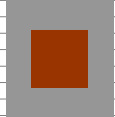


HYPO



**THE MORTGAGE SOCIETY  
OF FINLAND GROUP**

***ANNUAL REPORT 2006  
IN SHORT***



# HYPO



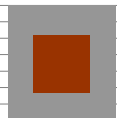
## Hypo in brief

Hypo strengthened its profile in the 2006 operating year as an innovative specialist in the field of home financing and housing. It responded to changes in the housing market and revised its service concepts. The diverse service packages of Hypo extended beyond loans, deposits and Visa cards to include financing of new construction sites in the real estate sector. These service packages help to improve housing standards by both improving the existing housing stock and financing new construction.

The operations of Hypo centre on the work of the Mortgage Society of Finland (Finland's oldest national private credit institution) and of the special deposit bank Suomen Asuntopankki Oy. These operations together comprise the Hypo Group. With a staff of some 30 permanent specialists at its customer service centre in Helsinki, Hypo serves its member customers through encrypted Internet connections, by telephone and over the counter.

Besides traditional approaches, Hypo continually seeks to create new, customer-oriented options for housing and home financing. We seek to provide each individual member customer with Finland's finest housing loan expertise. We take a long-term view of customer relations, regardless of quarterly performance. There is no need for member customers to focus their service requirements on us or change their banking arrangements, as we do not require them to transfer their current accounts, invoicing, funds or insurance to Hypo.

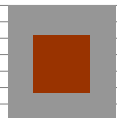
The mission, vision and strategy of Hypo are designed for the modern housing market. All operations are based on a high level of solidity. The long-term vision to the year 2010 is unfolding as planned. Continued profitability enables our work for member customers to evolve in line with this vision. The credit rating of Hypo is A + (stable).



# HYPO



<b>Financial indicators 2002 - 2006 (MEUR)</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Turnover	18.1	20.1	17.2	18.5	23.8
Operating profit/loss before appropriations and taxes	2.5	4.1	3.7	2.7	4.8
Percentage of turnover	13.9	20.3	21.7	14.5	20.1
Return on equity, % (ROE)	4.3	6.7	5.1	4.2	6.4
Return on assets, % (ROA)	0.6	0.8	0.6	0.5	0.7
Equity ratio, %	14.5	11.9	12.7	12.3	10.9
Capital adequacy ratio, %	22.9	20.9	19.7	18.7	18.2
Cost/income ratio, %	61.3	51.0	45.5	64.0	47.9
Staffing at end of year	29	32	35	32	29
Salaries and fees	0.9	1.1	1.2	1.4	1.3
Total assets	370.1	438.6	438.9	474.6	574.6



# HYPO



Capital adequacy, MEUR	Group 31.12.2006	Group 31.12.2005	Change, %	Mortgage Society of Finland 31.12.2006	Mortgage Society of Finland 31.12.2005	Change, %
Regulatory capital						
-tier 1 capital	52.3	48.2	8.5 %	52.6	48.9	7.5 %
-tier 2 capital	11.7	11.5	1.3%	11.7	11.5	1.3%
Total regulatory capital	64.0	59.7	7.1 %	64.2	60.4	6.3%
Risk-weighted receivables, assets and contingent liabilities	352.3	320.3	10.0%	356.2	325.7	9.4%
Capital adequacy ratio, % [Tier 1)	14.9%	15.1 %	-1.3%	14.8%	15.0%	-1.7%
Capital adequacy ratio, %	18.2 %	18.7 %	-2.6%	18.0 %	18.5%	-2.8%

## Formulae for financial indicators

Turnover	interest income + income from equity investments + fee and commission income + net income from marketable securities + income from real estate investments	
Return on equity, % (ROE)	operating profit - income taxes	x 100
	<hr/> equity capital + accrued appropriations minus deferred tax liability (average at start and end of year)	
Return on assets, % (ROA)	operating profit - income taxes	x 100
	<hr/> total assets (average at start and end of year)	
Equity ratio, %	equity capital + accrued appropriations minus deferred tax liability	x 100
	<hr/> total assets	

Capital adequacy ratio, %      equity capital + voluntary provisions minus deferred tax liability + subordinated debts - intangible assets      x 100

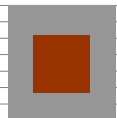
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total risk-weighted receivables, investments and contingent liabilities

Cost/income ratio      administration costs + depreciation, amortisation and write-downs of tangible and intangible assets + other operating costs      x 100

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net interest income + income from equity investments + net fee and commission income + net income from marketable securities + income from real estate investments

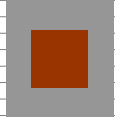


# HYPO



## Consolidated profit and loss account 1.1.2006-31.12.2006

1 000 €	Note	2006	2005
Interest income	1	16 730.8	13 541.4
Interest expenses	1	- 13 874.4	- 10 510.7
<b>NET INTEREST INCOME</b>		<b>2 856.4</b>	<b>3 030.7</b>
Income from equity investments	2	107.8	142.5
Fee and commission income	3	598.1	473.3
Fee and commission expenses	3	- 3.2	- 9.4
Net income from marketable securities	4	550.7	735.1
Net income from real estate investments	5	5 030.5	2 937.0
Administration costs			
Staff expenses			
Salaries and fees		- 1 744.9	- 1 856.8
Indirect staff expenses			
Pension costs		- 323.7	- 317.1



# HYPO



	Other indirect staff costs		- 98.3	- 104.3
	Other administration costs		- 1 535.7	- 1 524.9
	Total administration costs		- 3 702.6	- 3 803.2
	Depreciation, amortisation and write-downs of tangible and intangible assets	7	- 398.3	- 527.4
	Other operating costs	6	- 273.9	- 343.6
	Loan losses and write-downs of loans and receivables	8	19.1	46.6
	<b>OPERATING PROFIT</b>		<b>4 784.7</b>	<b>2 681.5</b>
	Income taxes		- 936.2	- 277.0
	<b>PROFIT FROM REGULAR OPERATIONS AFTER TAXES</b>		<b>3 848.4</b>	<b>2 404.5</b>
	<b>PROFIT FOR THE YEAR</b>		<b>3 848.4</b>	<b>2 404.5</b>

## Consolidated balance sheet 1.1.2006-31.12.2006

1 000 €	Note	2006	2005
<b>ASSETS</b>			
Cash and cash equivalents	10	320.2	500.9
Receivables from credit institutions			
Payable on demand	11	2 552.0	7 230.6
Other	11	22 550.0	0.0
		25 102.0	7 230.6
Receivables from the public			
Other than payable on demand	12, 26, 28	461 241.8	408 934.6
Marketable securities			
From public sector entities	13	4 905.6	0.0
From others	13	6 477.7	0.0
		11 383.3	0.0
Shares and holdings	14	13 241.2	6 565.0
Derivative contracts	15	8 632.2	0.0
Intangible non-current assets			
Other capitalised long-term expenses	16	197.1	461.7
Tangible non-current assets			
Investment property	17, 18, 28	49 455.5	46 961.2
Other real estate	17, 18	1 530.8	1 118.0
Other tangible non-current assets	17, 18	374.2	486.2
		51 360.5	48 565.4
Other assets	19	79.7	61.3
Prepaid expenses and accrued income	20	3 079.1	2 292.8
Deferred tax assets	21	0.0	0.7
<b>TOTAL ASSETS</b>		<b>574 637.1</b>	<b>474 613.0</b>
<b>LIABILITIES</b>			
<b>CREDITORS</b>			
Deposits by credit institutions			
Other than payable on demand	26	165 129.3	178 875.4
Deposits and loans from the public			
Deposits			
Payable on demand	26	17 289.3	4 367.9
Other	26	6 435.5	7 158.5
		23 724.8	11 526.4
Other debts			
Other than payable on demand	26	70 080.8	55 739.9
Debt securities issued			
Bonds	22	218 066.7	140 107.3
Other	22	7 306.9	11 184.7
		225 373.6	151 292.1
Derivative contracts			
Other		8 632.2	0.0
Other debts			
Other debts	23	2 330.1	5 262.2
Accrued expenses and prepaid income	24	7 811.4	5 094.3
Subordinated debts			
Other	25	1 700.0	1 700.0
Deferred tax liability	21	7 358.0	6 619.6
<b>EQUITY CAPITAL</b>			
Core capital	29, 30	5 000.0	5 000.0
Revaluation fund	21, 29	6 445.4	6 944.3
Other restricted funds			
Reserve fund	29	22644.7	22 266.3
Unrestricted funds			

Revaluation fund			
	For valuation at fair value	21, 29	2005
Other funds		29	11 300.0
Retained earnings		21, 29	9 738.9
Profit for the year		29	3 848.4
			62 497.0
<b>TOTAL LIABILITIES</b>			<b>574 637.1</b>
<b>OFF BALANCE SHEET LIABILITIES</b>			<b>474 613.0</b>
Liabilities to third parties on behalf of customers			
Guarantees and pledges			0.0
Irrevocable liabilities issued on behalf of customers			5810.0
Repurchasing agreements for securities			2 053.3
Other			1 952.0
Interest rate swap agreements [nominal value]			37 811.7
<b>TOTAL OFF BALANCE SHEET LIABILITIES</b>			<b>28 748.6</b>
			178 196.7
			120 880.0
<b>TOTAL OFF BALANCE SHEET LIABILITIES</b>			<b>218 061.6</b>
			<b>157 390.6</b>

### Consolidated cashflow statement 1.1.2006-31.12.2006

1 000 €	2006	2005
<b>Funds from operations</b>		
Interest income	16 002.6	12 826.0
Interest paid	-11 102.4	-9 124.6
Fee and commission income	633.0	473.3
Fee and commission expenses	-3.2	-9.4
Net income from real estate investments	5 062.1	3 026.9
Administration costs	-3 705.7	-3 860.6
Other operating costs	-273.9	-343.6
Credit and guarantee losses	19.1	22.0
Income taxes	-695.8	-573.1
<b>Total net cashflow from operations</b>	<b>5 935.9</b>	<b>2 436.9</b>
<b>Increase (-) / decrease (+) in operating assets</b>		
Receivables from customers (lending)	-52 039.0	-34 149.5
Real estate investments	-6 953.3	-16 439.0
<b>Total increase (-) / decrease (+) in operating assets</b>	<b>-58 992.4</b>	<b>-50 588.5</b>
<b>Increase (+) / decrease (-) in operating liabilities</b>		
Debts to the public (deposits)	12 198.4	1 188.5
Total increase (+) / decrease (-) in operating liabilities	12 198.4	1 188.5
<b>ACCRUED NET OPERATING CASHFLOWS</b>	<b>-40 858.1</b>	<b>-46 963.1</b>
<b>Cashflow from investments</b>		
Procurement of non-current assets	-434.4	-195.6
Increase (-) / decrease (+) in share investments	513.9	930.0
Dividend income	107.8	142.5
Net income from share investments	550.7	735.1
<b>ACCRUED NET INVESTMENT CASHFLOWS</b>	<b>738.0</b>	<b>1 611.9</b>
<b>Cashflow from financing</b>		
Increase in equity (affiliation fees)	278.4	290.8
Increase (+) / decrease (-) in bank loans	-13 746.1	-11 319.1
Increase (+) / decrease (-) in other liabilities	14 890.7	3 955.5
Increase (+) / decrease (-) in debt securities issued	74 081.6	43 808.3
Increase (+) / decrease (-) in subordinated debts	0.0	650.0
<b>ACCRUED NET FINANCING CASHFLOWS</b>	<b>75 504.6</b>	<b>37 385.5</b>
<b>NET CHANGE IN LIQUID FUNDS</b>	<b>35 384.5</b>	<b>-7 965.8</b>
Liquid funds at start of year	7 731.5	15 697.3

Liquid funds at end of year	43 116.0	7 731.5
<b>Change in liquid funds</b>	<b>35 384.5</b>	<b>-7 965.8</b>

## Principles governing the financial statements

The financial statements of the Mortgage Society of Finland and its Group (hereinafter referred to as the Hypo Group) have been prepared and presented in accordance with the Credit Institutions Act (*luottolaitoslaki*, no. 1607 of 1993), the Decree of the Ministry of Finance and the financial statement regulations of the Finnish Financial Supervision Authority. The consolidated financial statements comprise the profit and loss account, balance sheet and notes to the accounts of the Group and of the parent company, together with the consolidated cashflow statement. An operating report has also been included with the financial statements.

## Group

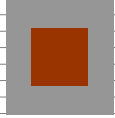
The consolidated financial statements cover the Mortgage Society of Finland (hereinafter referred to as Hypo), its wholly owned subsidiary Suomen AsuntoHypoPankki Oy (hereinafter referred to as AsuntoHypoPankki) and the Group's 61.9 per cent holding in Bostadsaktiebolaget Taos (hereinafter referred to as Taos). Hypoteekkinotariaatti Oy, a sister company of AsuntoHypoPankki Oy, merged with the bank on 31.12.2006. The financial statements of AsuntoHypoPankki and Taos have been combined by the acquisition cost method. Mutual transactions included in the separate financial statements have been eliminated.

As permitted by Finnish Financial Supervision Authority regulations, Asunto Oy Helsingin Yhdyskunnantie 56 (Group holding of 63.3 per cent), Asunto Oy Vanhaväylä 17 (Group holding of 80.5 per cent) and the condominium housing corporations that are owned as associated companies have been excluded from the consolidated financial statements. The effect of excluding these companies on the earnings and financial position of the Group is shown in the notes. The shares in all of these condominium housing corporations have been included in the separate financial statements as tangible assets.

## Financing instruments

### Financial assets

Receivables from credit institutions, public and public sector entities have been allocated to loans and other receivables and are valued at acquisition cost. The company assesses at intervals not exceeding six months whether there is objective evidence that the value of any individual receivable or group of receivables has fallen. If the receivable sum based on an estimate of future cashflow is assessed as less than the book value, then a write-down of the receivable is made. Write-down losses of receivables and any recoveries of write-down losses previously entered are shown in the profit and loss account under the item: Loan losses and write-downs of loans and receivables. Hypo complies with the transition regulation permitted by Standard 3.1 of the Finnish Financial



Supervision Authority, under which impairments are assessed without using a discounting method. This means that no interest income has been recorded for impaired and unscheduled receivables.

Marketable securities and share and fund investments (excluding shares in subsidiaries) are classified as marketable securities and assessed at their fair value. Unrealised changes in fair value are entered under the revaluation fund included in equity capital. The valuation difference entered in the revaluation fund at the time of sale is credited to the profit and loss account. Any equity instruments with no price quoted on an active market and for which the fair value cannot be reliably determined are valued at acquisition cost. The company assesses at intervals not exceeding six months whether there is objective evidence that the value of an investment has fallen. If the fall in value of an equity investment below the acquisition cost is essentially substantial or long-term, then a write-down affecting earnings is made for the investment. Dividend income received on the basis of equity instruments is recorded when the right to the dividend arises.

Purchases and sales of marketable securities and shares are entered in or written off the balance sheet on the transaction date.

## **Financial liabilities**

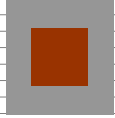
Group liabilities are classified under other debts and valued at (periodised) acquisition cost. If more or less than the nominal value of a debt has been paid or received as the debt premium, then the debt is entered at the sum received from the debt. The difference between the nominal value and the sum originally entered in the balance sheet is periodised by the effective interest rate method as an expense of the financial year for the period of the loan or as an expense deduction, and is entered as an increase or decrease in the book value of the debt. Transaction costs associated with issuance of a debt are correspondingly periodised by the effective interest rate method over the period of the debt.

Bonds issued by Hypo with a yield to the investor that is linked to the value of certain share indices include “linked derivatives” (set share index warrants). Hypo has correspondingly hedged its own position through various derivative contracts, so that the arrangement as a whole corresponds to an ordinary floating or fixed interest liability. The linked derivatives associated with these debts and their corresponding separate warrant agreements are market capitalised and recorded in a manner that affects earnings. They are shown on the assets and liabilities side of the balance sheet under the Derivative contracts item.

Debts are entered in or written off the balance sheet on the clearing date.

## **Financial derivatives**

Derivative contracts other than those described above are defined by nature for hedging and are valued at acquisition cost in the manner permitted by the Credit Institutions Act, as financial instruments that are subject to hedging are valued at acquisition cost. Interest income and expenses that are receivable and payable on the basis of interest rate swap agreements are entered as a net sum under interest expenses. The transferable interest of interest rate swap agreements has been included under prepaid and accrued expenses.



## Principles for calculating the fair value of financial instruments

The fair value of share investments is based on the publicly quoted buying rate on the Helsinki Stock Exchange at the time of review. The fair value of fund investments is based on the value confirmed by the fund company.

Derivative contracts, most of which take the form of conventional interest rate swap agreements, are valued at their fair value by discounting future cashflow at current market interest rates. Market capitalisation of warrant agreements employs generally available warrant capitalisation models, the input data of which (e.g. the values and volatilities of share indices) are based on values procured from the market. The market values are obtained in practice from the banks that arranged the issues.

The fair values of derivative contracts that are not shown in the balance sheet at their market value are shown in the notes to the balance sheet.

## Intangible non-current assets

The expenses recorded under intangible non-current assets comprise current ADP projects and software licences. Intangible non-current assets are recorded in the balance sheet at acquisition cost minus depreciation according to plan. The depreciation period for intangible non-current assets is generally three years and not more than five years.

## Tangible non-current assets

### Real estate investments

Real estate investments are divided in the balance sheet into investment real estate and other real estate.

Investment real estate primarily comprises land intended for housing construction and shares in condominium housing corporations. Other real estate and shares and holdings in real estate corporations comprise holdings of real estate occupied by the company and investments in shares of condominium housing corporations that are under construction. Due to the consolidation of Taos, depreciation according to plan of the building shown in the consolidated balance sheet has been recorded in the consolidated financial statements.

Investment real estate has generally been recorded in the balance sheet at acquisition cost. The counter-items for appreciation made for certain sites are recorded under the revaluation fund included in equity capital. The appreciations made are credited at the time of any sale. Any fall in value of real estate is examined at least annually, and if any need for a write-down arises, then a write-down entry is made for the investment, whereupon any appreciation that has proven unfounded is also withdrawn.

Rental income, service charge and other expenses, and non-recurrent sales profits from investment real estate are shown as a separate item under net income from real estate investments and the expenses from real estate used by the company are shown under other operating costs.

The fair values of real estate investments are shown in the notes to the balance sheet. The fair values of residential apartments are mainly calculated on the basis of sale price statistics classified by location and type of apartment published by Statistics Finland, or of external valuation documents.

The fair price of some apartments and office accommodation is based on an external valuation. If no more than one year has elapsed since an apartment was purchased, then the fair value is assumed to correspond to the purchase price. Long-term leases for sites have been concluded between Hypo and condominium housing corporations, and the said corporations have an annual opportunity to redeem the site share for each apartment. The redemption price is the purchase price of the site plus a cost-of-living supplement. The acquisition cost of sites is thus deemed to correspond to their fair value.

### **Other tangible non-current assets**

Other tangible non-current assets comprise works of art and machinery and equipment. Works of art are entered in the balance sheet at acquisition cost and machinery and equipment are entered in the balance sheet at acquisition cost minus depreciation according to plan.

### **Voluntary provisions**

The voluntary provisions included in the separate financial statements of Hypo and changes therein are shown as a separate item under accrued appropriations. This provision is shown in the consolidated financial statements as retained earnings under equity capital. The general loss provision is a provision established as a contingency against the unspecified credit losses, exchange rate and comparable general risks that are involved in credit institution operations. In accounting for previous years Hypo made a loss provision that exceeded the sums approved in taxation, whereupon the deductible sum corresponding to growth in the loan portfolio is considered in taxes for the financial year (Section 46 of the Business Income Tax Act, *Laki elinkeinotulon verottamisesta*, no. 360 of 1968).

### **Taxes**

#### **Taxes for the financial year**

Taxes for the financial year are based on taxable income, which depends on the increase in the tax-deductible general loss provision arising from growth in the loan portfolio. A general loss provision was already made in accounting at an earlier stage.

#### **Deferred tax assets and liabilities**

The revaluation fund arising from valuation of shares and fund holdings, the revaluation fund arising from appreciation of real estate investments and the voluntary provision arising from the general credit loss provision appear in the balance sheet at values adjusted for deferred tax liability and the counter-items are recorded in the balance sheet as deferred tax assets and liabilities.

#### **Fee and commission income and expenses**

Fee and commission income principally constitute earnings for completing some service or for performing each separate action, and are individually credited on each occasion. Substantial fee and commission income and expense items that are deemed to be a fixed element of the effective interest of a financial instrument are periodised into interest income or expenses as part of the effective interest of the instrument.