



HYPO

2017 REMUNERATION STATEMENT OF
THE MORTGAGE SOCIETY OF FINLAND

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HYPO GROUP'S REMUNERATION STATEMENT

This statement contains

- **Required information under the article 450 of the regulation (EU) No 575/2013 of the European Parliament and of the Council concerning the remuneration policy of the Mortgage Society of Finland,**
- **a statement on how the Mortgage Society of Finland Group complies with the section 8 of the Act on Credit Institutions (610/2014) concerning the remuneration, and**
- **a remuneration statement pursuant to the Finnish Corporate Governance Code 2015.**

1. Decision-making procedure concerning remuneration

The General Meeting decides on the remuneration of the members of the Supervisory Board on a proposal from the Compensation Committee in accordance with the Finnish Act on Mortgage Societies (936/1978) and with the Bylaws of the Mortgage Society of Finland. The Supervisory Board decides on the remunerations of the members of the Board of Directors as well as the remunerations of CEO and his deputy likewise on a proposal from the Compensation Committee.

According to the bylaws of the Mortgage Society of Finland, the Supervisory Board decides on the emoluments and remuneration of the other management. However, it has delegated the decision making power to the Board of Directors and to the CEO as made possible by the bylaws.

The Compensation Committee assembles when necessary, in any event at least once a year. In 2017, the Compensation Committee held one meeting in March 2017.

2. The key principles of remuneration

2.1. The Board of Directors and the Supervisory Board

An annual remuneration is paid to the members of the Supervisory Board and to the members of the Board of Directors. Half of the remuneration is paid in cash and the other half as insurance premiums to the defined contribution-based Department M of Hypo's pension foundation. Furthermore, a meeting allowance is paid to the inspectors of the Supervisory Board according to their participation in the meetings. Meeting allowances are also paid for the members of the Board. The members are entitled to compensations for their travel and accommodation expenses in accordance with the State Travel Regulations.

Hypo has established a voluntary statutory pension insurance (TyEL) for the members of the Board. The Members of the Board of Directors nor the members of the Super-

visory Board are not part of the performance and incentive scheme, which would entitle them to receive additional compensations along with the remunerations decided by the Supervisory Board.

2.2. Terms of the Chief Executive Officer's service relationship and remuneration

The Supervisory Board of the Mortgage Society of Finland has confirmed the terms of the CEO's service relationship on a proposal from the Nomination Committee as well as the salaries and remunerations on a proposal from the Compensation Committee.

In principle, Hypo's CEO is subject to the same remuneration policies and schemes as the permanent personnel. The remuneration scheme consists of fixed salary and of variable performance-based remuneration paid on the grounds of the incentive and commitment scheme.

The CEO has a fixed monthly salary. The fixed monthly salary is a total salary, which consists of fringe benefits (meal, car and telephone benefits). The CEO's entitlement to pension is in accordance with the Employees Pensions Act and the executive contract does not contain any specific condition related to pension. The CEO's term of notice is six months. In case of a notice, the CEO shall be paid, in addition to the salary payable for the notice period, a payment of 4 times the CEO's monthly salary.

The CEO is covered by Hypo's performance and incentive scheme of which the CEO has an opportunity to obtain at most a payment 20 times the CEO's weekly salary. Possible remunerations are paid in total as insurance premiums to the defined contribution-based Department M of Hypo's pension foundation. Possible remunerations are paid to the Department M in the month of December following the ending of the period of acquisition. A notice of termination of employment given before the moment of confirmation prevents the confirmation of the insurance premium. The Board of Directors can cancel already confirmed remunerations with a unilateral decision. Cancellation is possible within three years of the end of the acquisition period.

As regard to the CEO, the variable performance-based remuneration is based on an overall assessment of accomplishment of group's scorecard and performance targets. In order to be entitled to the variable performance-based remuneration in its entirety, one has to significantly exceed the set targets.

Business objectives and performance targets have been specified in the scorecard confirmed annually by the Board of Directors. The central targets having an impact on the performance and incentive scheme are related to the level of the core earning established for the group as well as the to the capital adequacies of CET1 and RAC.

2.3. Other management and personnel

Hypo's permanent personnel, with the exception of the control functions, is covered by the remuneration scheme. The remuneration scheme consists of fixed salary as well as of the variable performance-based remuneration paid on the grounds of the performance and incentive scheme.

The fixed monthly salary is a total salary, which consists of fringe benefits (meal, travel, telephone and car benefits). Variable performance-based remuneration may at most be a sum equivalent to 16 weeks of salary. Certain category of the personnel, which worked on the launch of the mortgage banking operations, was subject to an exception from the aforementioned and during the years 2015-2016 were therefore entitled to a performance-based remuneration equivalent to 20 weeks salary during the calendar year.

Variable performance-based remuneration is based on overall assessment of the performance of the whole company, individual business operations individual employees. The overall assessment is always made on the grounds of set scorecard targets and personal targets deriving from it. Scorecard targets contain indicators related to both development of business operations and risk management. In order to be entitled to the variable performance-based remuneration in its entirety, one has to significantly exceed the set targets.

Business objectives and performance targets have been specified in the scorecard confirmed annually by the Board of Directors. The central targets having an impact on the performance and incentive scheme are related to the level of the core earning established for the group as well as the to the capital adequacies of CET1 and RAC.

In 2017, the performance-based remunerations were paid only for the persons who worked on the launch of the mortgage banking operations. Other performance-based remunerations were not paid as the business targets set in the 2016 scorecard were not achieved.

Korn Ferry / Hay Group Oy has executed a salary and reward surveys of Hypo along with the scoring of the operational management. Remuneration scheme of the both Board of Directors and Supervisory Board consists solely of annual remuneration and meeting allowances.

Performance-based remuneration may be cancelled or a remuneration already paid may be recovered in the event that at a later stage it becomes apparent that a person with a major impact on the company's risk position has acted contrary to the regulations, instructions and principles. The CEO makes the decision on cancellation or recovery of the remuneration on a proposal from the supervisor of the remuneration recipient and after consulting risk management and internal auditing. The recovery is possible within three years of the end of the year over which the earnings accrued.

Department M of the Hypo's pension foundation is utilized as a part of performance and incentive scheme. Remuneration paid as insurance premiums is paid in gross to the Department M of Hypo's pension foundation. Cash payment is paid to the salary account after the relevant deductions, such as taxes, have been taken into account. The part paid as insurance premiums is 50% for the Management Group and 25% for other personnel. Performance-based remunerations for the CEO and his deputy are paid as insurance premiums in their entirety. In 2017, the deputy to the CEO was excluded from the performance scheme, as he was part of the control function.

A notice of the termination of employment given either before the moment of confirmation or before the moment of payment prevents the confirmation of insurance premium or payment of the remuneration.

The insurance premium is final immediately following the confirmation. The cash payment is final following the payment yet recoverable in specified cases. Amortization and postponement of remunerations and insurance premiums underline the risk management and quality requirements of Hypo Group's operations and take into account the regulations concerning remuneration schemes of the credit institutions.

Remunerations based on the remuneration scheme do not encourage undesirable risk-taking even when paid in full. Furthermore, motivation to take risks is reduced due to the partial payment of remuneration as insurance premiums to the pension foundation, where they are only at one's disposal when they retire.

During a financial period, no person covered by the current remuneration scheme can be awarded a payment exceeding one million euros.

3. Persons with a major impact on the risk position

Taking into account Hypo's size, legal and administrative structure as well as the nature, complexity and diversity of the group's operations, members of the Management Group (the CEO, the Chief Risk Officer, the Chief Banking Officer, the Chief Treasury and Funding Officer and the Chief Financial Officer) as well as the Internal Auditor and the Compliance Officer from the internal control function were listed as persons with a major impact on the risk position. With respect to them, the remuneration scheme complies with the section 8 of the Act on Credit institutions.

Persons holding offices in the internal control functions (the Chief Risk Officer, the Internal Auditor and the Compliance Officer) have been excluded from the performance and incentive scheme. With respect to them, the remuneration scheme consists of fixed monthly salary, which is a total salary (incl. fringe benefits such as telephone, meal and car).

4. Remuneration Statement 2017

4.1. Remunerations and other benefits of the members of Board of Directors

As of 30 March 2017, the following remunerations for the Board of Directors were confirmed as follows:

Chair, annual remuneration	EUR 21 120
Vice chair, annual remuneration	EUR 14 600
Member, annual remuneration	EUR 11 680
Meeting allowance / meeting, chair	EUR 670
Meeting allowance / meeting, vice chair and member	EUR 590
Chair of the Risk Management Committee	
Meeting allowance / meeting	EUR 670
Vice chair of the Risk Management Committee and member	
Meeting allowance / meeting	EUR 590

From 1 January 2017 to 29 March 2017, the remunerations were paid as confirmed in 2016, during which period the remunerations were as follows:

Chair, annual remuneration	EUR 16 240
Vice chair, annual remuneration	EUR 12 690
Member, annual remuneration	EUR 10 150
Meeting allowance / meeting	EUR 510

In 2017, the remunerations paid to the Board of Directors were in total:

	Part of the annual remunerations paid in cash	Attendance allowance	Meeting at which present	Total remunerations fees paid in cash	Remunerations paid as insurance premiums	Total of remunerations
Board of Directors 2017						
Sari Lounasmeri, chair	EUR 9 950,01	EUR 10 240,00	13/13	EUR 20 190,01	EUR 10 560,00	EUR 30 750,01
Harri Hiltunen, vice chair	EUR 7 061,22	EUR 9 200,00	13/13	EUR 16 261,22	EUR 7 300,00	EUR 23 561,22
Kai Heinonen	EUR 5 648,79	EUR 9 200,00	13/13	EUR 14 848,79	EUR 5 840,00	EUR 20 688,79
Pasi Holm	EUR 5 648,79	EUR 6 250,00	11/13	EUR 11 898,79	EUR 5 840,00	EUR 17 738,79
Teemu Lehtinen	EUR 5 648,79	EUR 7 430,00	13/13	EUR 13 078,79	EUR 5 840,00	EUR 18 918,79
Hannu Kuusela	EUR 5 648,79	EUR 7 430,00	13/13	EUR 13 078,79	EUR 5 840,00	EUR 18 918,79
Tuija Virtanen	EUR 5 648,79	EUR 7 940,00	13/13	EUR 13 588,79	EUR 5 840,00	EUR 19 428,79

The CEO and his deputy are also members of the Board of Directors as stated in the Act on Mortgage Societies. With respect to them, the remuneration consists solely of the aforementioned fixed salary per their respective service agreements, as well as variable remunerations based on the performance and incentive scheme. With respect to the CEO, the remunerations paid in 2017 are presented later in this document. The information regarding the deputy to the CEO is included in what has been presented

below regarding the remunerations of other management. The combined remunerations paid to the CEO and his deputy in 2017 are published separately in a note to the Financial Statements.

4.2. Remunerations of the members of the Supervisory Board

As of 30 March 2017, the following remunerations for the Supervisory Board were confirmed as follows:

Chair, annual remuneration	EUR 6 100
Vice chair, annual remuneration	EUR 2 800
Member, annual remuneration	EUR 2 100
Inspectors of the Supervisory Board, meeting allowance	EUR 560
Member of the Nomination Committee, meeting allowance	EUR 560

From 1 January 2017 to 29 March 2017, the remunerations were paid as confirmed in 2016, during which period the remunerations were as follows:

Chair, annual remuneration	EUR 5 080
Vice chair, annual remuneration	EUR 2 540
Member, annual remuneration	EUR 1 890
Inspectors of the Supervisory Board, meeting allowance	EUR 460

In 2017, the remunerations paid to the Supervisory Board were in total:

Supervisory Board 2017	Part of the Annual fee paid in cash	Attendance allowance	Meeting at which present	Total remunerations paid in cash	Remunerations paid as insurance premiums	Total remunerations
Markku Koskela, chair	EUR 2 795,00	EUR 1 020,00	6/6	EUR 3 815,00	EUR 3 050,00	EUR 6 865,00
Hannu Hokka, vice chair	EUR 1 335,00	EUR 1 020,00	5/6	EUR 2 355,00	EUR 1 400,00	EUR 3 755,00
Aro Timo	EUR 525,00	EUR 0,00	2/3	EUR 525,00	EUR 1 050,00	EUR 1 575,00
Elina Bergroth	EUR 997,50	EUR 0,00	0/4	EUR 997,50	EUR 1 050,00	EUR 2 047,50
Mikael Englund	EUR 997,50	EUR 0,00	4/4	EUR 997,50	EUR 1 050,00	EUR 2 047,50
Markus Heino	EUR 997,50	EUR 0,00	3/4	EUR 997,50	EUR 1 050,00	EUR 2 047,50
Timo Hietanen	EUR 997,50	EUR 460,00	5/5	EUR 1 457,50	EUR 1 050,00	EUR 2 507,50
Kari Joutsa	EUR 945,00	EUR 460,00	5/5	EUR 1 405,00	EUR 1 050,00	EUR 2 455,00
Timo Kaisanlahti	EUR 945,00	EUR 0,00	3/4	EUR 945,00	EUR 1 050,00	EUR 1 995,00
Markku Koskinen	EUR 997,50	EUR 560,00	3/5	EUR 1 557,50	EUR 1 050,00	EUR 2 607,50
Metsälä Juha	EUR 997,50	EUR 0,00	3/4	EUR 997,50	EUR 1 050,00	EUR 2 047,50
Elias Oikarinen	EUR 997,50	EUR 0,00	2/4	EUR 997,50	EUR 1 050,00	EUR 2 047,50
Kallepekka Osara	EUR 997,50	EUR 560,00	5/5	EUR 1 557,50	EUR 1 050,00	EUR 2 607,50
Anni Sinnemäki	EUR 997,50	EUR 0,00	3/4	EUR 997,50	EUR 1 050,00	EUR 2 047,50
Liisa Suvikumpu	EUR 997,50	EUR 0,00	4/4	EUR 997,50	EUR 1 050,00	EUR 2 047,50
Mari Vaattovaara	EUR 997,50	EUR 0,00	1/4	EUR 997,50	EUR 1 050,00	EUR 2 047,50
Riitta Vahela-kohonen	EUR 997,50	EUR 0,00	2/4	EUR 997,50	EUR 1 050,00	EUR 2 047,50
Ira van der Pals	EUR 997,50	EUR 0,00	3/4	EUR 997,50	EUR 1 050,00	EUR 2 047,50

The table above accounts for the attendance at meetings of the Supervisory Board for each member. With respect to the chairpersons and auditors, attendance at the meetings of the inspectors of the Supervisory Board has also been taken into account. In 2017, the Supervisory Board held altogether four meetings and the inspectors of the Supervisory Board held two meetings. The part of the Supervisory Board's annual fees paid in cash stated above include the following one-time adjustment amounts regarding year 2016: chair EUR 1.270,00 vice chair EUR 635,00 and members EUR 472,50 / member.

4.3. Financial benefits of the Chief Executive Officer

Salaries and remunerations paid to the CEO in 2017:

Fixed salary 2017	EUR
- salary	291 560,00
- fringe benefits	240,00
Total fixed salary	291 800,00
Performance-based remuneration	
Performance-based remuneration and incentive / paid in cash	0,00
Performance-based remuneration and incentive / paid as insurance premiums	0,00
Total performance-based remuneration	0,00
Total salary and remuneration	291 800,00

In 2017 no performance-based remunerations were paid to CEO or his deputy as the business targets set in the 2016 scorecard were not achieved. No performance-based remunerations were paid for the year 2015 to the CEO or his deputy.

The cancellation period for performance-based remunerations from years 2013-2015 has expired on 31 Dec 2017 based on the three year rule.

4.4. Financial benefits of other management

4.4.1. Persons with a major impact on the risk position

As with the CEO, also his deputy's incentive based on the remuneration scheme is paid in total as insurance premiums to the defined contribution-based Department M of Hypo's pension foundation. Possible remunerations are paid to the Department M in the month of December following the ending of the period of acquisition. The remunerations are revocable by a decision of the Board during the following three years since the ending of the acquisition period.

With respect to the other members of the Management Group and the persons with a major impact on the risk position, one half of the performance-based remuneration is paid as the aforementioned insurance premiums and the other half in cash in two instalments in April and November of the year following the year of acquisition, provided that the general business and employment conditions are met. All the remunerations paid as insurance premiums are at one's disposal after they reach the statutory retirement age. In case it turns out at a later stage that a person who has received remuneration and who belongs to the group of persons with major impact on the risk position, has not complied with applicable regulation, instructions or operational principles, the remuneration may be cancelled or a remuneration that has already been paid out, may be recovered. The decision on cancellation of remuneration and recovery shall be made by the Board of Directors after having heard risk management and internal audit thereof. The recovery is possible within three years after the end of the earnings year of the remuneration.

In accordance with the decision made in 2017, the persons holding offices in the internal control functions are subject to a remuneration practice described below.

Salaries and remunerations paid to the persons whose professional activities have a major impact on the risk position in 2017 (six persons):

Fixed salaries 2017	EUR
- salary	828 964,35
- fringe benefits	40 984,53
Total fixed salaries	869 948,88
Performance-based remunerations (subject to recovery within 3 years after earning year)	
Performance-based remunerations and incentives / paid in cash	36 027,50
Performance-based remunerations and incentives / paid as insurance premiums	36 027,50
Total performance-based remunerations	72 055,00
Total salaries and remunerations	942 003,88

Remunerations paid to the CEO (member of the Management Group) are not included to the table. They are reported separately above.

4.4.2. Persons holding offices in the internal control functions

According to the decision made by the Board, the Chief Risk Officer, the Chief Auditing Officer and the Compliance Officer holding offices in the internal control functions (three persons), were excluded from the performance and incentive scheme. With respect to them, the remuneration scheme consist solely of fixed salary. To the extent the persons working in control functions were paid remunerations, they were based on a period before personnel changes.

In 2017, the salaries and remunerations paid to the persons holding offices in the internal control functions were:

Fixed salaries 2017	EUR
- salary	388 229,81
- fringe benefits	25 323,69
Total fixed salaries	413 553,50
Performance-based remunerations (subject to recovery within 3 years after earning year)	
Performance-based remunerations and incentives / paid in cash	4 347,50
Performance-based remunerations and incentives / paid as insurance premiums	4 347,50
Total performance-based remunerations	8 695,00
Total salaries and remuneration	422 248,50

4.5. Language versions

This document is an unofficial English translation of the Finnish version. In case of discrepancy, the Finnish version shall prevail.