SP MORTGAGE BANK PLC

BOARD OF DIRECTORS' REPORT AND
IFRS FINANCIAL STATEMENTS
31 DECEMBER 2016

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SP MORTGAGE BANK PLC'S BOARD OF DIRECTORS' REPORT

Board of Directors' Report

Sp Mortgage Bank Plc (hereinafter also "Sp Mortgage Bank") received an authorisation to operate as a mortgage credit bank, granted by the European Central Bank, on 21 March 2016, and the Bank's operations were started immediately on 29 March 2016. Sp Mortgage Bank was the first Finnish bank which applied for and received its authorisation from the European Central Bank.

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.

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 Savings Banks Group's covered bond issuance.

To fulfil its aforementioned tasks, Sp Mortgage Bank established in November a covered bond programme of EUR 3 billion under which the bank issued a covered bond of EUR 500 million. S &P Global Ratings granted a credit rating of AAA for the bond.

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 long standing 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. The operations of the Savings Banks Amalgamation were launched on 31 December 2014. The coverage of the Savings Banks Group differs from that of the Savings Banks Amalgamation in that the Savings Banks Group also includes institutions other than credit and financial institutions or service companies. The most notable of these are Sb Life Insurance Ltd and Sp-Koti Oy.

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

Description of the operational environment

The global economy

During 2016, a number of politically important changes were seen. The exit of Great Britain by a referendum from EU membership was a continuation of the recurrent political crises in the union. The presidential elections in the United States were another significant change, whose effects on world trade and geopolitics will be seen in the coming years. Despite the significant changes, the investment markets continued to believe in the strong recovery of the economy, and in the second half of the year, the recovery of the global economy continued well with regard to the expectations. A significant factor from the point of view of the global economy was the improvement of the situation in China as a result of recovery measures.

In Europe, the growth outlook was fragmented, and the differences between countries were significant. The slow progress of the structural changes and the difficulties within the banking sector, for their part, influenced the speed of recovery in the economy. In particular, the uncertainty of the impact of the voting result of Great Britain slowed down investment growth, but the improvement in the labour situation and the positive development in the services sector maintained the positive figures. In the United States, the situation in the labour market has improved for a number of years, and this development also continued during 2016. The low growth in industrial investments, for its part, put pressure on the growth figures, but the oil price increase seen at the end of the year also contributed positively to expectations regarding the development of investment demand.

Investment markets

In the investment market, the year 2016 started weakly, but investment income recovered significantly towards the end of the year. The exception was government bond investments. From the point of view of the fixed income market, the most significant change was the gradual decrease in the monetary easing by the Central Banks. In the last quarter of the year, this led to an increase in long interest rates and the steepening of the interest rate curve. This had, for its part, a positive impact on the profits of the banking sector. The increase in the key reference rates will take place over a long period, and the shutdowns of recovery programmes will take years. The outlook on improvement of corporate profits supported the stock market, and the investor confidence remained strong despite the increase in interest rates. The positive development in the stock market was also reflected in the corporate debt markets. The recovery of the United States economy led to the strengthening of the dollar towards the end of the year, which had a negative impact on the performance of investments in emerging markets.

The Finnish economy

The development of economic growth in Finland has been weaker than in other parts of Europe. The export driven economy has suffered from the slow growth of the global economy and lack of investments. However, the recovery started in 2016 has provided confidence in a better future. Unemployment has decreased, and the household confidence has improved significantly. Growth in private consumption and the low interest rates support the purchasing power of households. The outlook in the industry has also recovered, but industrial production is still at a low level.

The housing market

The year 2016 in the housing market already included optimism concerning the recovery of the economy. The year was considerably more stable than the two preceding years, and the fluctuations within the year were also more normal. As a whole, the secondhand market in housing rose by approximately 3 per cent, which in Finland meant total trades of 58,000 in 2016. The trades in new apartments picked up clearly, being up to 28% more active than in 2015.

When examining the housing market as a whole, a slight increase took place in the housing prices. However, the divergence of markets continued strong. This means that housing prices continued to decline in recessive markets subject to population loss. Large growth centres and vital urban areas in developing cities continued to be the winners. The selling periods also remained at the level of the previous year; the average being approximately 70 days.

The most significant positive drivers for the housing trade were affordable loans and the improvement of their availability, as well as the slight recovery in consumer confidence. In addition, a clear change for the better took place in construction operations.

Sp Mortgage Bank's profit and balance sheet

Sp Mortgage Bank converted from the Finnish Accounting Standard (FAS) to the international IFRS practices on 1 January 2016. The financial statement 31 December 2016 complies with the IAS and IFRS standards and the SIC and IFRIC interpretations that were in effect as of 31 December 2016. International Financial Reporting Standard refer to those standards and interpretations that have been approved according to Regulation (EC) No 1606/2002 of the European Parliament and of the Council. Converting to IFRS reporting has changed the basis of preparation of Sp Mortgage Bank's financial statements as well as the way the calculations of the financial statements are presented. The change does not, however, have an effect on Sp Mortgage Bank's equity or the result for the comparison period, as Sp Mortgage Bank's operations were not initiated until after the convertion to IFRS reporting, on 29 March 2016. For this reason, the comparison figures presented in the financial statement are not comparable to the figures for the financial period, even though the actual conversion to IFRS standard did not affect the figures themselves. The company was established on 20 March 2015.

Sp Mortgage Bank Plc's financial highlights

(EUR 1,000)	1.1.-31.12.2016 *
Revenue	4,083
Net interest income	-48
% of revenue	-1.2 %
Operating profit	-2,692
% of revenue	-65.9 %
Total operating revenue	-1,925
Total operating expenses (excluding depreciations)	-768
Cost to income ratio	-39.9 %
Total assets	808,008
Total equity	42,768
Return on equity %	-8.2%
Return on assets %	-0.5 %
Equity/assets ratio %	5.3 %
Solvency ratio %	16.4 %
Impairment losses on loans and other receivables	0

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

Profit trends (comparison period 3-12/2015)

The result of the financial year consisted of net interest income, net fee and commission income, net trading income and other operating expenses. The net interest income was EUR -48 thousand (0), the net fee and commission income were EUR -1,936 thousand (0), net trading income was EUR 60 thousand and other operating expenses were EUR -765 thousand (-87). The negativity of the net interest income was due to the funding expenses caused by the launch of operations. The net fee and commission income mainly consisted of fees paid to the intermediating banks. The profit of the financial year was EUR -2,154 thousand (-87).

During the comparison period, operations were not yet engaged in, but the launch of operations was prepared.

Balance sheet and funding (comparison period 31.12.2015)

The loan portfolio of Sp Mortgage Bank grew to EUR 729,361 thousand (0) 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 year, Sp Mortgage Bank also purchased loans from the loan portfolio intermediated by Savings Banks' at Aktia Real Estate Mortgage Bank Plc, of which the balance sheet value was EUR 141,941 thousand on 31.12.2016. During the first part of the year 2017, Sp Mortgage Bank has together with Savings Banks committed to buy the remaining loan portfolio intermediated by Savings Banks' at Aktia Real Estate Mortgage Bank Plc. The remaining loan portfolio was EUR 162,303 thousand at the end of the financial period.

Sp Mortgage Bank funds its operations with covered bonds. Financial credit from Central Bank of Savings Banks Finland Plc is used as short-term mezzanine financing. The value of the covered bond was EUR 499,006 thousand at the end of the financial period. At the end of the financial period, the amount of short term funding taken from Central Bank of Savings Banks Finland Plc was EUR 265,000 thousand (0), of which EUR 40,000 thousand has been agreed to be drawn in the future.

During the financial period, two targeted share issue to the owner banks were carried out, which amounted total to EUR 35,009 thousand. At the end of the financial year equity amounted to EUR 42,768 thousand.

Capital adequacy and risk position

Capital adequacy

At the end of 2016, the Sp Mortgage Bank had a strong capital structure, consisting of CET1 capital. Own funds were EUR 41,150 thousand. Risk-weighted assets amounted to EUR 251,258 thousand. The capital ratio of the Sp Mortgage Bank was 16.4 % and the CET1 capital ratio was 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 2016, the Financial Supervisory Authority did not set a countercyclical capital buffer requirement for Finnish credit institutions.

The standard method is used to calculate the capital requirement for credit risk of the Sp Mortgage Bank. The capital requirement for operational risk is calculated by the basic method. Sp Mortgage Bank has published the relevant information with regard to capital adequacy calculation each year as part of its Annual Report and Notes to the Financial Statement. The main 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 Linnoitustie 9, 02600 Espoo, Finland.

Sp Mortgage Bank's capital adequancy's main items

Own funds (EUR 1,000)	31.12.2016 *
Common Equity Tier 1 (CET1) capital before regulatory adjustments	42,768
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-1,618
Common Equity Tier 1 (CET1) capital	41,150
Additional Tier (AT1) capital before regulatory adjustments	0
Total regulatory adjustments to Additional Tier (AT1) capital	0
Additional Tier (AT1) capital	0
Tier 1 capital (T1 = CET1 + AT1)	41,150
Tier 2 (T2) capital before regulatory adjustments	0
Total regulatory adjustments to Tier 2 (T2) Capital	0
Tier 2 (T2) capital	0
Total capital (TC = T1 + T2)	41,150
Risk Weighted Assets	251,258
of which: credit and counterparty risk	247,811
of which: credit valuation adjustments (CVA)	3,446
of which: market risk	0
of which: operational risk	0
Common Equity Tier 1 (as a percentage of total risk exposure amount)	16.4 %
Tier 1 (as a percentage of total risk exposure amount)	16.4 %
Total capital (as a percentage of total risk exposure)	16.4 %

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

Leverage ratio

The leverage ratio of the Sp Mortgage Bank was 5.1 % The leverage ratio has been calculated according to the known regulation, and it describes the ratio of the Sp Mortgage Bank's Tier 1 capital to total liabilities. The Sp Mortgage Bank monitors the indebtedness as part of the ICAAP process.

Leverage ratio

(EUR 1,000)	31.12.2016 *
Tier 1 capital	41,150
Leverage ratio exposure	809,130
Leverage ratio	5.1%

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

Supervision by the Financial Supervisory Authority

The Savings Banks Amalgamation is under the direct supervision of the Financial Supervisory Authority. The Financial Supervisory Authority set in December a discretionary capital conservation buffer for the Savings Banks Amalgamation according to 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% in size, and it shall be filled with CET1 capital. The discretionary capital conservation buffer will enter into force on 30 June 2017 and it shall be fulfilled at the Amalgamation level.

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.

Risk Position

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

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

- Risk Control
- Compliance
- Internal Audit

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

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

Sp Mortgage Bank's risks and risk management is described in more detail in the risk management note (Note 4). Savings Banks Group's risks and risk management is described in more detail in the Savings Banks Group's 2016 financial statements.

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:

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

At the annual general meeting of the Sp Mortgage Bank Plc on 21 March 2016, KPMG Oy Ab, Authorised Public Accountants, was elected as the auditor. The chief auditor designated by 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, in which the Savings Banks have a majority holding. Sp Mortgage Bank's bookkeeping and accounts are handled by Paikallispankkien PP-Laskenta Oy, which is wholly owned by Samlink. Sp Mortgage Bank purchased internal audit services from PwC (PricewaterhouseCoopers Ltd).

Social responsibility

The social responsibility policy of the Savings Banks Group is set out in the consolidated financial statement of the Savings Banks Group. 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

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 statements.

Outlook for the year 2017

Outlook for the operational environment

During year 2017, the positive development in the labour market will continue, and the outlook in the industry will also improve. The structural reforms driven by the Government have progressed more slowly than expected and, as a result, the sufficiency of the measures can be called into question. The employment targets set by the Government will not be achieved. To support economic growth, additional measures to improve the functionality of the employment market should be examined to drive the structural reforms further.

The year 2017 will be coloured by political risks in Europe. At the same time, the new President of the United States will launch the changes presented in the election programme. These factors will cause uncertainty in the investment markets, but the positive development in the economy will continue next year. This will have a stabilising impact on the investment markets.

The great debt burden in the Chinese national economy and the slowdown of economic growth will be, for their part, significant risk factors in the coming years. Significant risks are still connected to the growth outlook in the emerging markets, but the recovery of the raw material prices and the economic growth experienced in the Western countries are stabilising factors. Global economic growth will recover close to the 3 per cent level during next year, and the most significant positive impact will be the economic development of the United States.

Business outlook

Sp Mortgage Bank expects the loan portfolio to continue to grow and its quality to remain good. The capital adequacy of Sp Mortgage Bank is estimated to remain strong and the risk position to remain stable. The covered bond programme established in 2016 enables issuance of covered bonds in 2017. The result of 2017 is estimated to show a loss, because the Bank's operations are still at the construction stage.

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

Sp Mortgage Bank's distributable funds amount to EUR 12,747 thousand.

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

Information

Managing Director, Harri Mattinen

tel. +358 40 849 2559

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

Formulas used in calculating the financial highlights:

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

SP MORTGAGE BANK PLC'S IFRS FINANCIAL SATEMENTS

Sp Mortgage Bank's income statement

(EUR 1,000)	Note	1-12/2016	3-12/2015 *
Interest income		3,940	0
Interest expense		-3,988	0
Net interest income	**5**	**-48**	**0**
Net fee and commission income	6	-1,936	0
Net trading income	7	60	0
Total operating revenue		-1,925	0
Personnel expenses	8	-3	0
Other operating expenses	9	-765	-87
Total operating expenses		-768	-87
Operating profit		**-2,692**	**-87**
Taxes	10	538	
Profit		**-2,154**	**-87**

Sp Mortgage Bank's statement of comprehensive income

(EUR 1,000)	1-12/2016	3-12/2015 *
Profit	**-2,154**	**-87**
Total comprehensive income	**-2,154**	**-87**

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

Sp Mortgage Bank's statement of financial position

(EUR 1,000)	Note	31.12.2016	31.12.2015 *
Assets			
Loans and advances to credit institutions	12	35,467	9,752
Loans and advances to customers	12	729,361	0
Derivatives	13	606	0
Intangible assets	14	1,080	172
Tax assets	15	538	0
Other assets	16	40,956	0
Total assets		**808,008**	**9 924**
Liabilities and equity			
Liabilities			
Liabilities to credit institutions	17	265,000	0
Debt securities issued	18	499,006	0
Provisions and other liabilities	19	1,233	11
Total liabilities		**765,240**	**11**
Equity			
Share capital	20	30,021	6,670
Reserves		14,988	3,330
Retained earnings		-2 241	-87
Total equity		**42,768**	**9,913**
Total liabilities and equity		**808,008**	**9,924**

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

Sp Mortgage Bank's statement of cash flows

(EUR 1,000)	1-12/2016	3-12/2015 *
Cash flows from operating activities		
Profit	-2,154	-87
Adjustments for items without cash flow effect	-60	
Taxes	-538	
Cash flows from operating activities before changes in assets and liabilities	**-2,752**	**-87**
Increase (-) or decrease (+) in operating assets	**-770,316**	**0**
Loans and advances to customers	-729,361	
Other assets	-40,955	
Increase (-) or decrease (+) in operating liabilities	**764,682**	**11**
Liabilities to credit institutions	265,000	
Debt securities issued	498,460	
Other liabilities	1,222	11
Total cash flows from operating activities	**-8,386**	**-76**
Cash flows from investing activities		
Investments in property, plant and equipment and intangible assets	-908	-172
Total cash flows from investing activities	**-908**	**-172**
Cash flows from financing activities		
Increase in share capital	23 351	6,670
Other monetary increases in equity items	11,658	3,330
Total cash flows from financing activities	**35,009**	**10,000**
Adjustments for items without cash flow effect		
Changes in fair value	**-60**	
Total	**-60**	**0**
Change in cash and cash equivalents	**25,715**	**9,752**
Cash and cash equivalents at the beginning of the year	**9,752**	**0**
Cash and cash equivalents at the end of the year	**35,467**	**9,752**
Cash and cash equivalents comprise the following items:		
Receivables from central banks repayable on demand	35,467	9,752
Total cash and cash equivalents	**35,467**	**9,752**
Interest received	3,379	0
Interest paid	3,576	0
Dividends received	0	0

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

Sp Mortgage Bank's statement of changes in equity

(EUR 1,000)	Share capital	Share premium	Retained earnings	Total equity
Equity 20 March 2015	**0**	**0**	**0**	**0**
Comprehensive income				
Profit			-87	-87
Total comprehensive income			**-87**	**-87**
Subscription issue	6,670	3,330		10,000
Total equity 31 December 2015*	**6,670**	**3,330**	**-87**	**9,913**
Equity 1 January 2016	**6,670**	**3,330**	**-87**	**9,913**
Comprehensive income				
Profit			-2,154	-2,154
Total comprehensive income			**-2,154**	**-2,154**
Subscription issue	23,351	11,658		35,009
Total equity 31 December 2016	**30,021**	**14,988**	**-2,241**	**42,768**

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

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

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

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

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

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

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

The head office of Sp Mortgage Bank is in Espoo, and its registered address is Linnoitustie 9, FI-02600 Espoo, Finland. A copy of Sp Mortgage Bank's financial statement is available online at *www.saastopankki.fi/saastopankkiryhma* or at Sp Mortgage Bank's offices at Linnoitustie 9, FI-02600 Espoo, Finland.

Similarly, copies of the Group's financial statements are available online at *www.saastopankki.fi/saastopankkiryhma* or at Savings Banks' Union Coop's offices at Linnoitustie 9, FI-02600 Espoo, Finland.

The Board of Directors of Sp Mortgage Bank has approved the Bank's financial statement 2016 on 7th February 2017, and the financial statement will be presented to the Annual General Meeting of 2017 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 converted from the Finnish Accounting Standard (FAS) to the international IFRS standards on 1 January 2016. financial statement 31 December 2016 complies with the IAS and IFRS standards and the SIC and IFRIC interpretations that were in effect as of 31 December 2016. International Financial Reporting Standards refer to those standards and interpretations that have been approved according to Regulation (EC) No 1606/2002 of the European Parliament and of the Council. Converting to IFRS reporting has changed the basis of preparation of Sp Mortgage Bank's financial statements as well as the way the calculations of the financial statements are presented. The change does not, however, have an effect on Sp Mortgage Bank's equity or the result for the comparison period, as Sp Mortgage Bank's operations were not initiated until after the convertion to IFRS reporting, on 29 March 2016. For this reason, the comparison figures presented in the financial statement are not comparable to the figures for the financial year, even though the actual conversion to IFRS standards did not affect the figures themselves. Because the conversion to IFRS did not impact Sp Mortgage Bank's result or equity, separate calculations after the conversion have not been presented.

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 11.

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

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

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

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

Loans and receivables

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

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

Other financial liabilities

Other financial liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate 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 recognised in the income statement under "Net trading income". When hedging fair value, the hedged item is also measured at fair value during hedging even if it would otherwise be measured at amortised cost. A change in the hedged item's fair value is recognised in the balance sheet as an adjustment to the balance sheet 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 principles

Interest income and expenses

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

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

Fees and commissions

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

7. Segment information

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

New and amended standards applied in financial year ended

Sp Mortgage Bank has applied as from 1 January 2016 the following new and amended standards that have come into effect.

- Annual Improvements to IFRSs (2012-2014 cycle) (effective for financial years beginning on or after 1 January 2016): 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 cycle contains amendments to four standards. Their impacts vary standard by standard but are not significant.

- Amendment to IAS 1 Presentation of Financial Statements: Disclosure Initiative (effective for financial years beginning on or after 1 January 2016). The amendments clarify the guidance in IAS 1 in relation to applying the materiality concept, disaggregating line items in the balance sheet and in the statement of profit or loss, presenting subtotals and to the structure and accounting policies in the financial statement. In Sp Mortgage Bank, only very small changes have been made to the presentation of financial statements.

- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for financial years beginning on or after 1 January 2016): The amendments state that revenue-based methods of depreciation cannot be used for property, plant and equipment and may only be used in limited circumstances to amortise intangible assets if revenue and the consumption of the economic benefits of the intangible assets are highly correlated. The standard changes have not had an impact on the financial statements of Sp Mortgage Bank, because depreciation has not been made based on sales revenue.

- Amendments to IAS 27 Separate Financial Statements – Equity Method in Separate Financial Statements (effective for financial years beginning on or after 1 January 2016): The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The standard changes have not had an impact on the financial statements of Sp Mortgage Bank, because the company does not have investments in joint and associated companies.

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. The Group 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 2016.

- IFRS 15 Revenue from Contracts with Customers (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, when the performance obligations based on customer contracts are fulfilled. The standard introduces also extensive new disclosure requirements.

- The new standard does not have an impact on the revenue recognition from financial instruments, and it concerns mainly various net fee and commission income. The revenue recognition from interest and dividend yield will be based in the future on the IFRS 9 standard, and no changes are expected to the revenue recognition compared with the current treatment of the IAS 18 standard. The revenue recognition from Sp Mortgage Bank is significantly based on the IFRS 9 standard with regard to financial instruments (it replaces as of 1 January 2018 the current IAS 39 standard).

  The net fee and commission income of Sp Mortgage Bank contain, as a starting point, fees that are entered in a performance-based manner, when a certain service or a measure has been performed. Services include, among other things, services related to loan granting. 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 practice. The impact of the IFRS 15 standard on the income of Sp Mortgage Bank and the financial statements reporting is assessed to be slight, as a whole.

- Amendments to IFRS 15 - Clarifications to IFRS 15 Revenue from Contracts with Customers* (effective for financial years beginning on or after 1 January 2018). The amendments include clarifications and further examples on how to apply certain aspects of the five-step recognition model. The impact assessment of the clarifications has been included in the IFRS 15 impact assessment described above.

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

Introduction of the IFRS 9 standard

Sp Mortgage Bank Plc has prepared a feasibility study on the impact of the IFRS 9 -standard, and it assesses on the basis of the study that the introduction of the IFRS 9 -standard will have significant effects on Sp Mortgage Bank Plc with regard to financial statements, internal processes and system requirements.

In the Savings Banks Group, to which Sp Mortgage Bank also belongs, an IFRS 9 project is ongoing that covers the whole Savings Banks Group. With a Group-level project the uniform application of the IFRS -standard across the Group is ensured. A dedicated steering group guides the IFRS project, which reports on the progress of the project further to the Audit Committee of the Savings Banks' Union Coop. In the project participate persons from the financial administration, risk supervision, asset and liability management and ICT.

The project is at a deployment stage, and the objective is full IFRS 9 compliance on 1 January 2018, when the application of the IFRS standard will begin. The project has been scheduled so that parallel accounting would be possible in the second half of 2017.

The Savings Banks Amalgamation and Sp Mortgage Bank apply the standard approach to the calculation of capital requirements of credit risk, and thus it is not possible to utilise in the implementation of the IFRS 9 the models and systems of capital adequacy, but they have to be created in their entirety for the application of the IFRS -standard.

Sp Mortgage Bank is going to apply the exceptions provided by the transition provisions of IFRS 9 -standard for the non-presentation of comparison information.

Classification and measurement

According to the IFRS 9 standard, financial assets are classified both on the basis of the business model used for the management of assets and on the basis of the characteristics related to contract-based cash flows. On the basis of the business model and the characteristics of the cash flows, the financial assets are either classified at fair value through profit and loss, at fair value through other comprehensive income or valued at amortised cost.

In the classification of the financial assets of Sp Mortgage Bank, no significant changes are to be expected between valuation at fair value and valuation at amortised cost. Instruments that have been classified as loans and receivables according to the IAS 39, will still be, as a starting point, valued at amortised cost when applying the IFRS 9 standard. At the moment, Sp Mortgage Bank does not have financial assets valued at fair value in addition to derivatives used for hedge accounting. Sp Mortgage Bank does not have equity instruments that would be classified at fair value through other comprehensive income.

The principles applied to the classification of financial liabilities are the same in the IFRS 9 -standard as in the IAS 39, as a starting point. Financial liabilities are still valued either at amortised cost or at fair value through profit and loss. Sp Mortgage Bank does not have financial liabilities valued at fair value through profit and loss.

Classification and measurement is not assessed to have a significant impact on the capital adequacy of Sp Mortgage Bank.

Impairment

The treatment of impairments will change significantly with the IFRS 9 -standard. In the IAS 39 -standard, impairments have been entered according to the model of incurred impairment, whereas in the IFRS 9 -standard, the recording principle of impairments is based on the expected credit loss model. The expected credit losses are recognised on debt instruments accounted for at amortised cost and at fair value through other comprehensive income. These includes also loan commitments, financial guarantee contracts.

The Savings Banks Group will be distributing agreements for the purpose of expected credit loss calculation according to their risk properties in six segments:

1) Retail customers (excluding mortgage loans)
2) Corporate customers (excluding mortgage loans)
3) Mortgage (both retail and corporate mortgage loans)
4) Public sector (includes the whole public sector and student loans guaranteed by the state)
5) Financial institutions and non-profit institutions
6) Investment portfolio

Sp Mortgage Bank does not currently have loans of corporate customers or the public sector on its balance sheet.

In the calculation of expected credit losses, the Savings Banks Group is mainly going to use a model that is based on the likelihood of exposure to (Probability of default, PD) and (loss given default, LGD) and the amount of liabilities at the time of default (Exposure at default, EAD). With regard to financial assets, which are segmented to the public sector, financial institutions and non-profit institutions segments, the Group uses expected loss approach in calculating expected loss.

The IFRS 9 -standard requires that in the determination of expected credit losses all available financial information is reasonably utilised, including forecasts on future financial circumstances. For this reason, macroeconomic data is used in the calculation when calculating the expected credit losses over the life cycle of the agreement. Macroeconomic data contains information on, among other things, unemployment rates, interest and inflation.

The IFRS -standard requires that it is assessed whether the credit risk of the receivable has increased significantly since its initial recognition. In the assessment of the significant increase of the credit risk is used, among other things, the change in credit rating (both absolute and relative), payment delay information and information on forbearance. The probability of default is determined in the calculation of expected credit losses according to the credit policy of Sp Mortgage Bank.

The European Banking Authority, EBA, published on 10 November 2016 the results of an impact analysis, to which 58 banks in the EU area participated (the Savings Banks Group and Sp Mortgage Bank did not participate in the impact analysis). According to the impact analysis by the EBA, impairments are estimated to grow according to the banks participating in the impact analysis on average by 18–30%. This corresponds to the Savings Banks Group's own preliminary estimate of the total growth of impairments in the Savings Banks Group. According to a preliminary estimate, the impairments of Sp Mortgage Bank will be lower than the Group's average impairment level, taking into account the quality of the loans granted by Sp Mortgage Bank and the collaterals received. At this stage of the implementation, it is not possible to specify the estimation at the bank level. Sp Mortgage Bank estimates that a more specific calculation on the amount of expected credit losses will be obtained during the third quarter of 2017.

The amount of impairments will grow, among other things, because in the IFRS 9 -standard expected credit losses will be started to be recorded instead of the incurred impairments according to the IAS 39 -standard. It will also be necessary to estimate all items falling under the application of the standard, including loans granted to companies of high creditworthiness. In the IFRS -standard, the impairment assessment will also be expanded to off-balance sheet items.

According to the current proposal of the EU Commission, the treatment of expected credit losses in the capital adequacy calculations required under IFRS 9 has no significant impact on the own funds or the capital adequacy of Sp Mortgage Bank.

Hedge accounting

With the IFRS 9 -standard, the application of hedge accounting will be more principled, and the usage potential of hedged items and hedging instruments will grow. Hedge accounting and the risk management strategies will be combined even more strongly than previously.

The transfer to the application of the IFRS 9 -standard with regard to the general hedge accounting is not assessed to have an impact on the existing hedge relationships. The changes in hedge accounting are not assessed to have an impact on the capital adequacy of Sp Mortgage Bank.

- 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 USD 5 000 or less. The lessor accounting remains mostly similar to current IAS 17 accounting. Sp Mortgage Bank has estimated that the standard change will not have a significant impact on the financial statements of the Bank.

- Amendments to IAS 7 Statement of Cash Flows- 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 will have an impact on the notes of Sp Mortgage Bank.

- Amendments to IAS 12 Income Taxes - 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 standard change will not have an impact on the financial statements of Sp Mortgage Bank, because the current treatment of income taxes corresponds to the clarifications of the standard.

- 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 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 Sp Mortgage Bank, because the Bank has very few asset 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 2017 for IFRS 12 and on or after 1 January 2018 for IFRS 1 and IAS 28). 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 cycle contains amendments to three standards. Their impacts vary standard by standard but are not significant. The impact of the changes vary by standard, but they are not significant.

Sp Mortgage Bank estimates that the other new and amended standards and interpretations applicable in future financial years will not have a significant impact on Sp Mortgage Banks' 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.

Deferred tax assets

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

RISK MANAGEMENT POLICIES

NOTE 4. RISK MANAGEMENT AND CAPITAL ADEQUACY

General principles and objectives for risk management

Sp Mortgage Bank is part of the Savings Banks Group. The Group is a financial group comprising 23 Savings Banks and their Central Institution, the Savings Banks' Union Coop, as well as their subsidiaries and associated companies. The Group does not form a financial and insurance conglomerate as defined in the Act on the Supervision of Financial and Insurance Conglomerates.

A more detailed account of the Group's risks and risk management can be found in the 2016 financial statements of the Savings Banks Group.

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

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

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

The Board of Directors of the Sp Mortgage Bank is responsible for arranging the internal control framework in accordance with legislation, government regulations and the guidelines of the Board of Directors of the Central Institution. The Bank's Managing Director together with the other senior management of the Sp Mortgage Bank is responsible for arranging internal controls for the Bank in accordance with legislation, government regulations and the internal guidelines of their own Board of Directors and the Board of Directors of the Central Institution.

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

- Risk Control
- Compliance
- Internal Audit

The 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 the Sp Mortgage Bank's independent functions. Sp Mortgage Bank's purchased internal audit services from PwC (Pricewaterhouse-Coopers Ltd).

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

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

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

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

Pillar III disclosure principles

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

Capital adequacy management

The objective of the capital adequacy management process is to ensure that the quantity and quality of capital are adequate and in proportion with the nature, scale and complexity of the Sp Mortgage Bank's operations and with all the risks resulting from its business operations and operating environment. To achieve this objective, the bank identifies and assesses the risks associated with its business operations and ensures that its risk-bearing capacity is adequate when compared to the sum of all risks.

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

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

Stress tests

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

Capital contingency plan

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

Capital adequacy

At the end of year 2016, the Sp Mortgage Bank had a strong capital structure, consisting of CET1 capital. Own funds were EUR 41,150 thousand. Risk-weighted assets amounted to EUR 251 258 thousand. The capital ratio of the Sp Mortgage Bank was 16.4 % and the CET1 capital ratio was 16.4 %.

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

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

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

Capital adequacy's main items

Own Funds (EUR 1,000)	31.12.2016 *
Common Equity Tier 1 (CET1) capital before regulatory adjustments	42,768
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-1,618
Common Equity Tier 1 (CET1) capital	41,150
Additional Tier 1 (AT1) capital before regulatory adjustments	0
Total regulatory adjustments to Additional Tier 1 (AT1) capital	0
Additional Tier 1 (AT1) capital	0
Tier 1 capital (T1 = CET1 + AT1)	41,150
Tier 2 (T2) capital before regulatory adjustments	0
Total regulatory adjustments to Tier 2 (T2) capital	0
Tier 2 (T2) capital	0
Total capital (TC = T1 + T2)	41,150
Risk weighted assets	251,258
of which: credit and counterparty risk	247,811
of which: credit valuation adjustment (CVA)	3,446
of which: market risk	0
of which: operational risk	0
Common Equity Tier 1 (as a percentage of total risk exposure amount)	16.4 %
Tier 1 (as a percentage of total risk exposure amount)	16.4 %
Total capital (as a percentage of total risk exposure)	16.4 %

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

Leverage ratio

The leverage ratio of the Sp Mortgage Bank was 5,1 %. The leverage ratio has been calculated according to the known regulation, and it describes the ratio of the Sp Mortgage Bank's Tier 1 capital to total liabilities. The Sp Mortgage Bank monitors the indebtedness as part of the ICAAP process.

Leverage ratio

(EUR 1,000)	31.12.2016 *
Tier 1 capital	41,150
Leverage ratio exposure	809,130
Leverage ratio	5.1 %

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

Recovery and Resolution legislation

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

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

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

Credit and counterparty risks

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

Credit risk is defined as a possibility that counterparty may not meet its contractual obligations. The largest source of credit risk is lending, but credit risk (counterparty risk) may also occur with other types of receivables, such as bonds, short-term debt securities and derivative instruments, as well as off-balance sheet commitments, such as unused credit limits, and guarantees.

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

Management of credit risk

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

The business strategy of the Sp Mortgage Bank and the 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 are-as ensuring one of the essentials features for the lending of the Savings Banks: local and comprehensive knowledge of the customers.

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

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

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

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

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

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

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

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

The loan portfolio of the Sp Mortgage Bank was EUR 729,261 thousand at end of year 2016 (0).

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. New private customer application and portfolio rating models have been implemented in 10/2016. New loans are rated by application models and exixting 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.

Sp Mortgage Bank's customer base consist retail customers, for whom a new more specific credit scoring model was launched at the end of October. Because all credits have not been classified with the new model at the end of the year, the figures are presented according to the old classification scale.

Private lending by rating distribution	31.12.2016 *
Credit rating	
A	82.8 %
B	15.2 %
C	2.0%
Total	**100.0 %**

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

Concentration of the credit risk

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

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

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

Non-performing loans and payment delays

The non-performing loans and payment delays are followed regularly. The Sp Mortgage Bank does not have any non-performing loans at 31.12.2016 In certain circumstances if the customer would otherwise face financial difficulties in the future the customer may be granted a change in the terms and conditions of the loan, for example interest-only period or restructuring the loan. The reason for these arrangements is to ensure the customers' ability to pay and avoid possible credit losses. The prerequisite for granting any forbearance measures to the loans is that the customers' financial difficulties are estimated to be short-termed and temporary.

Impairments on loans and other receivables

The impairment losses of loans and other receivables are recognized on an individual and collective basis. Impairment losses are assessed individually if the debtor's total exposure is significant. Otherwise, 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 31.12.2016.

Market risk

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

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

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

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

Market risk management

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

Interest rate risk in the banking book

The banking business key market risk is the interest rate risk in the banking book, which is monitored using both present value risk and income risk. Interest rate risks arise from the banking book, consisting of lending and deposits, wholesale market funding and investment and liquidity portfolios.

Interest rate risk refers to the adverse effect of interest rate changes on the market value (net present value risk) or on the net interest income (income risk) of the balance sheet and off-balance sheet items. Interest rate risk may be further divided into the following risk types:

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

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

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

The interest rate risks are measured monthly, using both the net interest income and the change in the net present value of the balance sheet. The net present value method measures how much the fair value of the balance sheet changes when interest rates change, and the market value of each balance sheet item is expected to equal the present value of the cash flows generated by such instrument. The income risk model predicts the future net interest income over one year with changing market interest rates.

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

Net interest income sensitivity to a 1 % -point parallel shift in the interest rate curve (EUR 1,000)	Change in net interest income	
	31.12.2016 *	
Period	Down	Up
Change in the coming 12 months	-4	255
Change in 12-24 months	-14	291

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

Liquidity risk

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

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

Sp Mortgage Bank does not take deposits from the public. Sp Mortgage Bank has an agreement on the use of liquid assets with the Central Bank of Savings Banks Finland Plc. A distributing Savings Bank or the 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 31.12.2016 (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	

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

Operational risk

Operational risk refers to the risk of loss arising from inadequate or failed internal processes, personnel, systems or external factors. Legal risks are also included in the operational risks. The various stages of lending and trading processes also involve operational risks as well credit, liquidity and market risks, which are assessed in the evaluation of operational risks 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.

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 the 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 ensures that the bank comply with its own internal guidelines, ethical principles for personnel and other instructions.

Business risk

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

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

FINANCIAL YEAR

NOTE 5. NET INTEREST INCOME

(EUR 1,000)	1-12/2016	3-12/2015 *
Interest income		
Loans and advances to customers	4,038	
Derivative contracts		
Hedging derivatives	109	
Other	-207	
Total	**3,940**	**0**
Interest expense		
Liabilities to credit institutions	1,444	
Debt securities issued	79	
Limits	2,466	
Total	**3,988**	**0**
Net interest income	**-48**	**0**

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

NOTE 6. NET FEE AND COMMISSION INCOME

(EUR 1,000)	1-12/2016	3-12/2015 *
Fee and commission income		
Lending	83	
Total	**83**	**0**
Fee and commission expense		
Loans	2,018	
Other	1	
Total	**2,020**	**0**
Net fee and commission income	**-1,936**	**0**

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

NOTE 7. NET TRADING INCOME

(EUR 1,000)	1-12/2016	3-12/2015 *
Net income from hedge accounting		
Change in hedging instruments' fair value	606	
Change in hedged items' fair value	-546	
Net trading income	**60**	**0**

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

NOTE 8. PERSONNEL EXPENSES

(EUR 1,000)	1-12/2016	3-12/2015 *
Wages and salaries	3	
Personnel expenses	**3**	**0**

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

NOTE 9. OTHER OPERATING EXPENSES

(EUR 1,000)	1-12/2016	3-12/2015 *
Other administrative expenses		
Office expenses	486	
ICT expenses	251	
Telecommunications	1	
Marketing	3	
Total	**741**	**0**
Other operating expenses		
Other operating expenses **	24	87
Total	**24**	**87**
Total other operating expenses	**765**	**87**
**** Audit fees**		
Statutory audit	7	
Audit related services		1
Total	**7**	**1**

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

NOTE 10. INCOME TAXES

(EUR 1,000)	1-12/2016	3-12/2015 *
Change in deferred tax assets	538	
Income taxes	**538**	**0**
Total income taxes	**538**	**0**

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

Reconciliation of effective tax rate		
Accounting profit before tax	-2,692	-87
Taxable profit	**-2,692**	**-87**
Tax using the domestic corporation tax rate	538	
Tax expense	**538**	**0**
Corporate income tax rate	**20 %**	**20 %**

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

More information on deferred taxes is presented in note 15.

ASSETS

NOTE 11. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

31.12.2015 * (EUR 1,000)	Loans and receivables	Held-for-trading	Other financial liabilities	Total
Loans and advances to credit institutions	9,752			9,752
Total assets	**9,752**	**0**	**0**	**9,752**
Total liabilities	**0**	**0**	**0**	**0**

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

NOTE 12. LOANS AND ADVANCES

(EUR 1,000)	31.12.2016	31.12.2015 **
Loans and advances to credit institutions		
Deposits	35,467	9,752
Total	**35,467**	**9,752**
Loans and advances to customers		
Loans	729,361 *	
Total	**729,361**	**0**
Total loans and advances	**764,828**	**9,752**

* of which loan purchases from Aktia Real Estate Mortgage Bank Plc intermediated by Savings Banks' were EUR 141,941 thousand.

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

NOTE 13. 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 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	
31.12.2016	less than 1 year	1 - 5 years	more than 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	0
Total	**0**	**500,000**	**0**	**500,000**	**606**	**0**
Total derivatives					**606**	**0**

(EUR 1,000)	Nominal value / remaining maturity				Fair value	
31.12.2015 *	less than 1 year	1 - 5 years	more than 5 years	Total	Assets	Liabilities
Hedging derivative contracts						
Total	**0**	**0**	**0**	**0**	**0**	**0**
Total derivatives					**0**	**0**

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

NOTE 14. INTANGIBLE ASSETS

(EUR 1,000)	31.12.2016	31.12.2015
Intangible assets under development	1,080	172
Total intangible assets	**1,080**	**172**

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.

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

2015 * (EUR 1,000) Changes in intangible assetst	Intangible assets under development
Acquisition cost 1 January	0
Increases	172
Acquisition cost 31 December	172
Accumulated depreciation and impairments 31 December	0
Carrying amount 31 December	**172**

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

NOTE 15. DEFERRED TAXES

(EUR 1,000)	31.12.2016	31.12.2015 *
Deferred tax assets	538	
Tax assets	**538**	**0**
Tax liability	**0**	**0**

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

2015 (EUR 1,000)	1.1.2015	Change recognised in profit or loss	31.12.2015
Deferred tax liabilities			
Total	**0**	**0**	**0**

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

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

The tax losses will expire in 2026.

NOTE 16. OTHER ASSETS

(EUR 1,000)	31.12.2016	31.12.2015 *
Accrued income and prepaid expenses		
Interest	561	
Other accrued income and prepaid expenses	395	
Money Market Deposits	40,000	
Total other assets	**40,956**	**0**

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

LIABILITIES AND EQUITY

NOTE 17. LIABILITIES TO CREDIT INSTITUTIONS

(EUR 1,000)	31.12.2016	31.12.2015 *
Other than those repayable on demand	265,000	
Total liabilities to credit institutions	**265,000**	**0**

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

NOTE 18. DEBT SECURITIES ISSUED

(EUR 1,000)	31.12.2016	31.12.2015 **
Measured at amortised cost		
Bonds	499,006 *	
Total debt securities issued	**499,006**	**0**
Of which		
Fixed interest rate	499,006	
Total	**499,006**	**0**

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

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

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

NOTE 19. PROVISIONS AND OTHER LIABILITIES

(EUR 1,000)	31.12.2016	31.12.2015 *
Other liabilities		
Payment transfer liabilities	35	
Other liabilities	199	
Total other liabilities	**234**	**0**
Accrued expenses		
Interest payable	409	
Interest advances received	3	
Other accrued expenses	588	11
Total accured expenses	**1,000**	**11**
Total provisions	**0**	**0**
Total provisions and other liabilities	**1,233**	**11**

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

NOTE 20. CAPITAL AND RESERVES

(EUR 1,000)	31.12.2016	31.12.2015 *
Share capital	30,021	6,670
Reserves		
Reserve for invested non-restricted equity	14,988	3,330
Retained earnings		
Profit (loss) for previous financial years	-87	0
Profit (loss) for the period	-2,154	-87
Total capital and reserves	**42,768**	**9,913**

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.

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

OTHER NOTES

NOTE 21. COLLATERALS

(EUR 1,000)	31.12.2016	31.12.2015 *
Collateral given		
Given on behalf of Group's own liabilities and commitments		
Loans	703,492	
Total collateral given	**703,492**	**0**
Collateral received		
Real estate collateral	729,315	
Total collateral received	**729,315**	**0**

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

NOTE 22. OFF BALANCE-SHEET COMMITMENTS

(EUR 1,000)	31.12.2016	31.12.2015 *
Loan commitments	6,461	
Total off balance-sheet commitments	**6,461**	**0**

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

NOTE 23. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

(EUR 1,000) 31.12.2015 *				subject to enforceable			
	Recognised financial assets, gross	Recognised financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Financial instruments	Financial instruments held as collateral	Cash held as collateral	Net amount
Total	0	0	0	0	0	0	0

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

NOTE 24. FAIR VALUES BY VALUATION TECHNIQUE

Fair value measurement

Financial instruments are presented in the Sp Mortgage Bank's balance sheet at amortised cost and at fair value in derivatives. The classification of financial assets and liabilities by valuation technique as well as the criteria for measurement methods and for determining fair value are described in the accounting policies (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 2016, there were no transfers between levels 1 and 2.

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					
At fair value through profit or loss					
Banking	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**

The company was established on 20 March 2015 and actual mortgage banking operation was initiated on 29 March 2016. For this reason, the comparison figures presented in the Financial statement are not comparable to the figures for the financial year.

NOTE 25. 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)	2016	2015 *
Short-term employee benefits	3	0
Total	**3**	**0**

Key management personnel compensation

2016 (EUR 1,000)	Salary and remuneration
Seppälä Risto	3
Total	**3**

2015 *	Salary and remuneration
Total	**0**

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

NOTE 26. SUBSEQUENT EVENTS

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

CAPITAL ADEQUACY INFORMATION

NOTE 27. PILLAR III DISCLOSURES

Sp Mortgage Bank is part of the Savings Banks Amalgamation and the Savings Banks Group. Sp Mortgage Bank's capital adequacy information is included in the information concerning the capital adequacy of the Savings Banks Amalgamation, presented in the consolidated financial statements of the Savings Banks Group. The Financial Supervisory Authority has granted a permission not to deduct internal holdings of credit institutions included in the Amalgamation from own funds instruments when calculating own funds at the individual institution level and sub-consolidation group level. In addition, the Financial Supervisory Authority has granted a permission to apply a 0 per cent risk weight to internal credit institution liabilities included within the scope of the Amalgamation's joint and several liability. These permissions are based on the European Union Capital Requirements Regulation (EU 575/2013) and the Act on the Amalgamation of Deposit Banks (599/2010). 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 Linnoitustie 9, 02600 Espoo, Finland.

The original Annual Report is in Finnish. This is an English version thereof.

SIGNATURES

Signatures of the Financial Stetement of Sp Mortgage Bank

In Espoo 7 February, 2017

The Board of Directors' of the Sp Mortgage Bank Plc

Pasi Kämäri
Chairman of the Board

Kai Brander
Vice chairman of the Board

Risto Seppälä
Member of the Board

Harri Mattinen
Managing Director

Auditor's endorsement

Our auditor's report has been issued today

Espoo February, 2017.

KPMG Oy Ab

Petri Kettunen
Authorised Public Accountant

KPMG Oy Ab
Töölönlahdenkatu 3 A
PO Box 1037
00101 Helsinki, FINLAND

Telephone +358 20 760 3000
www.kpmg.fi

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, 2016. The financial statements comprise statement of financial position, 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 performance and financial position in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

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.

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.

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 MATTERH	OW THE MATTER WAS ADDRESSED IN THE AUDIT

Valuation of receivables (loans and receivables from customers);
Notes2 , 3, 4 and 12t o the financial statements

— The valuation of receivables involves management'j udgements, 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 observedt he 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.

Deferred tax asset from tax losses – measurement;
Notes2 , 3 and 15 to thef inancial statements

— The deferred tax asset recognized for the carryforward of unused tax losses, amounting to € 0,5 million, is based on the management estimate on future taxable profit considered probable, against which the unused tax losses can be utilized. Utilization of the deferred tax asset involves a risk that business and profitability may not develop in line with the company's initial forecasts

— Due to uncertainty related to management forecasts the deferred tax asset is addressed as a key audit matter.

— We assessed the management forecasts related to the amount of probable future taxable profit. We also tested the technical accuracy of the calculations.

— We analyzed the key assumptions used in respect of the development of business and profitability.

— Furthermore, we assessed the appropriateness of the note disclosures made in relation to deferred tax asset.

Valuation of derivative instruments; Notes 2, 7 and 13 to the financial statements

- At year-end the nominal value of derivatives is significant, amounting to € 500 million. 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 of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and 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 the 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of business activities to express an opinion on the consolidated financial statements. We remain solely responsible for our audit opinion.

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

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors, but does not include the financial statements and oura uditor's report thereon. We obtained the report of the Board of Directors prior to the dateo f this auditor's report.

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 identified above 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. With respect tot he report of the Board of Directors, 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 on the report of the Board of Directors, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 8 February 2017

KPMG Oy Ab

[signed]

Petri Kettunen
Authorized Public Accountant in Finland

Sp Mortgage Bank Plc

BUSINESS ID: 2685273-8 | POSTAL/VISITING ADDRESS: | C/O SÄÄSTÖPANKKILIITTO OSK LINNOITUSTIE 9, 02600 | REGISTERED OFFICE: ESPOO