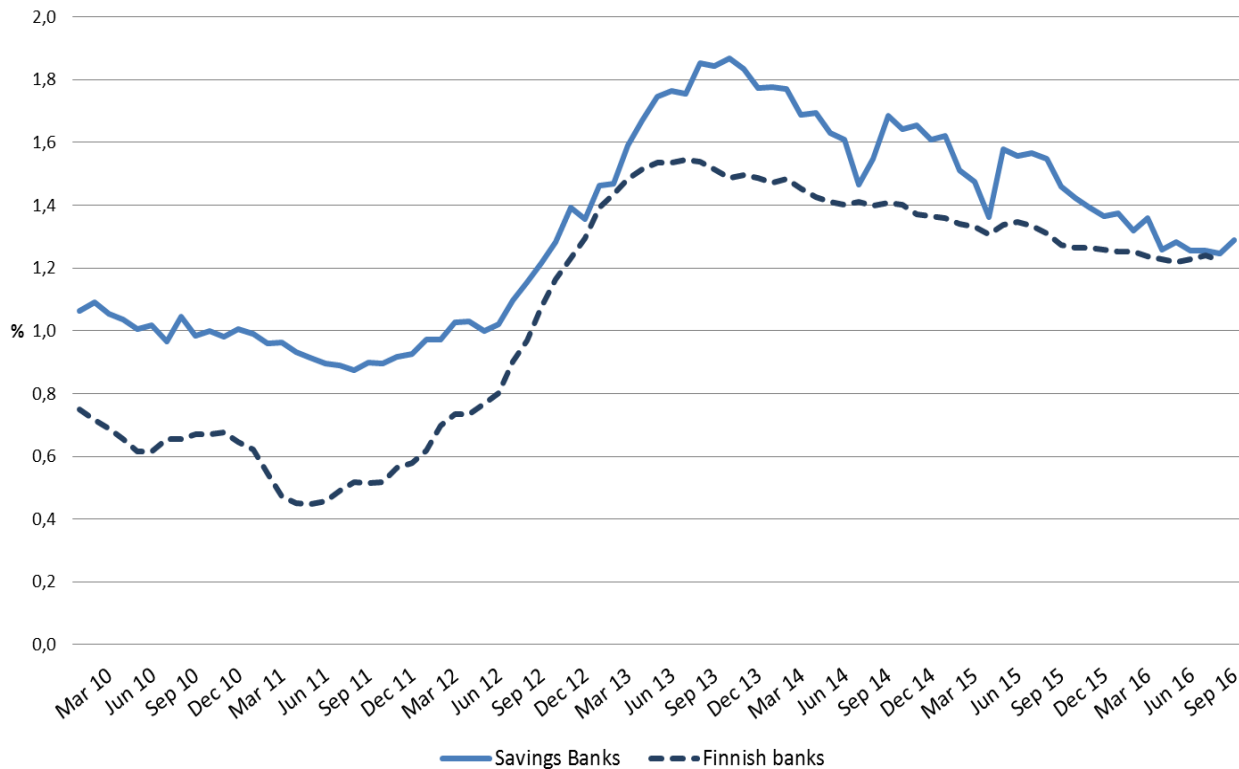
## Private customers / non-performing loans and loans in arrears



*Sp Mortgage Bank does not have any non-performing loans.*

# Mortgage loan margins above average

Mortgage loan margins – Savings Banks Group vs. Finnish banking sector



- The Savings Banks Group's mortgage loan margins are above the Finnish banking sector average
- Best customer satisfaction is a cornerstone in retaining healthy margin levels

Source: The Bank of Finland

# Key financials

Savings Bank



Sp Mortgage Bank

# The Savings Banks Group's key figures

	H1 2016	H1 2015	FY 2015	FY 2014
<b>Profit before tax</b>	EUR 40.2m	EUR 49.0m	EUR 69.7m	EUR 63.1m
<b>Net interest income</b>	EUR 64.7m	EUR 62.6m	EUR 125.0m	EUR 122.0m
<b>Cost-to-income</b>	61.4%	55.9%	63.4%	64.2%
<b>Capital adequacy</b>	Amalgamation: - Total capital 19.3% - CET1 18.1%	Amalgamation: - Total capital 19.1% - CET1 18.0%	Amalgamation: - Total capital 18.8% - CET1 17.8%	Amalgamation: - Total capital 18.6% - CET1 16.9%
<b>Leverage ratio*</b>	9.0%	n/a	9.2%	9.0%
<b>Loans and advances</b>	EUR 6.5bn	EUR 6.2bn	EUR 6.4bn	EUR 5.9bn
<b>Total assets</b>	EUR 9.7bn	EUR 9.2bn	EUR 9.2bn	EUR 8.4bn
<b>Personnel</b>	1,349	n/a	1,230	1,161

\*The leverage ratio has been calculated according to the known regulation, and it describes the ratio of the Amalgamation's Tier 1 capital to total liabilities.

# Strong underlying business performance

Income statement	H1 2016	H1 2015	Change, %	FY 2015	FY 2014
<b>EUR 1,000</b>					
Net interest income	64,735	62,571	+3.5%	125,018	122,022
Net fee and commission income	35,373	33,647		68,850	63,490
Net trading income	371	-1,353		-1,350	602
Net investment income	9,832	18,286		20,526	23,417
Net life Insurance income	5,128	17,380		15,178	9,876
Other operating revenue	10,059	1,356		2,309	4,497
<b>Total operating revenue</b>	<b>125,499</b>	<b>131,887</b>	<b>-4.8%</b>	<b>230,531</b>	<b>223,903</b>
Operating expenses	-82,270	-79,141		-156,865	-152,981
Net impairment loss on financial assets	-3,655	-4,480		-6,127	-10,619
Associate's share of profits	628	758		2,160	2,834
<b>Profit before tax</b>	<b>40,201</b>	<b>49,024</b>	<b>-18.0%</b>	<b>69,699</b>	<b>63,137</b>
Taxes	-7,890	-8,086		-12,080	-16,527
<b>Profit</b>	<b>32,311</b>	<b>40,938</b>	<b>-21.1%</b>	<b>57,619</b>	<b>46,610</b>

# Strong capital adequacy and capital base

- The capital position of the Amalgamation of Savings Banks was at a very strong level at the end of June 2016
- CET1 ratio was 18.1% and total capital ratio was 19.3 %
- Tier 2 capital base amounted to EUR 57.8 million and total capital base was EUR 916.8 million
- Capital adequacy will be kept at strong levels also going forward

Own funds (EUR million)	30.6.2016	31.12.2015	31.12.2014
Common Equity Tier 1 (CET1) before adjustments	885.4	849.8	796.8
Regulatory adjustments to CET1	-26.4	-25.3	-59.2
<b>Common Equity Tier 1 (CET 1) capital</b>	<b>859.0</b>	<b>824.5</b>	<b>737.6</b>
Additional Tier 1 (AT1) capital	0	0	0
<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>859.0</b>	<b>824.5</b>	<b>737.6</b>
Tier 2 (T2) capital before regulatory adjustments	56.2	44.8	26.9
Tier 2 capital	57.8	49.7	76.8
<b>Total capital (TC = T1 + T2)</b>	<b>916.8</b>	<b>874.3</b>	<b>814.3</b>

Capital ratios	30.6.2016	31.12.2015	31.12.2014
Common Equity Tier 1 ratio, %	18.1 %	17.8 %	16.9 %
Tier 1 ratio, %	18.1 %	17.8 %	16.9 %
<b>Total capital ratio, %</b>	<b>19.3 %</b>	<b>18.8 %</b>	<b>18.6 %</b>

# Capital requirement driven by credit risk

- The Amalgamation's credit risk and market risk for currency position are calculated using the standard model. Operational risk capital requirement is calculated with basic method
- Major part of the capital requirement comes from credit risk (88 % in 30.6.2016)
- The Amalgamation has no trading activity for own or customers account. Member credit institutions may have a so-called small trading book as defined in article 94 of the CRR
- Capital requirement for market risk is based on the currency risk, calculated by combined positions from member banks

Capital base (EUR million)	30.6.2016	31.12.2015	31.12.2014	31.12.2013
<b>Total capital base</b>	<b>916.8</b>	<b>874.3</b>	<b>814.3</b>	<b>804.1</b>
Capital requirements for credit risk	335.3	327.8	304.9	295.3
Capital requirement for CVA	9.7	8.4	9.9	0.0
Capital requirement for market risk	3.3	3.8	3.8	3.5
Capital requirement for operational risk	31.5	31.5	31.0	28.9
<b>Total capital requirement</b>	<b>379.9</b>	<b>371.5</b>	<b>349.5</b>	<b>327.7</b>
Capital buffer (after 8% minimum capital requirement)	536.9	502.8	464.8	476.4

# Funding overview

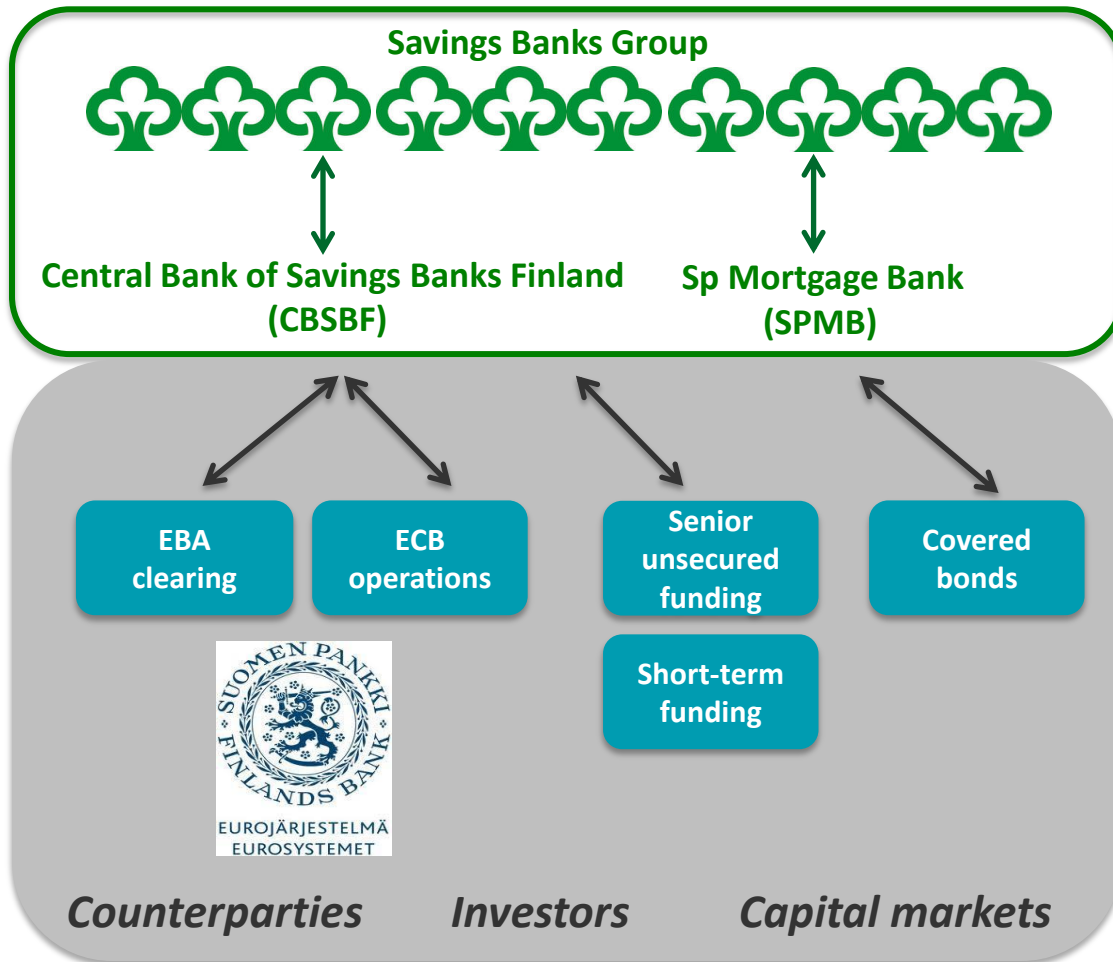
Savings Bank



Sp Mortgage Bank



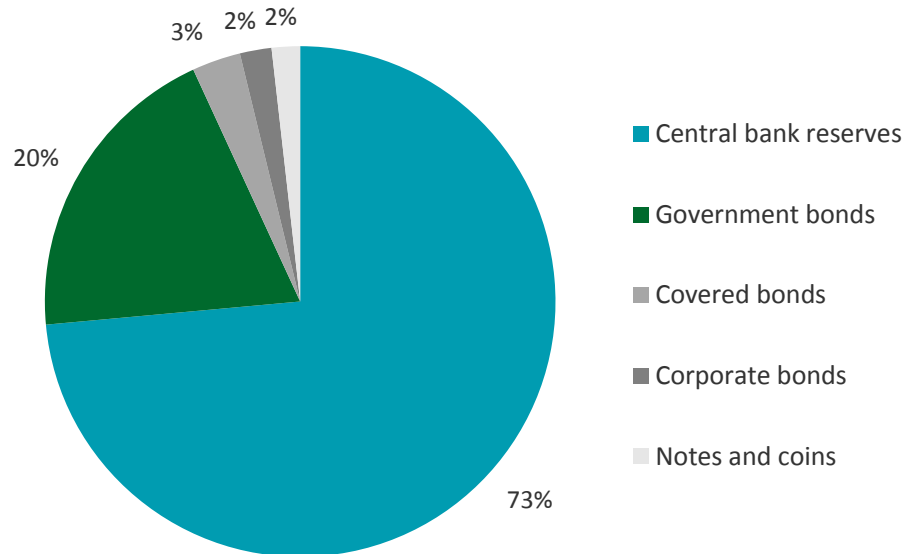
# Funding vehicles of the Group



- Sp Mortgage Bank is the covered bond funding vehicle of the Group
- CBSBF is the Group's liquidity, clearing and optimising centre, offering a full-range of treasury services for the Group
  - responsible for the Savings Banks Group's liquidity and senior unsecured funding for growth
  - implements the Savings Banks Group's liquidity strategy
  - operates in the money and capital markets
  - is the lender of last resort in the Group

# Liquidity reserve portfolio of the Savings Banks Group

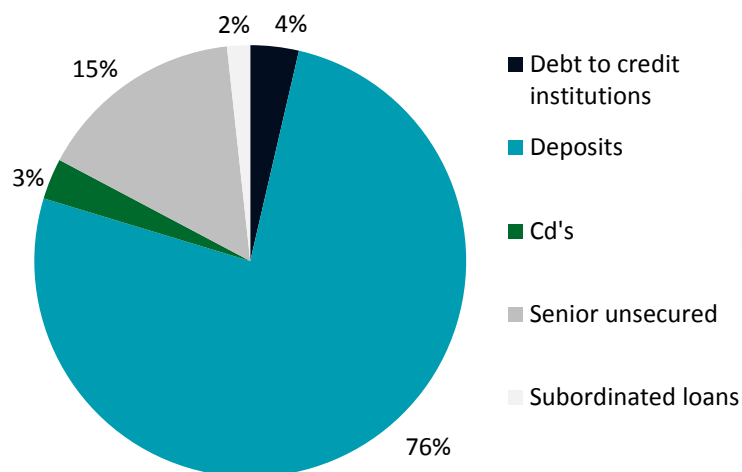
## Composition of liquid assets after haircuts, June 30, 2016



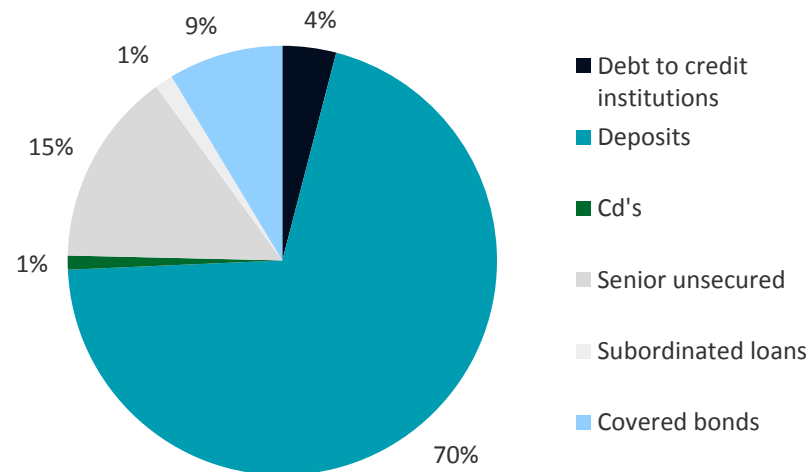
- CBSBF is responsible for liquidity management of the Group including management of the total LCR on behalf of the Savings Banks and the Amalgamation
- **Amalgamation's LCR June 30, 2016**
  - Liquid assets: 1,039 MEUR
  - Net outflows: 532 MEUR
  - LCR: 195 %

# Balanced and diversified funding base

Amalgamation's funding base, as of 30/06/2016



Amalgamation's expected funding base, by end 2017



- In 2015, senior unsecured issuance under the EMTN programme was in total EUR 670 million
- In 2016, the Group's funding from the capital markets is expected to rise by approx. EUR 1 billion, divided 50/50 between the inaugural covered bond and senior unsecured issuance.

# Sp Mortgage Bank

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# Sp Mortgage Bank in brief

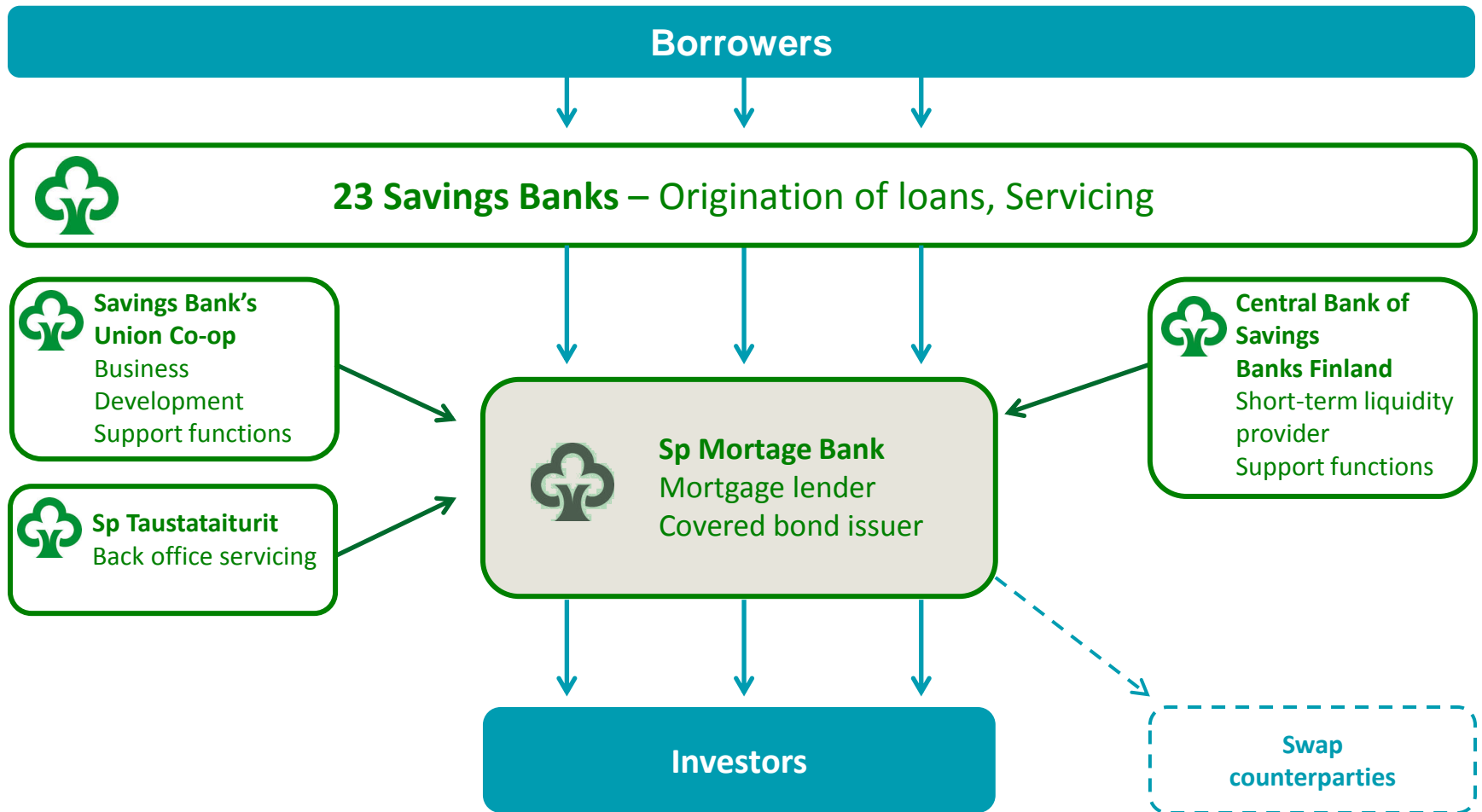
- Sp Mortgage Bank Plc is the covered bond funding vehicle of Savings Banks Group
- Licensed by the European Central Bank to issue covered bonds according to the Finnish covered bond legislation (Covered Bond Act (688/2010) or CBA)
- Sp Mortgage Bank's sole purpose is to raise funding for Savings Banks Group by issuing covered bonds with mortgage collateral
- Sp Mortgage Bank is 100% owned by the Savings Banks in the Group
- The covered bonds to be issued are expected to be rated AAA by S&P, and expected to be ECB eligible.
- In addition to the joint liability, investors in the covered bond will benefit from the ring-fenced structure of the cover pool. Sp Mortgage Bank benefits fully from the joint liability based on the Act on the Amalgamation of Deposit Banks.



Sp Mortgage Bank's covered bond programme complies with European Covered Bond Council's (ECBC) Covered Bond Label

Read more about ECBC Covered Bond Label at [www.coveredbondlabel.com](http://www.coveredbondlabel.com)

# Sp Mortgage Bank - Operating model and roles



# Cover pool characteristics

Pool size	EUR 648.1 million
Collateral	100% Finnish prime mortgages
Geographical distribution	Throughout Finland, a majority in growth centers and their close proximity
Average loan size	EUR 91,300
Number of loans	7,095
Average LTV (indexed/unindexed)	59.2% / 59.6%
Average seasoning	31.7 months
Non-performing loans / loans in arrears	0bp / 7bps
Interest base*	100% variable, 0% fixed
Estimated over-collateralisation**	29.6%

\*going forward fixed rate loans will be included in the cover pool

\*\* Assuming a EUR 500m transaction

# Geographically well diversified cover pool

- The cover pool is well diversified throughout Finland with a majority in close proximity to key growth centers.
- Housing price development through the country has been stable

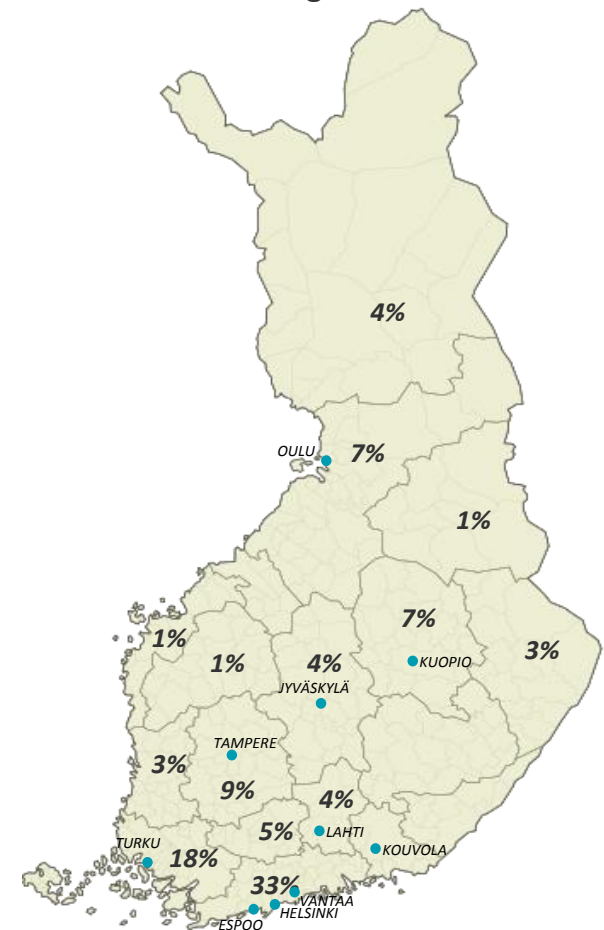
## Regional distribution of cover pool

Region	Major City	Region's Population(1)	Mortgages, EUR mn	Share of the pool
Uusimaa	Helsinki	1,620,261	216	33%
Varsinais-Suomi	Turku	474,323	116	18%
Pirkanmaa	Tampere	506,114	59	9%
Pohjois-Savo	Kuopio	248,129	47	7%
Pohjois-Pohjanmaa	Oulu	410,054	43	7%
Kanta-Häme	Hämeenlinna	174,710	32	5%
Lappi	Rovaniemi	180,858	28	4%
Päijät-Häme	Lahti	201,615	26	4%
Keski-Suomi	Jyväskylä	275,780	24	4%
Satakunta	Pori	222,957	21	3%
Rest of Finland	-	1,172,507	36	6%
<b>TOTAL</b>		<b>5,487,308</b>	<b>648</b>	<b>100%</b>

Sources: (1) Statistics Finland: Finnish Regional Population 31.12.2015

(2) The Association of Finnish Local and Regional Authorities: City population 1.1.2016

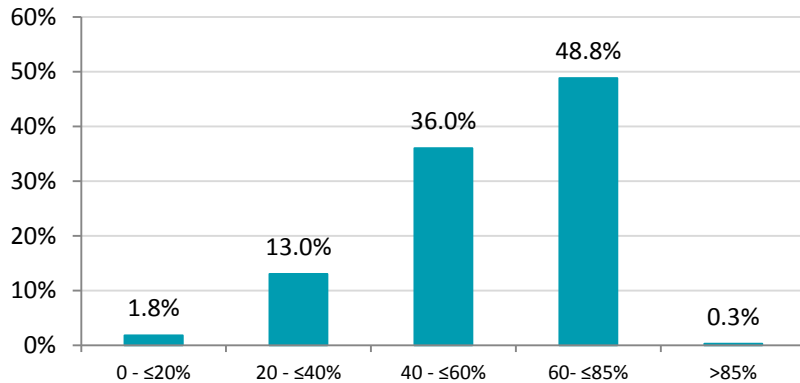
## Regional distribution of cover pool and Finland's 10 largest cities<sup>(2)</sup>



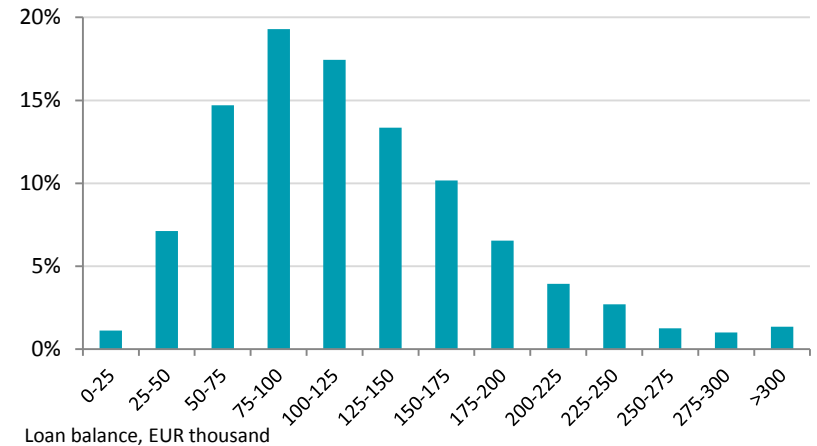


# Breakdown of cover pool

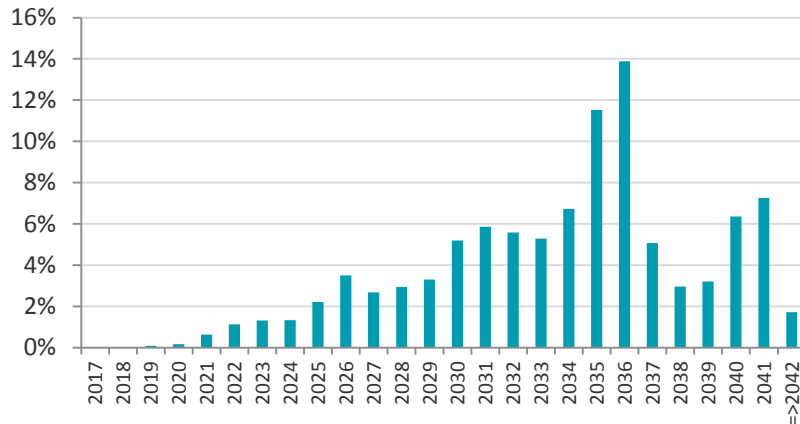
## LTV distribution



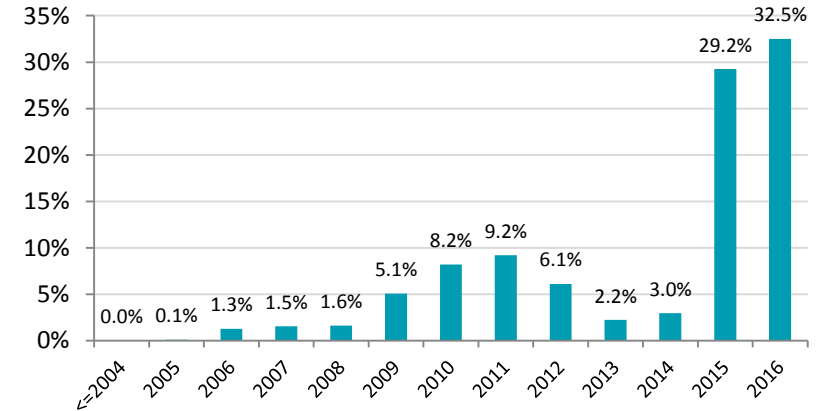
## Loan distribution by size



## Loan maturity profile



## Loan balance by origination year



# Underwriting criteria

<b>Sp Mortgage Bank's credit policy</b>	<ul style="list-style-type: none"><li>• Is aligned with the overall credit policy of the Savings Banks Group</li><li>• Complies with the requirements of the CBA</li></ul>
<b>Customer identification</b>	<ul style="list-style-type: none"><li>• Customer must be identified and verified, also regarding age and legal capacity</li><li>• Customer's background and financial position must be determined, both external (credit bureau) and internal payment defaults</li></ul>
<b>Customer scoring</b>	<ul style="list-style-type: none"><li>• Customer is application scored every time when applying for a credit</li></ul>
<b>Income verification</b>	<ul style="list-style-type: none"><li>• Customer's income is always verified</li><li>• For current customer income and payer of the income can be checked in customer's account in the bank</li><li>• For new customers income is checked by using pay slip and/or taxation information</li></ul>
<b>Assessment of the customer's repayment ability</b>	<ul style="list-style-type: none"><li>• Customer must have sufficient repayment abilities for the repayment of the loan</li><li>• When calculated customer's income and expenses and the loan management costs for exposures to amalgamation and other parties are taken into account</li><li>• Stress tested with 6 % fixed interest rate and 25 years maximum repayment period</li></ul>
<b>Follow-up</b>	<ul style="list-style-type: none"><li>• Existing loan stock is scored on monthly basis with scoring model taking into account changes in customers payment behavior</li></ul>

# Collaterals, loan decision, servicing and collection

## Collaterals

- All collaterals are located in Finland
- Only residential purposes (real estates or shares in housing companies)
- Only prior ranking pledges
- Must be valued by a valuer independent of the credit decision process
  - External qualified valuer or
  - Genuine (not between related parties) recent contract of sale
  - Valuation maximum of one year old
- Revaluation semi-annually based on the housing index data provided by Statistics Finland

## Loan decision

- Preparation of a loan decision and actual loan decision must always be done by two separate persons
- Loan-to-Value ratio is max 70 % or with a State Guarantee up to 85 %

## Servicing and collection

The originating Savings Banks are responsible for:

- Servicing the Mortgage Loans together with the Back Office company
- Collection / foreclosure processes as any non-performing Mortgage Loan is transferred back to the originating Savings Bank.

# Contact details

Pasi Kämäri  
CEO, Savings Banks' Union Coop  
Chairman of Board, Sp Mortgage Bank

Email: [pasi.kamari@saastopankki.fi](mailto:pasi.kamari@saastopankki.fi)  
Tel. +358 500 688 222

Kirsi Autiosalo  
CEO, Central Bank of Savings Banks Finland  
Head of Group Funding

Email: [kirsi.autiosalo@saastopankki.fi](mailto:kirsi.autiosalo@saastopankki.fi)  
Tel. +358 50 420 0867

Kai Brander  
Head of Treasury, Central Bank of Savings Banks Finland  
Member of Board, Sp Mortgage Bank

Email: [kai.brander@saastopankki.fi](mailto:kai.brander@saastopankki.fi)  
Tel. +358 50 384 8220

## Sp Mortgage Bank Plc

c/o Savings Banks' Union Coop  
Linnoitustie 9  
02600 Espoo  
Finland

Read more at [www.saastopankki.fi/debtinvestors](http://www.saastopankki.fi/debtinvestors)

# Appendix

Savings Bank



Sp Mortgage Bank

# Central Bank of Savings Banks Finland rated 'BBB+/A-2'



## BBB+ / A-2, stable outlook

### Standard and Poor's Research Update dated December 2, 2015:

"The ratings on Sp Central Bank reflect the franchise and creditworthiness of the wider Savings Banks Group, comprising some 23 member savings banks, the Savings Banks' Union Coop, and Sp Central Bank itself. The group operates as a single entity for regulatory purposes under a joint and several liability scheme established by Finland's Act on Amalgamation.

In our view, the recently formed Savings Banks Group will continue to make progress toward forming a cohesive second-tier banking group in Finland. We expect its prudent risk management will remain a cornerstone of its business strategy as it improves efficiency, as a group, and aims to expand lending in growth centers in Finland.

The long-term rating on Sp Central Bank reflects our 'a-' anchor for Finnish banks, and Savings Banks Group's "weak" business position, based on its weak franchise in growth centers and untested track record of operating as a cohesive banking group, and the group's "very strong" capital and earnings.

The latter assessment mainly reflects our expectation of an increase in our risk-adjusted capital ratio to about 16.0%-16.5% in the next 12-18 months (15.6% as of June 30, 2015). The ratings equally reflect the group's "moderate" risk position, due to concentration risks in its loan book, partly mitigated by a high level of collateralization; its "average" funding and "adequate" liquidity, owing to sound funding metrics; its funding profile dominated by customer deposits; and its comfortable liquidity position. We assess the group credit profile (GCP) at 'bbb+'.

Our stable outlook on Sp Central Bank reflects our view that the Saving Banks Group's strategic development and capital levels counterbalance what we see as a weak economic recovery in Finland's export-oriented economy, which could undermine the Finnish banking sector's performance during the next two years."

# Act on Mortgage Credit Bank Operations 1/2

- Act on Mortgage Credit Bank Operations (CBA, statute 688/2010)
- Segregation of assets in the bond register (issued covered bonds, collateral, relevant derivative contracts)
- Covered bonds are issued either by specialized mortgage credit bank or any licensed credit institution authorized by FIN-FSA to engage mortgage credit bank business
- Cover pool can consist of mortgage collateral (both residential and commercial) and public sector loans. LTV for residential mortgage assets 70% and 60% for commercial mortgages.
- Matching collateral requirements
  - Total value of the cover pool must exceed the outstanding amount of issued covered bonds
  - Over-collateralization requirement set as net present value of the cover pool has to exceed that of the covered bonds by 2%.
- Liquidity requirements
  - Average maturity of issued covered bonds must not exceed the average maturity of the mortgage loans in the cover pool
  - For any 12 month period the accrued interest of the cover pool assets must exceed the total amount payable for covered bonds and derivative transactions
- Swap counterparties to covered bond programs rank equally with bondholders if the issuer becomes insolvent. This improves the chances of attracting third-party counterparties to provide hedging for the programs, even after the issuer defaults.
- Streamlined set-up if the covered bond issuer becomes insolvent. Effective ring fencing of the assets will allow the dedicated administrator to take charge of the cover pool to repay covered bonds when they fall due

# Act on Mortgage Credit Bank Operations 2/2

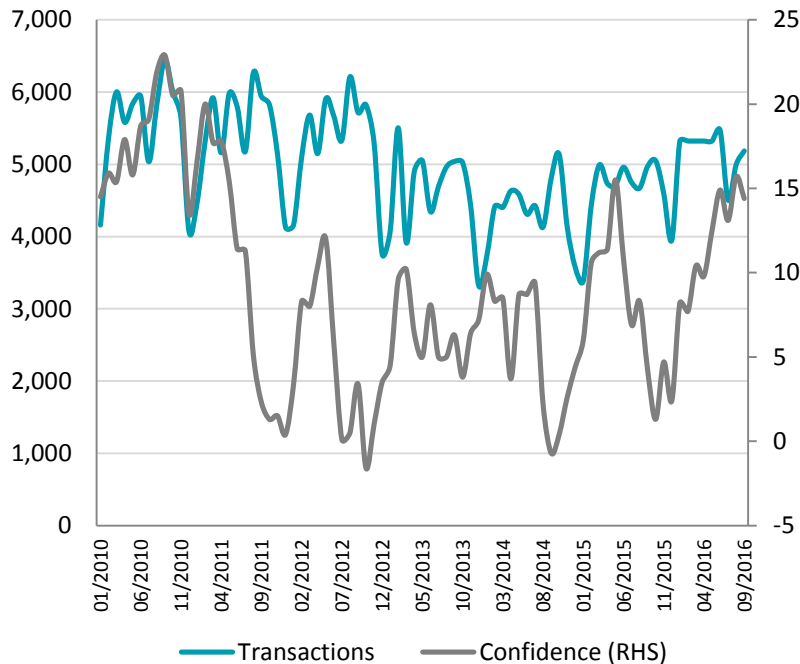
- Bankruptcy remoteness and preferential claim
  - Covered bond shall be paid until its maturity in accordance with the terms and conditions of the covered bond from the funds accruing on the cover pool assets of the covered bond before other claims
  - Holders of covered bonds together with counterparties of registered derivatives and bankruptcy liquidity loans in bankruptcy would rank pari passu and in respect of each Mortgage Loan included in the cover pool for a covered bond, the priority of payment right in accordance with Section 25 of the CBA is limited to a maximum amount which corresponds to 70% in respect of Housing Loans and to 60% in respect of Commercial Property Loans of the current value of shares or real estate which stand as collateral
- Post-bankruptcy procedures
  - When the issuer has entered into liquidation or bankruptcy proceedings, the FIN-FSA shall, without delay, appoint a supervisor in accordance with Section 29 of the Finnish Act on the Financial Supervisory Authority to protect the interests of creditors of covered bonds and creditor entities comparable to such and to enforce their right to be heard
  - In bankruptcy proceedings the courts will by operation of law appoint a bankruptcy administrator to administer the bankruptcy estate. The cover pool will be run by the bankruptcy administrator, but the supervisor will supervise the bankruptcy administrator, acting in the interest of the holders of the covered bonds.
  - To the extent that claims of the Covered Bondholders in respect of the Covered Bonds are not met out of the Cover Pool, the residual claims of the Covered Bondholders will rank pari passu with the unsecured and unsubordinated obligations of the Issuer.



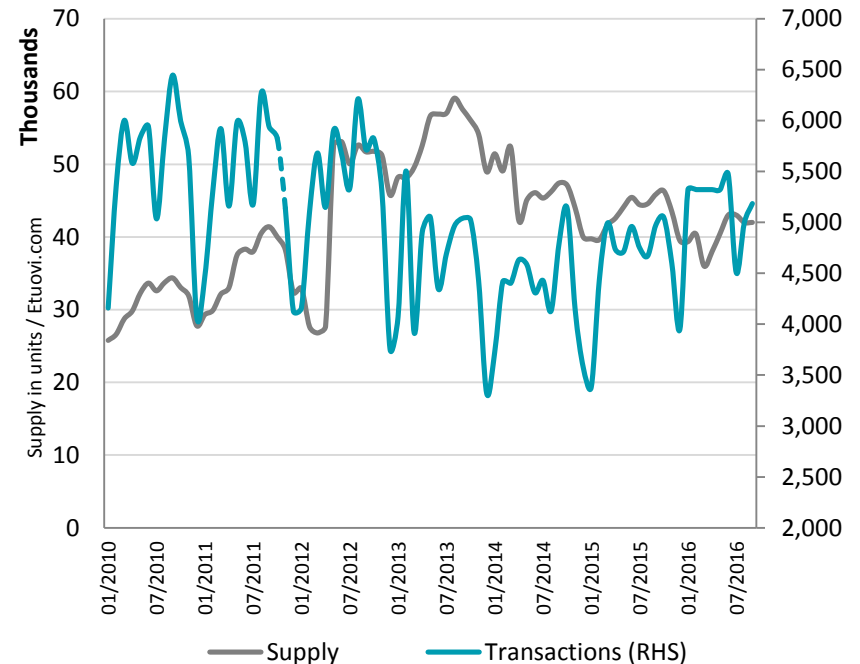
# Confidence is a major driver in the housing market

## Supply and demand not in balance

Used housing markets and consumer confidence



Used housing markets and supply in Finland



Confidence = Finnish inhabitants' trust on their own economy. The higher it is, the more confident and stronger their trust is on own their economy.

Source: Statistics Finland

# Thank you!

[www.saastopankki.fi](http://www.saastopankki.fi)

Savings Bank



Sp Mortgage Bank