

Governance

1. Introduction

The activities of the Savings Banks Group comply with the provisions of current legislation, orders issued by the authorities, good banking practice regulations approved by the Federation of Finnish Financial Services, as well as these governance policies along with the Amalgamation's other internal guidelines.

The governance policies are approved by the Board of Directors of the Amalgamation's central institution and updated at least once a year or whenever there are changes in the operational environment, business model, regulations, and/or statutory requirements.

2. Governance policies of the Savings Banks Amalgamation

The governance policies define the structure and functions of the Savings Banks Amalgamation and its principal parts, the functions and responsibilities of the main governing organs, and the internal controls and financial reporting. The governance policies help to ensure the Amalgamation's operations are open and transparent.

The activities of the Savings Banks Amalgamation and its central institution, the Savings Banks Association cooperative, are regulated by European Union and national legislation, regulation and statutory requirements. The relevant national statutes are contained in the Act on Credit Institutions, the Act on the Amalgamation of Deposit Banks, the Savings Banks Act, the Insurance Companies Act, and the Cooperatives Act. In addition, the Amalgamation operates in accordance with good banking practice and the procedural regulations concerning personal data processing.

The corporate governance in accordance with the governance policies comprises the Board and executive directors, relations between the shareholders and other stakeholder groups, the setting of targets, deciding on the means of attaining them, and monitoring performance. Implementation of corporate government is ensured by a clear frame of reference, consistently and comprehensively documented guidelines, and clearly defined decision-making levels.

3. Corporate Governance

3.1. Savings Banks Amalgamation

The Savings Banks Amalgamation is a financial group formed by the Savings Banks and their central institution, the Savings Banks Association cooperative, and their subsidiaries and associated institutions.

The ideological basis and starting point of the strategic goals of the Savings Banks Amalgamation is the promotion of thrift and the financial wellbeing of Savings Bank customers, close to the customer. This is the root of its values, basic service principles and quality customer work.

The Savings Banks Amalgamation is part of the Savings Banks Group, which comprises the Savings Banks Amalgamation and other institutions belonging to the Savings Banks Group. The coverage of the Savings Banks Group differs from that of the Savings Banks Amalgamation in that the Savings Banks Group also includes other institutions apart from credit and finance institutions or service companies. The most notable of these are SP-Henkivakuutus, Sp-Koti and Savings Banks' Guarantee Fund.

The Savings Banks Amalgamation does not constitute a company in the sense defined in the Accounting Act or a consolidated group defined in the Act on Credit Institutions. However, the Amalgamation's central institution must prepare the Amalgamation's consolidated financial statement as defined in Section 9 of the Act on the Amalgamation of Deposit Banks.

3.2. Savings Banks

Savings Banks are regional and local deposit banks operating in the retail banking sector, with the specific purpose of promoting savings. The Savings Banks focus on low-risk retail banking, particularly services related to daily business, saving and investments, and lending services. The product and service range covers all the main banking services for both personal and business customers. They are complemented by other financial sector services and products provided together with partners. In the Greater Helsinki area, a corresponding retail bank operation is carried out by Nooa Säästöpankki Oy owned by the Savings Banks.

The corporate structure of the Savings Banks is either that of a traditional savings bank or a savings bank limited company. The highest power of decision in the Savings Banks rests with the 'masters', who are representatives of the depositors and possible equity capital shareholders. In savings bank limited companies, the highest power of decision is wielded at the annual general meeting by the savings bank trusts, the Boards of which are similarly comprised of representatives of the depositors. The masters or the annual general meeting elect the Board for the bank.

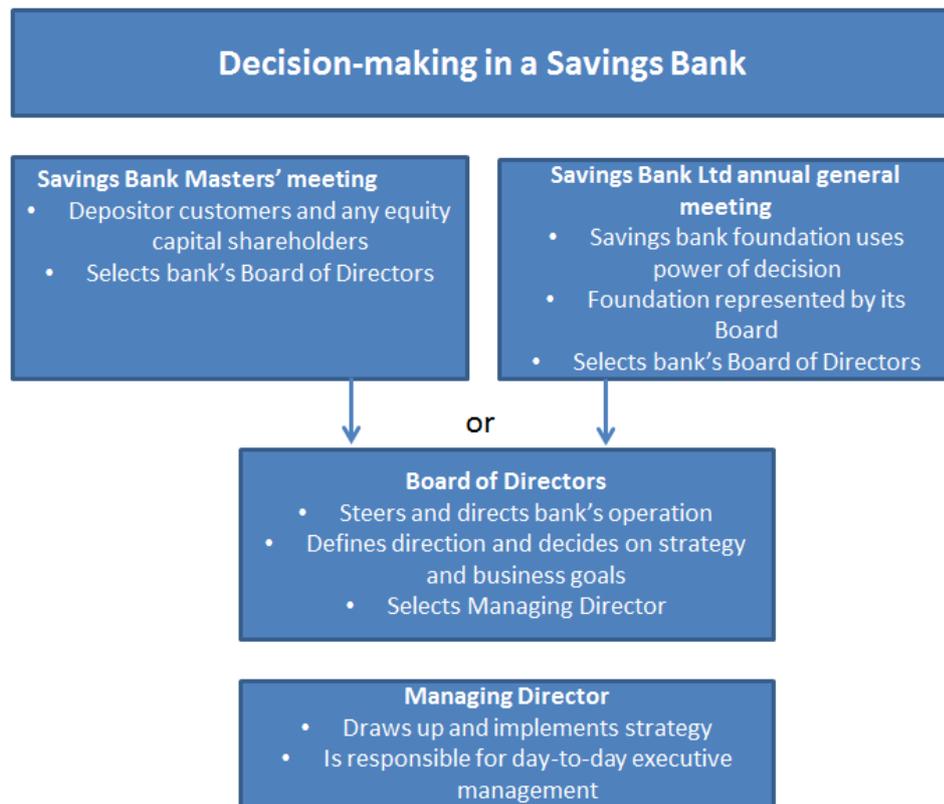


Diagram: Savings banks' decision-making system

3.3. The Savings Banks Association cooperative and its functions

The central institution of the Savings Banks Group is the Savings Banks Association cooperative (in Finnish Säästöpankkiliitto; in Swedish Sparbanksförbundet anl.). The central institution's registered office is in Espoo.

Members of the central institution may be credit institutions with rules or articles compliant with the provisions of the Act on the Amalgamation of Deposit Banks and approved by the central institution. Approval of membership is decided by the meeting of the cooperative society based on the Board's proposal.

The basic function of the central institution is to create the conditions for the Amalgamation's shared strategic goals to be attained. The central institution is responsible for the steering and oversight of the Savings Banks Amalgamation in accordance with the Act on the Amalgamation of Deposit Banks, as well as centralized development and service provision functions.

The highest decision-making power in the central institution rests with the cooperative meeting and the Board of Supervisors elected by it. The operative decision-making power rests with the Board of Directors elected by the cooperative meeting. The Savings Banks Association cooperative is owned by the central institution member banks.

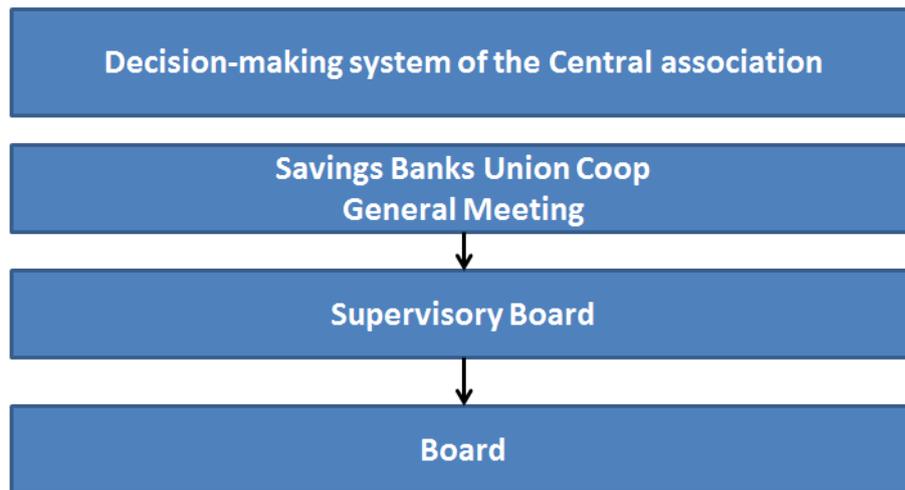


Diagram: Central institution decision-making system

3.4. Savings Banks Association cooperative meeting

The cooperative meeting is held annually before the end of May at the society's registered office location in Espoo, or in Helsinki or Vantaa. The established practice is for the meeting to be held in March. The meeting is convened by the Board of Directors. An extraordinary cooperative meeting is held whenever the Board deems it necessary or one must be held for statutory reasons.

The annual cooperative meeting deals with the items listed in the central institution rules, including the central institution's income statement and balance sheet for the previous accounting period, approval of the group IFRS financial statement, and selection of members for the Board of Supervisors and Board of Directors, and selection of the auditor.

The invitation to the cooperative meeting must be sent to the members at the earliest four weeks and at the latest one week prior to the meeting to the postal address in possession of the central institution, or to an email address or other data communication link supplied to the central institution by the member for the purpose of delivering the invitation, or by issuing a notice of the meeting on the central institution's Intranet.

At the cooperative meeting, a member has the same number of votes as his holding of central institution shares. The Savings Banks obtain additional votes in a way described in more detail in the central institution rules, so that additional votes may account at most for half the number of votes based on shares. However, a member may only vote using no more than ten per cent of the vote number represented at the meeting. A member at a cooperative meeting only has a single vote, if the member for reasons of his own financial difficulties has been in receipt of financial support based on a cooperative decision, and the support fulfils the criteria detailed in the central institution rules.

Central institution member organizations owned by central institution members and those owned jointly with the central institution may participate in the cooperative meeting in that they have a right to speak but no voting right.

3.5. Savings Bank Association cooperative Board of Supervisors

The central institution Board of Supervisors comprises at least 9 and at most 35 members selected by the cooperative meeting. Each member has a personal deputy. The Board of Supervisors members' term of office is one year. A person older than 65 years cannot be selected as member of the Board of Supervisors.

In accordance with the Group policy, the chairman of each Savings Bank is selected to the Board of Supervisors as member, and the vice-chairman as deputy.

The function of the Board of Supervisors is to oversee the administration of the central institution, which is the responsibility of the Board of Directors and Managing Director, and that the operation of the central institution is conducted competently and diligently in accordance with the Cooperatives Act and for the benefit of the central institution and the Amalgamation. A particular task of the Board of Supervisors is to maintain and further internal cooperation. The Board of Supervisors may provide the Board of Directors with guidance in issues that are wide-reaching or important in terms of policy.

A further task of the Board of Supervisors is to issue a statement to the cooperative meeting on the Savings Banks Group strategy and other common goals and operational policies, to approve the guidelines on the inspection activities and the operational principles of the inspections of the Savings Banks Amalgamation, as well as providing the annual cooperative meeting with a statement on the annual financial statements and annual report.

The Board of Supervisors approves its own written agenda, which defines its practical tasks in more detail.

The Board of Supervisors convenes on the invitation by the chairman, or if he is indisposed, the vice-chairman or the Board of Directors, and it is valid if more than half the members are present. A decision is formed when more than half those present have been in favour of a view, or, if the vote is hung, the view supported by the chairman. Minutes are kept of the meetings, containing the names of those present, decisions made, and the results of any votes.

Customarily, the Board of Supervisors meets 3-4 times a year. The matters addressed at the meetings are mostly prepared by the Board of Directors of the central institution and proposed by the Managing Director.

The remuneration of the Board of Supervisors members is decided by the cooperative meeting. The Board of Supervisors members receive no other benefits on the basis of this service.

3.6. Savings Bank Association cooperative Board of Directors

The central institution's Board of Directors comprises at least 6 and at most 9 members. The Board members are selected by the cooperative society meeting. The members' term of office begins at the close of the annual cooperative meeting that made the se-

lection and ends at the close of the next annual cooperative meeting. A person older than 65 years cannot be selected as member of the Board of Directors. The Board of Directors approves an agenda that guides its operation.

The central institution's Board of Directors mostly consists of the professional directors of the Savings Banks. The appointments committee selects one member who is independent of the Savings Banks for the Board of Directors of the Alliance.

The Board of Directors is tasked with directing the operation of the central institution in accordance with the Cooperatives Act, the Act on the Amalgamation of Deposit Banks and their provisions. The Board of Directors is responsible, among other things, for the strategy of the Savings Banks Group and development of its internal cooperation, it approves the agenda and budget of the central institution, prepares the matters to be proposed to the cooperative meeting and the Board of Supervisors, prepares and presents to the annual cooperative meeting the consolidated financial statement of the central institution and its member credit institutions, organizes the internal controls of the Savings Banks Amalgamation, and selects and discharges the Managing Director and other principal officials of the central institution, as well as determining their remuneration and other benefits.

The Board of Directors convenes as necessary and is valid when more than half the members are present. In practice, the Board meets in accordance with an annually agreed schedule, mostly once a month, and at other times as required.

A decision is formed when more than half of those present have been in favour of a view, or, if the vote is hung, the view supported by the chairman.

As well as the Board members, the meetings are attended by the Managing Director and / or Deputy Managing Director, and the central institution lawyer acting as the Board secretary.

The agenda of the meeting and crucial meeting documentation are delivered to the Board members for perusal in good time before the meeting. The matters to be addressed by the Board are presented by the Managing Director or a presenter specifically invited to the meeting by the Managing Director. The presentations are customarily in writing. Minutes are kept of the meetings, containing those present, decisions made, and any differences of opinion.

If the urgency of the matter or some other reason so demands, a Board of Directors' meeting may be conducted by telephone or email, or through other communication channels. For making decisions, the Board members must have channels of mutual communication.

A part of the Board's agenda is the 'year clock' in which matters related to planning and oversight and other most important issues are scheduled for addressing over the year at Board meetings. The Board carries out a self-assessment of its operation and procedures every year.

The remuneration of the Board members is decided by the cooperative meeting. The Board members receive no other benefits on the basis of this service.

3.7. Select and other committees of the Savings Banks Association cooperative

The Board of Supervisors and Board of Directors of the central institution set up select and other committees to support their operation as required by the Act on Credit Institutions and at their discretion. Each of these has an appropriate agenda, detailing its purpose, composition, operation and functions.

Agendas approved by the Board of Supervisors

- Board of Supervisors agenda
- Appointments committee agenda
- Remuneration committee agenda

Agendas approved by the Board of Directors:

- Board of Directors agenda
- Inspection committee agenda
- Risk committee agenda
- Asset management committee agenda
- Management group agenda

3.8. Managing Director of the Savings Banks Association cooperative

The Managing Director is charged with the day-to-day governance of the central institution in accordance with the stipulations of the Cooperatives Act, implementation of the Savings Banks Group strategy in accordance with the directions and orders of the Board of Directors, preparation of matters to be proposed to the Board, and assisting the Board in preparing matters for presentation to the Board of Supervisors and the cooperative meeting.

4. Evaluation of reliability, suitability and competence

The Savings Banks Amalgamation is governed competently and in accordance with sound and cautious business policies. The Savings Banks Amalgamation ensures that the persons responsible for leadership and core functions are reliable, suitable and competent. An assessment of reliability, suitability and competence is made on Board members, deputy members, the Managing Director and his deputy. An assessment is also conducted on all the management group members, as well as the persons responsible for internal inspection and compliance functions.

The assessment is always carried out when a new person is selected for an above-mentioned position of responsibility for leadership or a core function or a position of trust. In addition, the assessment is carried out when a person is reselected to continue in his or her former position and if more than three (3) years have elapsed since the previous assessment. The assessment is also implemented if a person's reliability, suitability or professional competence is called into question; e.g. if the person does not adhere to the guidelines on the bank's internal control or risk management, or the principles of reliable governance.

5. Auditing

The cooperative has one auditor, which must be a public accounting company approved by the Finnish Chambers of Commerce. The auditor also audits the consolidated financial statement as referred to in the Act on the Amalgamation of Deposit Banks.

The auditor is appointed by the cooperative meeting. The auditor's term of office ends at the close of the next annual cooperative meeting following its selection.

6. Product and service companies

The Savings Banks Group aims to improve its competitive edge in the financial markets by creating partnerships for cooperation. The central institution and the Savings Banks Group's service and product companies provide the Savings Banks with support in developing their business activities. The function of the service and product units is to ensure that the Savings Banks' operating conditions are secure and capable of development.

Sp-Rahastoyhtiö Oy [Sp Fund Management Company] is an investment fund and asset management company, which offers the Savings Banks and their customers funds and individual asset management. The company promotes long-term saving and acts as the Savings Banks' investment market specialist unit.

SP-Henkivakuutus Oy [Sp Life Insurance] complements the Savings Banks' core business and strategy of saving and investment. The company offers life insurance products and services for both private customers and corporate saving, investment and personal risk coverage.

Sp-Koti Oy is the central company of a franchise estate agency chain. The operation of Sp-Koti Oy is based on a business model whereby it selects independent local entrepreneurs as its partners. They in turn obtain the strong support of the local Savings Bank for their operation, as well as use of the banks' logo.

Central Bank of Savings Banks Finland Ltd [Säästöpankkien Keskuspankki Suomi Oy] provides the amalgamated Savings Banks with refinancing solutions, as well as representing the banks in their transaction services through the SEPA payment system.

The function of **Säästöpankkien Vakuusrahasto** [Savings Banks Guarantee Fund] is securing the stable operation of the guarantee fund's member banks. The fund may pro-

vide member banks with assistance and loans or guarantees for their credit, as well as subscribing to their shares or equity capital shares, capital loans or other commitments attributable to the bank's equity. All the Savings Banks and Savings Bank limited companies are members of the guarantee fund.

The IT and support service company Samlink is responsible for the bank and data system services. Paikallispankkien PPLaskenta Oy is a Samlink subsidiary, providing financial sector companies with financial administration services.

The governance of the product and service companies is based on the relevant legislation. The proposals for member selection for the governing bodies are prepared by the appointments committee of the central institution.

7. Internal control and risk management

7.1 Internal control

Internal control refers to an organization's internal practices and procedures, applied to ensure that the set goals of the strategy are attained, resources used economically, and that the information used to support management is reliable. Moreover, internal control ensures that risk management, maintenance of customer funds and asset protection are adequately organized. Compliance with regulations and approved ethical principles is also ensured through internal control.

7.2 Risk and solvency management

One of the responsibilities of the central institution Board of Directors is to steer the operation of the Amalgamation, providing guidance to the member companies in order to secure their liquidity and solvency on risk management, reliable governance and internal control, as well as directions on the preparation of the Amalgamation's consolidated financial statement in order to ensure compliance with uniform accounting principles.

Risk and solvency management are part of internal control. The aim of risk and solvency management is to secure the risk-bearing capacity of the Savings Banks Amalgamation and its members, as well as the continuity of their operation. The risk-bearing capacity comprises quality risk management proportionate to the scale and demands of the operation, as well as a sufficient degree of solvency based on profitable business.

In addition, the central institution may, in a manner set out in its rules, approve general operational policies for the member credit institutions, to be observed in activities important to the Amalgamation. A member company of the Amalgamation is not permitted in its operation to take such a large risk as to cause substantial danger to the combined solvency or liquidity of the Amalgamation companies.

Risk and solvency management create the conditions for risk identification, measuring, assessment, and the limitation of risks at a safe level for the Amalgamation. The capital requirements necessitated by various risks and business activities are defined reliably and independently, and the capital allocated methodically in accordance with current

and planned risk-taking and correctly from the point of view of the group's liquidity management.

The Amalgamation's central institution has set up the following functions, independent from business operations, to ensure effective and comprehensive internal controls for all the banks belonging to the Savings Banks Amalgamation:

- Independent risk monitoring function
- Compliance function
- Internal inspection function

7.3 Reliable governance

Reliable governance comprises the Board and executive directors of the Savings Banks Amalgamation, relations between the shareholders and other stakeholder groups, the setting of targets, deciding on the means of attaining them, and monitoring performance. The Board of the Amalgamation approves the principles of reliable governance. The executive management is responsible for ensuring that the operation is organized in compliance of these principles. The implementation of reliable governance is ensured by a clear frame of reference, consistently and comprehensively documented guidelines, and clearly defined decision-making levels.

The principles of reliable governance are followed in all the Savings Banks and member credit institutions in the Amalgamation, as well as in the product and service companies. All the companies in the Amalgamation approve their own guidelines on reliable governance. Adhering to the principles of reliable governance ensures management that is competent and complies with sound and cautious business policies.

7.4 Insider management

The Savings Banks Amalgamation has a set of insider guidelines prepared with due attention to the Financial Supervisory Authority standard on insider notifications and register. The insider guidelines are available to all insiders. The banks' insider register is kept in Euroclear Finland Oy's SIRE system.

When necessary, companies in the Savings Banks Amalgamation themselves keep insider registers specific to particular projects. Regular training on insider issues is provided.

Everyone has the right to examine the public insider register and to obtain the necessary extracts and copies for the reimbursement of expenses. However, a natural person's ID code and address and the name of any natural person other than one under obligation of notification are not public. The information contained in a permanent company insider register or project registers is not public.

8. Financial reporting of the Savings Banks Group and central institution

The cooperative's accounting period is the calendar year. Every year, the Savings Banks Group publishes one interim review and an annual report and financial statement covering the whole year in Finnish and English.

9. Savings Banks Group's HR management

The Board of the central institution approves the policies concerning personnel, the purpose of which is to ensure its reliability, professional competence and sufficient personnel numbers. Personnel development is based on group strategy, the principles of HR management, cooperation, and the focal points of personnel planning in business planning.

HR management principles refer to the principles followed in personnel management and dealing with staff issues. These principles are guided by the Savings Banks Group values and responsibility. Taking care of a company's personnel is a crucial part of responsible operation. The operation is founded on a good work community and appreciation of the individual. Policies help to guide and develop HR management in the Savings Banks.

Our aim is that people working in the Savings Banks Group feel that their work is meaningful and important. We also want to ensure that the personnel feel that they work in an environment where learning and development are valued. Our success is based on competent and committed personnel and goal-directed leadership through shared responsibility in an open and interactive work culture. Success demands that every individual takes responsibility and bears the responsibility attached to his or her role for the success of his own community.

HR management policies also help to create uniform personnel management procedures, which guide decision-making in HR matters and which take into account the efficient use of financial resources, the personnel's wellbeing, and the competitiveness of the Amalgamation as an employer. In all its activities, the goal of the Savings Banks Group is to develop a work community based on democracy and equality.

The members of the Savings Banks Group draw up their individual personnel management policies in accordance with the guidelines of the Savings Banks Group, as well as being responsible for implementing them in practice.

10. PR and communications

The goal of PR and communications is to support and promote the recognition of the Savings Bank brand and help to maintain the Savings Banks Group's corporate image. The PR and communications policies of the Savings Banks Group are approved by the central institution Board. Policy statements and the most important news concerning the Savings Banks Group are announced in public by the Managing Director of the central institution.

The Savings Banks Group PR and communications adhere to the guidelines and regulations of the Financial Supervisory Authority and EU, as well as the stipulations and governance policies provided by Finnish legislation (incl. the Securities Markets Act where applicable) and regulation.

The basis of PR and communications is to provide all stakeholder groups with timely, reliable, quick and open information on the common goals, activities and development. Internal and external communications help to maintain and bolster our position as a significant Finnish finance group, the operation of which is grounded on its solid history as Finland's oldest banking group.

The central institution's communications ensure that all the Savings Banks Group companies operate in accordance with the strategic policies and principles of communications.

11. Social responsibility

Responsibility towards the community is part of the Savings Banks' original mission. They treat their customers equally, finance the operation of local businesses, and familiarize their own area with saving and use of money.

Under the Savings Bank Act, promotion of saving is one of the basic tasks of the Savings Banks, and the saving theme is kept actively aloft in the banks' operation. Therefore, the Savings Banks bear responsibility for the promotion of the local population's saving and financial wellbeing.

Financial responsibility

Financial responsibility entails, among other things, good profitability, solvency and liquidity, good governance and responsible management. The Savings Banks observe the ethical principles specific to their sector and profession.

Social responsibility

The Savings Banks are local banks: their banking services are easily accessible, and the decisions are made locally.

During the annual Thrift Week, the Savings Banks emphasize the importance of saving. The event has its roots in the World Thrift Day established in 1924. During Thrift Week, the group publishes the Savings Bank Savings Barometer, which examines Finnish people's attitude to saving and managing their finances.

Promoting communal wellbeing

The Savings Banks provide financial support to universities, sport activities, culture, and research furthering saving. Some of the support is allocated based on a vote. Once a year, Finns have the opportunity of voting on the targeting of subsidies distributed from the Savings Banks' profits. On the basis of the vote, a total of EUR 430,000 was distributed in the early part of 2014.

In addition, the Savings Banks Research Foundation [Säästöpankkien Tutkimussäätiö] awards grants to researchers and research projects in universities. In 2013, the value of the grants totalled EUR 73,500.

As a Finnish operator, the Savings Banks Group pays all its taxes to Finland. In many locations, the Savings Bank is among the biggest taxpayers. The group's income taxes in 2013 totalled EUR 13.4 million.

Environmental responsibility

The Savings Banks also pay attention to the environmental impacts of banking. As an example, business travel and meetings are replaced with telephone and video conferencing, when possible.