



MORTGAGE SOCIETY OF FINLAND

Annual Report 2002

English Summary

The Mortgage Society's year 2002 in brief

The Mortgage Society updates its operations

The year 2002 marked the beginning of an operational update for Finland's oldest private credit institution, the Mortgage Society of Finland. The Mortgage Society has had a long and venerable history, its financial strength is excellent, and it is in a good position to develop its own distinctive business strategy in the changed housing finance market in Finland.

The Mortgage Society's board of directors launched a strategic planning project in the spring of 2002 that ran through the balance of the year and helped define and address the key strategic components of our business. The updating of various products and processes, the company's brand image, corporate governance policies, and organisational structure were initiated at this time as well, along with various measures designed to promote the company's visibility and name recognition. A balanced scorecard system was also implemented.

Our company's first ever credit rating process started in June. This is of historical interest in that the Mortgage Society was Finland's first issuer of a private bond in the Prussian capital markets already in 1862 in connection with the introduction of the Finnish Markka.

The aforementioned strategic deliberations produced a clear and crisp mission and vision for the Mortgage Society of Finland. The Mortgage Society is the only pure Mortgage Banking group in the increasingly diversifying financial markets of euro-age Finland.

We believe that the customised specialty products we offer to our members complement housing finance products of larger banking and financial conglomerates.

The mission of the Mortgage Society

- As an independent Mortgage Banking specialist, the Mortgage Society enhances the housing situation and well-being of its members and helps them build home equity by providing versatile and innovative banking services.
- The Society must operate profitably.
- Net income is used to maintain capital adequacy and to develop competitive operations.

Year 2002

- **April**
Deposit banking licence application
- **May**
Housing market analysis Q2/2002
Interest-only repair loan for housing corporations
- **May - June**
Mortgage Society's flexible payment plan home mortgage
- **July**
Temporary residence for home builders
- **August**
Housing market analysis Q3/2002
- **September - October**
Long-term credit rating A+
Deposit banking licence for AsuntoHypoPankki
Mortgage Society's € 100 million bond programme updated
Mortgage Society's € 100 million certificate of deposit programme
- **November - December**
Mortgage Society and eQ Bank start joint marketing efforts
Mortgage Society and SKV start joint marketing efforts
Housing market analysis Q4/2002
Mortgage Society and Älvsbyta start joint marketing efforts

Managing Director's Review

The year 2002 was a very significant year for the Mortgage Society. A strong operational update programme with excellent prospects for success was put in motion. Our long history, venerable traditions, and excellent capital adequacy provide a good starting point for our distinctive business strategy in the changing marketplace.

My predecessor, Risto Piepponen, retired on 31 March 2002 after a long career as the Managing Director of the Mortgage Society. His stewardship coincided with the transformation of heavily regulated banking markets into a normal market environment, the exceptionally severe recession of the early 1990s, and the subsequent banking crisis. The Mortgage Society weathered this banking crisis completely without outside assistance, and did not need to resort to any government subsidies. In fact, Risto Piepponen emphasised on many different occasions that his goal was to leave the Mortgage Society in good operational and financial condition when he retired.

This he also accomplished. I would therefore like to sincerely thank Risto Piepponen for his work as the Managing Director of the Mortgage Society.

A new millennium and the introduction of the euro have brought notable changes to the Finnish financial markets. Competition in the Mortgage Society's core business, mortgage banking, has become significantly more intense. Finnish residential borrowers can feel very good about the lower loan margins brought about by this tougher competition. Even though Finland is one of the most expensive countries in the euro-zone, our housing loans are among the cheapest in the area.

The already highly concentrated Finnish banking industry continued to concentrate further as a result of the banking crisis. Almost all of our large financial services groups have sought to expand into so-called financial supermarkets and to become more international. New niche and general banking institutions have also been set up in recent times.

In an operating environment filled with new challenges, the Mortgage Society will at all times remain an autonomous banking group that specialises in mortgage banking independent of any financial conglomerates, as stated in its operational update strategy. As a mutual company owned by its borrowers, the Mortgage Society will not participate in or become a party to any corporate transactions between financial services conglomerates. We believe strongly that as Finnish banks and financial services groups continue to evolve into financial supermarkets, there is always room for a specialised market participant. In this vein, the Mortgage Society's strategy calls for a clear focus on mortgage banking.

On the other hand, the Mortgage Society has always considered strong networks and the co-operative opportunities they afford with a variety of partners a progressive idea. We will continue to do so in the future as well. Our co-operative marketing efforts with the Tapiola Group during the past year yielded good results for both parties, which is naturally one of the cornerstones of a successful partnership. New co-operation agreements were signed during the year with Liiketalouden Liitto LTA, Suomen Vuokranantajat, Suomen Rahatieto Oy, Älvsbytaló, eQ Bank Ltd and Suomen SKV Oy. Interesting co-operative ventures on the launch of new products or concepts are also underway with many other companies active in the housing market.

As a key operational update measure the Mortgage Society decided to apply for a deposit banking licence for its wholly-owned Suomen Asuntopankki Oy subsidiary in April. The Ministry of Finance issued this licence in October and operations are expected to start in stages during the early part of 2003. This deposit banking licence facilitates the launch of completely new products. Based on current mortgage society and credit institution legislation the Mortgage Society is a credit institution that cannot take deposits. This is why the Mortgage Society cannot offer government subsidised ASP deposits and housing loans to young customers, for example, even though the Mortgage Society is the only Finnish credit institution that specialises in housing loans. Our new product, the Reverse Mortgage, can also be handled more easily through a deposit taking bank. In our opinion, a legislative amendment that would permit the Mortgage Society to take deposits directly would also be well-founded.

The cornerstone of the Mortgage Society's strategy is its specialisation in housing finance. Deposit banking operations are also integrally tied in with this objective, and the Mortgage Society Group will therefore not offer its customers any bill payment or money transfer services, for example. We are not looking to become a general banking institution but are rather using our banking capability to offer products that add clear value to our housing loan customers. Among our first products are ASP deposits and loans, and a Hypo Visa card with a fixed credit limit the holder can use to buy furniture for his or her new home, for example.

An update project was also launched in the Mortgage Society's funding. An independent Finnish credit rating agency, Fennorating Oy, published a long-term credit rating for the Mortgage Society of Finland on 11 October 2002. The Mortgage Society received an A+ rating in its first ever review, which can be considered very good in view of our small size. Funding options were broadened through capital and money markets. The Mortgage Society's bond programme was updated after the publication of our interim report. A joint programme for the issue of € 100 million in certificates of deposit was signed with Nordea, Sampo and Danske Bank in the autumn. The Mortgage Society has held a Ministry of Finance licence for the issuance of certificates of deposit since the early 1990s.

The Mortgage Society's role as a housing finance expert was highlighted during the year by the first publication of an analysis on the housing markets in Finnish growth centres, which was well received by our customers and the public. This analysis will be published regularly on a quarterly basis. Publicly our fourth quarter (Q4/2002) housing market analysis received the most interesting review from Talouselämä magazine. According to Talouselämä, the state of the housing market is best described by Hotakainen (a famous Finnish author in his new book), while the Mortgage Society ranks as a close second. I agree with respect to Hotakainen.

During the year we also updated the brand image of the Mortgage Society. Our goal was to hold onto our traditions, reliability and financial stability, while adding a dash of today. I think we succeeded rather well.

The Mortgage Society's home loan business was very brisk starting in the spring. The Finnish housing market even overheated at times and in certain locations. Given this situation, the careful review of a customer's financial resources together with a housing finance expert and finding a solution suited to the customer's particular needs were strongly emphasised in our operations during the past year. I consequently believe more in a strong specialty store than a supermarket. One of the lessons learned last year was also that stripped Internet services are not enough in housing finance either; knowledgeable expert services, reliability and financial stability are still required. The purchase and financing of a home are among the most significant financial decisions faced by individuals and families. Easy customer access and the smooth handling of transactions also call for good Internet services. The Mortgage Society's online services were overhauled and updated toward the end of the year. The Mortgage Society already receives more than 60 per cent of all loan applications from new customers through the Internet. This figure must be one of the highest when compared to other banking institutions.

The Mortgage Society's total loan portfolio grew by 10.8 per cent during the year, with most of the growth coming from housing loans made to individuals. Housing corporations also showed a lot of interest in repair loans and the like. This growth was in line with our strategic objectives. We believe that, despite intense competition, we will continue to meet our target of controlled and steady growth, particularly in the area of housing loans made to individuals.

I would like to express my thanks to our customers and business partners for an interesting year, and particularly to our personnel who have embraced reforms eagerly and have provided tireless service to our customers during a very busy year.



Matti Inha

143 years of the Mortgage Society of Finland

From imperial proclamation to a loan portfolio of some € 330 million

- 25.5.1859 His Imperial Majesty's Gracious Proclamation on the terms and general principles of the Mortgage Society of Finland.
- 15.9.1859 First general meeting in Helsinki for the establishment of a Mortgage Society in Finland.
- 4.6.1860 Decision on the establishment of the Mortgage Society of Finland in Hamina in connection with a general agricultural meeting.
- 24.10.1860 Senate ratifies the rules of the Mortgage Society of Finland.
- II/1862 Lending operations start with funds received from the Bank of Finland and the Mortgage Society's own bonds. Loans are repayable over 55 years in level annuity instalments.
- 1862 Finland's first private bond issue.
- XII/1864 First foreign loan from M. A. V. Rothschild & Söhne (Frankfurt am Main) 3 million Prussian thaler/FIM 8,998,300 after 19% issue discount.
- 1865 The Finnish Markka is tied to a silver standard backed up by a FIM 8 million currency reserve deposited at the Bank of Finland by the Mortgage Society.
- 1869-1881 Senator J.V. Snellman serves as a Managing Director of the Mortgage Society of Finland at a fixed annual salary of FIM 8,000.
- 1865-1915 Freedom fighter, Lieutenant and Knight of Danneborg, Herman Liikanen, serves the Mortgage Society of Finland as an accountant for nearly 50 years.
- 1890s Economic growth. The Mortgage Society's loan portfolio totalled FIM 22 million in 1890 and FIM 73 million in 1913.
- 1914-1918 First World War. Based on the guarantee of the Grand Duchy, the government of Finland, the Republic of Finland paid off bonds issued before the war in the 1920s as creditors demanded payment on four currency-denominated loans in the currency least affected by inflation, the Swedish Krona.
- 1913-1917 The Mortgage Society finances AB Brändö Villastad, the garden suburb of Kulosaari in Helsinki.
- 1927-1979 The Housing Mortgage Bank of Finland. An 18% market share in all loans made on urban real estate in the latter 1920s. Slightly less than 70% of these loans went to Helsinki. The bank was toppled by foreign exchange losses.
- 1929 Start of the Great Depression.
- 1937 Head office, which now houses the Ministry of Transportation, taken over by the government as old bonds and related agricultural loans were assumed by the state.
- 1939-1945 War years.
- 1945-1959 Post-war relocation activity. In addition to land loans, government funds also used for condominium association and association member loans, or home mortgage banking. Kansallis-Osake-Pankki and Pohjoismaiden Yhdyspankki, for example, served as agents. Subsequently also Postisäästöpankki.
- 1960-1980 Loan portfolio grows slowly. Farm loans from government funds.
- 1980-1997 Lending expands to home building and purchase of condominium shares, and to condominium association repairs and new construction. Positive net income even during banking crisis.
- 1999 Funding raised in euros. Total loan portfolio € 277 million.
- 2000 Year 2000 preparations. Total loan portfolio € 280 million.
- 2002 The operational update programme of the Mortgage Society of Finland approved. Total loan portfolio € 330 million. Establishment of a deposit taking bank called Suomen Asuntohypopankki Oy. Bank's equity € 6 million.
- 2003 AsuntoHypoPankki starts banking operations.

Annual Report 2002

Board of Directors' Report

General

During the Mortgage Society of Finland's 142nd year of operations, the price of older high-rise units climbed 10.1% nationwide, 11.7% in the Helsinki region, and 8.5% elsewhere in the country. This escalation of prices slowed down during the fourth quarter. Brisk home sales continued in the Helsinki area. Residential construction volumes turned up slightly toward the end of the year after having declined for two years in a row. Interest rates declined roughly 50 basis points during the year. Banks' total housing loans made to private households increased by 12.7% compared to 11.5% a year earlier. Banks' new housing loan volume grew by 18.4 per cent. A total of 60.4% (59.6% in 2001) of all new housing loans were Euribor-linked.

Intense competition for housing loan customers continued, benefiting prospective home buyers. The mean rate of interest on banks' new housing loans fell by 63 basis points over the January-December period. Over two years the rate of interest on new housing loans has declined by 2.18 percentage points from 6.18 per cent to 4.00 per cent. Of this decline 1.7 percentage points came from a change in the monthly average rate of the 12-month Euribor, and 48 basis points was due to reduced margins on new housing loans. Loan margins fell by 2 basis points between January and December of 2002.

The Mortgage Society launched its housing market analysis in the spring, which will be a quarterly publication. The purpose of this well-received analysis is to provide market participants with a simplified overview of the housing market and related changes, and of topical issues.

The Mortgage Society is a member of the following international housing associations: Nordisk Realkreditsamråd, European Mortgage Federation and the Mortgage Bankers Association of America.

Operational update programme

A programme was launched to develop the operations of the Mortgage Society, and the Group's mission, vision and strategy were defined and its visual appearance was updated in the context of this programme. New types of loans and services were also introduced.

New products launched by the Mortgage Society included an temporary residence that home builders can use to reduce their risk by selling their current residence and renting a temporary residence from the Mortgage Society.

The Mortgage Society's Reverse Mortgage, which enables homeowners to release dormant equity in their homes for their own use through a tailored contractual arrangement, received great interest.

Flexibility was added to the manner of repayment and amortisation of traditional housing loans and the management of interest rate risk.

Our marketing and IT partners during the past year included the Tapiola Group, Oy Samlink Ab, eQ Bank Ltd, Suomen SKV Oy, Mansoft Oy, Zippoint, Älvsbytalö, Liiketalouden Liitto LTA and Suomen Vuokranantajat.

Suomen Asuntohypopankki Oy

Based on current legislation the Mortgage Society of Finland is a credit institution supervised by the Financial Supervision Authority, but it is not a deposit taking bank. The Mortgage Society is therefore not permitted to offer home buyer's savings programme (ASP) loans or ASP deposits, or any other deposit banking services, to its housing loan customers. This is why the Mortgage Society decided to apply for a deposit banking licence for its wholly-owned Hypoteekkipalvelu Oy subsidiary, which changed its name to Suomen Asuntohypopankki Oy.

The Ministry of Finance issued a deposit banking licence to Suomen Asuntohypopankki Oy on 10 October 2002, and the Mortgage Society subscribed to €6.0 million of additional equity issued by the company. The products and services of AsuntoHypoPankki are all related to housing loan services, and it does not provide any payment transfer services. AsuntoHypoPankki will begin its operations in stages during 2003 in close cooperation with the Mortgage Society.

The Mortgage Society group of companies

The Mortgage Society of Finland's wholly-owned subsidiaries are Suomen Asuntohypopankki Oy, Hypoteekkinotariaatti Oy and Asunto Oy Helsingin Yhdyskunnantie 56. The Mortgage Society's consolidated financial statements consist of the Mortgage Society and Suomen Asuntohypopankki Oy because Hypoteekkinotariaatti Oy and Asunto Oy Helsingin Yhdyskunnantie 56 and associated residential and real estate companies have been excluded pursuant to the consolidation rules of the Financial Supervision Authority. The exclusion of these companies does not impact the giving of a true and fair view of the company's operating performance and financial condition.

In practice the Mortgage Society's consolidated financial statements are identical to the Mortgage Society's unconsolidated financial statements as AsuntoHypoPankki was inactive during 2002, except for its founding.

Membership benefits

The Mortgage Society also provides its members with competitive consumer and other loans, safekeeping of collateral documents free of charge even after the mortgage period, and discounts on the services of its partners eQ Bank, Suomen SKV, Suomen Vuokranantajat and the Tapiola Group.

Lending

The Mortgage Society's total loan portfolio grew by 10.8 per cent to €328.0 million (€296.0 million in 2001).

With loans made by the Mortgage Society customers could choose a 3, 6 or 12-month Euribor as their reference rate, or a 3 or 5-year fixed rate, or a combination of these rates to balance their interest rate risk. The 5-year fixed rate was slightly under one percentage point higher on average than a rate tied to the 12-month Euribor.

A total of €93.0 million was drawn in new loans, which was 28.7 per cent more than the year before (€72.2 million).

The Mortgage Society's loan portfolio at year-end

Loan portfolio €million	2002	2001	Change	Change %
Housing loans to households	166.1	142.1	24.0	16.9
Consumer loans to households	15.4	14.1	1.3	9.2
Household total	181.5	156.2	25.3	16.2
Housing corporations and similar entities	108.4	100.9	7.5	7.4
Interest-subsidised housing corporation loans	36.4	36.8	-0.4	-1.1
Loans made from government funds	1.7	2.1	-0.4	-19.0
Total loans	328.0	296.0	32.0	10.8

The average loan amount grew by 15.5 per cent.

Investments

The Mortgage Society's assets were invested in three areas: real estate, listed equities, and lending. The Society's return target on real estate investments is 5-7 per cent. All real estate investments are located in the key residential areas of Helsinki. The Mortgage Society's investments in listed equities are long-term holdings, and it does not actively trade in securities.

The net yield on real estate investments was 6.2 per cent (6.3%) based on book values. Monthly rental income from residential real estate averaged €10.65 (€9.59) per square meter.

Unrecognised gains on listed equities carried as current assets totalled €2.1 million at the end of the year, as compared to €4.4 million a year earlier.

Funding

Fennorating Oy gave the Mortgage Society an A+ long-term credit rating. More detailed information is available at www.fennorating.fi.

The Mortgage Society's bonds are issued under a € 100 million face value bond programme set up in 2000, which was arranged by Sampo Bank Plc.

The second and third instalments of the 1/2000 bond issue, totalling € 26 million, were issued during 2002, which brought the total outstanding under this serial bond issue to € 55 million. The issue matures 2 November 2005 and its coupon rate is 6-month Euribor + 0.175%. The issue was arranged by Sampo Bank Plc.

A total of € 1.8 million remains outstanding of bond issue 2/2000, whose coupon rate is 12-month Euribor + 0.175%. These bonds mature on 2 November 2005. This bond issue was arranged by the Mortgage Society.

Bond issue 1/2001 is a € 9.3 million face value equity index loan that matures on 2 January 2007. It was arranged by Nordea Bank Finland Plc. The return on the equity index linked bond issue 1/2001 is tied to an equity index basket consisting 45% of EURO STOXX 50, 40% of Standard & Poors 500, and 15% of Nikkei 225. At least a 10 per cent return will be paid upon maturity in addition to the principal amount of the bonds.

The Mortgage Society hedged and swapped the equity index risk through derivatives contracts so that the rate of interest payable is linked to the reference rate charged on its loan portfolio. The index bonus on the equity index linked bond has been converted into obligations based on the 12-month Euribor through interest rate swaps. The 6-month Euribor rate of bond issue 1/2000 has been contractually swapped for 12-month Euribor and 3 and 5-year fixed rates based on the loan portfolio's reference rates.

The Mortgage Society's other fund raising is based on promissory notes issued to banks, insurance companies, and to corporations in respect of personnel loans.

The Mortgage Society set up a € 100 million certificate of deposit programme that will be issued through Sampo Bank Plc, Nordea Bank Finland Plc, and Danske Bank A/S, Helsinki branch.

The total book value of bonds issued was € 86.3 million (€ 81.7 million). Total borrowings stood at € 310.8 million at the end of the year (€ 279.5 million). Lent funds included € 17.3 million of the Mortgage Society's regulatory capital.

Risk management

The purpose of risk management is to recognise threats and opportunities that have a bearing on the achievement of the Mortgage Society's strategic objectives, and to make sure that risks are taken in appropriate proportion to the ability to bear risk. This risk management aspect was considered in updating the organisation's internal guidelines and in the reorganisation of its internal audit function. The credit process and fund raising are based on policies and authority issued by the company's supervisory board.

Credit decisions are based on credit analyses that include a review of the applicant and his or her collateral, ability to pay and credit worthiness. Credit proposals, the granting and use of credit, and process oversight have all been separated in the credit process. In order to control interest rate and funding risks, borrowing and lending reference rates and rate review dates are matched at all times.

Internal audit contracts were signed with Oy Inreviso Ab and Control Consulting CC Ltd Oy.

Non-performing and other non-interest bearing loans and collection of receivables

The amount of non-performing and other non-interest bearing loans fell by 7.2%, to € 2.6 million (€ 2.8 million). They accounted for 0.8% (0.9%) of the total loan portfolio.

Net income and profitability

The Mortgage Society encountered no problems in connection with the 1 January 2002 euro changeover.

On 31 August 2002, the Mortgage Society published an interim report for the period 1 January through 30 June, 2002.

Objectives set for the year's net interest income, net income and loan portfolio growth were all achieved. Net interest income of €3.8 million remained at the level of 2001, even though lending margins shrank and the loan portfolio grew faster toward the end of the year.

Dividend income remained at €0.3 million. Due to falling equity markets net income from securities transactions eroded overall net income by €0.2 million (€0.1 million).

Other operating income, i.e. income from real estate investments, totalled €2.1 million (€1.6 million). This income includes €0.6 million in gains on the disposal of some residential real estate not integral to the Society's real estate investment strategy.

Administrative expenses grew by 23.9 per cent to €3.0 million (€2.4 million) mainly due to the start of the operational update programme and hiring of new key personnel.

Other operating expenses, condominium association dues and real estate repair expenses, were comparable to last year at €0.6 million.

Scheduled depreciation on real estate and equipment, and the amortisation of software licences, was based on the maximum amounts allowable under the Business Tax Act.

The combined effect of realised credit losses of €0.2 million (€0.1 million) and an adjustment to specific loan loss provisions improved the net result by €0.1 million. Realised credit losses, 85 per cent of which were due to one criminal act, represented 0.05 per cent (0.03%) of the total loan portfolio.

Net operating profit totalled €2.6 million (€2.7 million). Due to the growth of the loan portfolio, the amount of the tax-deductible general loss provision booked earlier increased, which cut income taxes by €0.5 million. After direct taxes the year's net income grew by 6.6 per cent, totalling €2.4 million (€2.2 million). The income/expense ratio was 1.7 (1.9). Expenses totalled 60.6 per cent of income (54.0%). Balance sheet equity and reserves grew by €2.5 million to €53.9 million.

Contingent liabilities, which consist of interest rate swaps for hedging purposes and undrawn credit facilities, grew by 32.2 per cent to €72.7 million (€55.0 million).

Capital adequacy

Based on applicable legislation on the capital adequacy of credit institutions, the equity and reserves (regulatory capital) of a credit institution must total at least 8 per cent of its risk-weighted receivables, assets and contingent liabilities. The Mortgage Society's capital adequacy ratio was 22.9 per cent, consisting of:

	31 Dec 2002 € million	31 Dec 2001 € million	Change %
Regulatory capital			
Tier 1 capital	42.3	39.8	6.5
Tier 2 capital	<u>11.5</u>	<u>11.6</u>	<u>-1.0</u>
Total regulatory capital	53.8	51.4	4.7
Risk-weighted receivables, assets and contingent liabilities			
Group I (public sector entities)	0.0	0.0	-
Group II (credit institutions)	2.9	2.9	-
Group III (housing loans)	83.7	73.3	14.2
Group IV (other loans and assets)	<u>147.8</u>	<u>132.5</u>	<u>11.3</u>
Total	234.4	208.7	12.3
Ratio of Tier 1 capital to risk-weighted receivables, assets and contingent liabilities	18.1%	19.1%	
Capital adequacy ratio	22.9%	24.6%	
Equity/total assets	14.3%	15.2%	

Future Outlook

Home sales are expected to continue at a reasonably brisk pace. Migration to the Uusimaa region, and particularly to communities within close proximity of Helsinki, will continue. Some clear regional divergence will be seen in home price behaviour. Consumers' confidence in their personal financial situation will remain favourable. The low general level of interest rates will contribute to housing loan demand. The ratio of total housing loans to GNP remains below the EU average in Finland. Competition between banks for housing loan customers will benefit prospective home buyers. Housing loan margins cannot come down any further, however, without endangering the future health of the financial services sector. Customers will be in a particularly good position in 2003 to smooth out their interest rate risk by tying either all or parts of their loans to longer reference rates.

The current year's housing loan market is overshadowed by the threat of war in Iraq and the attendant oil crisis and terrorism risks. If war breaks out, and especially if it becomes long and drawn out, the otherwise quite positive housing market outlook may suffer some very negative effects.

At the Mortgage Society 2003 will be a year of expanding housing finance services, and the new corporate image will also begin to show. AsuntoHypoPankki's deposit-taking services, Hypo Visa card, and Reverse Mortgage solutions will complement the range of housing finance services offered to our members.

The Mortgage Society seeks stable and profitable growth by capitalising on its solid financial position, and places importance on offering reliable and high-quality services that address the lifelong housing needs of its members. The Mortgage Society's rental properties will also serve our membership through new solutions, such as temporary residences to bridge the sale of an existing home and the purchase of a new one.

Supervisory Board

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Auditors:

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 SVH Pricewaterhouse Coopers Oy,
 Juha Wahlroos, APA
 Eero Suomela, APA

PROFIT AND LOSS STATEMENT

1 January – 31 December 2002

€000s	Consolidated 2002	Mortgage Society of Finland 2002	2001
Interest income	15 578.4	15 578.3	17 148.0
Interest expenses	-11 786.3	-11 786.3	-13 329.1
NET INTEREST INCOME FROM FINANCIAL OPERATIONS	<u>3 792.1</u>	<u>3 792.1</u>	<u>3 818.9</u>
Income from equity investments			
Group undertakings	35.2	35.2	0
Other undertakings	233.1	233.1	251.4
	<u>268.3</u>	<u>268.3</u>	<u>251.4</u>
Commission income	327.9	327.9	336.7
Commission expenses	-50.3	-50.3	-13.8
Net income from securities transactions and foreign exchange dealing			
Net income from securities transactions	-214.4	-214.4	-87.9
Other operating income	2 126.5	2 126.5	1 581.8
Administrative expenses			
Staff costs			
Salaries and fees	-1 307.3	-1 307.3	-1 074.5
Staff-related costs			
Pension costs	-223.1	-223.1	-200.7
Other staff-related costs	-72.0	-72.0	-53.1
Other administrative expenses	-1 428.0	-1 413.6	-1 105.9
	<u>-3 030.3</u>	<u>-3 015.9</u>	<u>-2 434.2</u>
Depreciation, amortisation and write-downs on tangible and intangible assets	-87.3	-87.3	-61.2
Other operating expenses	-678.7	-643.1	-618.4
Loan and guarantee losses	89.4	89.4	9.3
Write-downs on securities held as fixed assets	-30.2	-30.2	-60.2
PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES	<u>2 513.0</u>	<u>2 563.0</u>	<u>2 722.4</u>
Appropriations	0	0	70.6
Income taxes	-204.4	-204.4	-581.1
PROFIT FOR THE YEAR	<u><u>2 308.5</u></u>	<u><u>2 358.5</u></u>	<u><u>2 212.0</u></u>

BALANCE SHEET

31 December 2002

€000s	Consolidated	Mortgage Society of Finland	
ASSETS	2002	2002	2001
Cash and equivalents	4.1	4.1	3.2
Debt securities eligible for refinancing with central banks	220.5	220.5	0
Claims on credit institutions			
Payable on demand	6 216.1	6 201.4	8 619.0
Other	7 000.0	7 000.0	3 027.4
	<u>13 216.1</u>	<u>13 201.4</u>	<u>11 646.4</u>
Claims on the public and public sector entities	328 028.1	328 028.1	296 001.9
Debt securities			
On public sector entities	3 431.0	3 431.0	3 165.8
Other	21.9	21.9	52.1
	<u>3 452.8</u>	<u>3 452.8</u>	<u>3 217.9</u>
Shares and equity participations	4 081.2	4 081.2	4 324.6
Shares and equity participations in subsidiaries	168.2	6 187.7	190.2
Intangible assets	93.3	73.0	4.2
Tangible assets			
Real estate and shares and equity participations in real estate entities	17 812.8	17 812.8	19 186.0
Other tangible assets	274.1	245.9	197.7
	<u>18 086.9</u>	<u>18 058.7</u>	<u>19 383.7</u>
Other assets	293.5	392.0	8.2
Accrued income and prepaid expenses	2 412.9	2 412.9	1 710.7
	<u>370 057.8</u>	<u>376 112.5</u>	<u>336 490.9</u>
LIABILITIES AND EQUITY CAPITAL			
LIABILITIES			
Liabilities to credit institutions and central banks			
Credit institutions			
Not payable on demand	211 339.1	211 339.1	181 012.3
Liabilities to the public and public sector entities	13 077.0	13 077.0	16 802.5
Other liabilities			
Debt securities issued to the public			
Bonds	66 393.7	66 393.7	81 702.0
Other/certificates of deposit	19 940.8	19 940.8	0
	<u>86 334.5</u>	<u>86 334.5</u>	<u>81 702.0</u>
Other liabilities	1 218.9	7 216.4	629.1
Accrued expenses and deferred income	4 294.3	4 294.3	4 947.7
APPROPRIATIONS	13 118.7	13 118.7	13 118.7
Voluntary provisions			
EQUITY CAPITAL			
Basic capital and share capital	5 000.0	5 000.0	5 000.0
Revaluation reserve	11 461.2	11 461.2	11 575.9
Other restricted reserves			
Reserve fund	18 117.7	18 117.7	16 789.3
Non-restricted reserves			
Contingency reserve	3 775.8	3 775.8	2 682.6
Profit or loss brought forward	12.0	19.3	19.0
Profit or loss for the year	2 308.5	2 358.5	2 212.0
	<u>40 675.3</u>	<u>40 732.6</u>	<u>38 278.7</u>
	<u>370 057.8</u>	<u>376 112.5</u>	<u>336 490.9</u>
OFF-BALANCE SHEET COMMITMENTS			
Up to one-year commitments issued on behalf of customers	11 397.8	11 397.8	19 695.0
Derivatives contracts/interest rate swap agreements	61 340.0	61 340.0	35 340.0
Total	<u>72 737.8</u>	<u>72 737.8</u>	<u>55 035.0</u>

FINANCIAL INDICATORS 1998-2002

(1 000 €)

	1998	1999	2000	2001	Parent 2002	Consolidated 2002
Net revenue	17 618	16 625	17 578	19 230	18 087	18 087
Change %	-8.1	-5.6	5.7	9.4	-5.9	-5.9
Net income from financial operations	4 879	4 214	3 749	3 819	3 792	3 792
% of revenue	27.7	25.3	21.3	19.9	21.0	21,0
Net operating profit / Profit/loss before appropriations and taxes	3 910	3 239	2 508	2 722	2 563	2 513
% of net revenue	22.2	19.5	14.3	14.2	14.2	13.9
Depreciation, amortisation and increase in voluntary appropriations	2 146	1 501	412	-9	87	87
Loan loss items	-192	-46	83	-9	-89	-89
Loans outstanding	269 884	277 163	280 854	296 002	328 028	328 028
Non-performing and other non-interest bearing loans	4 018	2 952	2 511	2 778	2 577	2 577
% of loans outstanding	1.5	1.1	0.9	0.9	0.8	0.8
Equity capital and voluntary provisions	44 487	47 138	49 080	51 397	53 851	53 794
Total assets	301 972	313 136	327 541	336 491	376 113	370 058
Return on equity % (ROE)	6.7	5.3	3.7	4.3	4.5	4.3
Return on assets % (ROA)	0.96	0.79	0.56	0.64	0.66	0.62
Equity ratio %	14.7	15.1	15.0	15.2	14.3	14.5
Capital adequacy ratio %	26.7	25.7	25.4	24.6	22.9	22.9
Interest margin %	1.8	1.5	1.3	1.3	1.2	1.2
Income/expense ratio	2.3	1.9	1.8	1.9	1.7	1.6
Expense/income %	43.8	53.0	56.6	53.5	60.6	61.3

CALCULATION OF FINANCIAL INDICATORS

Net revenue	Interest income + income from equity investments + commission income + net income from securities transactions and foreign exchange dealing + other operating income
Operating income / Profit/loss before appropriations and taxes	From profit and loss statement
Equity capital	Equity capital + voluntary provisions
Return on equity % (ROE)	$\frac{\text{Net operating profit} - \text{income taxes}}{\text{Equity capital} + \text{voluntary provisions (mean of opening and ending balance)}} \times 100$
Return on assets % (ROA)	$\frac{\text{Net operating income} - \text{income taxes}}{\text{Average assets (mean of beginning and ending balance)}} \times 100$
Equity/total assets %	$\frac{\text{Equity capital} + \text{voluntary provisions}}{\text{Total assets}} \times 100$
Capital adequacy ratio %	$\frac{\text{Equity capital} + \text{voluntary provisions} - \text{intangible assets}}{\text{Total risk-weighted receivables, investments and off-balance sheet commitments}} \times 100$
Interest margin %	$\frac{\text{Net income from financial operations}}{\text{Average loans outstanding (mean of beginning and ending balance)}} \times 100$
Income/expense ratio	$\frac{\text{Net income from financial operations} + \text{income from equity investments} + \text{commission income} + \text{net income from securities transactions and foreign exchange dealing} + \text{other operating income}}{\text{Commission expenses} + \text{administrative expenses} + \text{depreciation and amortisation} + \text{other operating expenses}} \times 100$
Expense/income %	$\frac{1}{\text{Income/expense ratio}} \times 100$

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