THE MORTGAGE SOCIETY OF FINLAND

Financial Statements Release

1 January–31 December 2018

The Audited Financial Statements 2018 will be published on 1 March 2019

and The Annual Report during the week 12

The Interim Report for the period of 1 January to 31 March 2019 will be published on 26 April 2019

The Financial Statements Release does not contain all information and Notes that are required in the annual Financial Statements. The Financial Statements Release should be read in conjunction with the Group's Financial Statements 2017, Interim Reports and Stock Exchange Releases published during period 1 January to 31 December 2018.

The figures in the tables in the Release are presented in thousands of euros.

The Financial Statements Release has been approved by the Board of Directors of The Mortgage Society of Finland to be published on 30 January 2019.

Unaudited Financial Statements Release

Hypo Group's Financial Statements Release can be accessed at http://www.hypo.fi/en/

Hypo Group’s January–December 2018

The home finance specialist Hypo Group’s net interest income grew by 37 percent.

CEO Ari Pauna:

“Urban citizens continue to show interest in owner-occupied housing and state of one’s own housing company. Our loan portfolio increased nearly to EUR 2.6 billion representing annual growth of 17 percent. Net interest income, operating profit and competitiveness continue to improve despite the significant increase in the contribution to the Financial Stability Authority and the instability of the financial markets.”

- Operating profit increased to EUR 7.2 million (EUR 6.7 million 1–12/2017)
- Net interest income increased to EUR 12.3 million (EUR 9.0 million 1–12/2017)
- Non-performing loans remained low at 0.07% of loan book (0.14% 30 December 2017)
- Expected credit losses were 0.0% of the loan book
- Net fee and commission income was EUR 3.8 million (EUR 3.5 million 1–12/2017)
- Other income totaled EUR 2.1 million (EUR 5.2 million 1–12/2017)
- Common Equity Tier 1 (CET1) ratio, as calculated with standard and basic methods, was 12.1% (12.7% on 31 December 2017)

GROUP'S KEY FIGURES

(1000 €)	**1–12/2018**	**1–12/2017**	**10–12/2018**	**10–12/2017**
Net interest income	12 331	8 991	3 350	2 712
Net fee and commission income	3 795	3 525	886	834
Total other income	2 097	5 190	-278	1 142
Total expenses	-11 058	-11 055	-2 745	-2 946
Operating profit	7 165	6 651	1 214	1 742
Receivables from the public and public sector entities	2 588 908	2 212 574	2 588 908	2 212 574
Deposits	1 718 166	1 540 400	1 718 166	1 540 400
Balance sheet total	3 113 817	2 792 489	3 113 817	2 792 489
Return on equity % (ROE)	5.0	4.9	3.5	5.0
Common Equity Tier 1 (CET1) ratio	12.1	12.7	12.1	12.7
Cost-to-income ratio,%	60.6	62.5	69.4	62.6
Non-performing assets, % of the loan portfolio	0.07	0.14	0.07	0.14
Loan to Value, Weighted average, %	35.8	37.4	35.8	37.4
Loans / deposits, %	150.7	143.6	150.7	143.6

Calculation of key figures and definitions are set out below.

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HYPO GROUP

The Mortgage Society of Finland Group (hereafter “Hypo Group” or “Group”) is the only nationwide expert organization specialized in home financing and housing in Finland. Hypo Group grants mortgages as well as renovation loans and consumer loans, both secured by residential property collateral, for first-time and other homebuyers. Hypo Group continuously develops new ways and models for housing and home financing.

Our customer promise – a *secure way for better living* – guides all of our operations. Over 26,800 customers, mainly in growth centers, have already taken us up on our promise.

The Mortgage Society of Finland, the parent company of the Group, has its domicile and administrative headquarters in Helsinki. The street address of the Mortgage Society of Finland is Yrjönkatu 9 A, 00120 Helsinki and the mail address is P.O.Box 509, 00101 Helsinki. The Mortgage Society of Finland is a mutual company governed by its member customers.

Suomen AsuntoHypoPankki Oy deposit bank offers its customers deposit products, payment cards and residential land trustee services. The deposit bank Suomen AsuntoHypoPankki Oy is a member of the Deposit Guarantee Fund and a wholly owned subsidiary of The Mortgage Society of Finland.

S&P Global Ratings has assigned ‘BBB/A-2’ issuer credit ratings with stable outlook to The Mortgage Society of Finland.

Rating for the covered bonds of The Mortgage Society of Finland is ‘AAA’ (S&P Global Ratings).

OPERATING ENVIRONMENT

The global economic growth weakened at the latter part of 2018. Closely watched purchase managers indexes declined markedly in the euro area and in the United States pointing to a slower growth momentum. The stock markets also dropped and indicated that sluggish growth was to follow. The European Central Bank kept the key interest rates unchanged, but ended its asset purchase program expectedly at the end of the year. Short-term interest rates that follow the ECB's policy rates rose slightly but remained negative. At the end of December, the 12-month Euribor stood at minus 0.12 percent.

The Finnish economy continued a decent growth in the latter part of 2018. For the whole year, gross domestic product grew by 2,5% according to the preliminary data. Household and business confidence surveys declined, but the level points to slower growth rather than recession. Only construction confidence stayed strong thanks to the urbanization trend.

Polarization deepened in the housing markets: housing prices rose in growth cities, especially in the Helsinki metropolitan area, but in sparsely populated areas and in areas struggling with population declines prices continued to decrease. At the end of the year, the housing market cooled off as usual and transaction volumes declined. Housing loan stock rose by 1.8 percent in November from the previous year and the average interest rate on new mortgage loans remained below 1 percent. The loan stock of housing companies continued to rise by more than 10 percent on an annual basis.

New apartments boosted housing transaction figures. In 2018, more homes were completed in the major cities than any other year in the past 25 years. Last year, construction starts totaled 44 000 homes, which will be visible in the market on the coming years. Rents went up by more than 2% year-over-year in the whole country, but new rental apartments in the cities and decreasing demand in the rural areas helped to smooth the development.

In 2018 the economic growth was visible in the labor market. The number of employed persons rose by 40 000 from last year, the unemployment rate fell towards 7 percent and the employment rate rose to 72 percent. The price level remained stable and inflation rose by one percent while earnings increased by nearly 2 percent.

RESULTS AND PROFITABILITY

October–December 2018

Hypo Group's operating profit was EUR 1.2 million (EUR 1.7 million for October–December 2017). Income totaled EUR 4.0 million (EUR 4.7 million) and expenses EUR 2.7 million (EUR 2.9 million).

January–December 2018

Hypo Group's operating profit was EUR 7.2 million (EUR 6.7 million for January–December 2017). Income totaled EUR 18.2 million (EUR 17.7 million) and expenses EUR 11.1 million (EUR 11.1 million). An increasing amount of operating profit originated from core business operations. Net interest income continued to grow to EUR 12.3 million (EUR 9.0 million) due to loan portfolio growth and lower funding costs. Net fee and commission income totaled EUR 3.8 million (EUR 3.5 million).

Net income from investment properties (housing units and residential land) amounted to EUR 2.9 million (EUR 2.9 million). Operating profit included EUR 0.2 million less net income from investment properties than the reference financial period.

Group's cost-to-income ratio was 60.6% (62.5%). The contribution to the Financial Stability Authority, recognized in full during the first half year and based on the European Securities and Markets Authority´s opinion (2015/ESMA/1462), increased total costs despite the cut of operating costs by 3.5 % compared to the previous year.

Group's other comprehensive income EUR 5.6 million (EUR 7.0 million) includes EUR 5.9 million (EUR 5.5 million) profit for the financial period as well as the change in the fair value reserve EUR -0.0 million (EUR 0.7 million), the revaluation of defined benefit pension plans EUR -0.3 million (EUR 0.7 million) and adjustments of retained earnings EUR -0.1 million (EUR 0.0 million).

PERSONNEL AND DEVELOPMENT

On 31 December 2018, the number of permanent personnel was 47 (51 on 31 December 2017). These figures do not include the CEO and the deputy to the CEO.

ASSETS AND LIABILITIES

Lending

The loan portfolio grew to EUR 2,588.9 million (EUR 2,212.6 million on 31 December 2017) with annual growth of 17 percent.

Hypo Group has an entirely residential property-secured loan portfolio.

At the end of the financial period, the average Loan-to-Value ratio of the loan portfolio continued to strengthen and was 35.8% (37.4% on 31 December 2017).

Amount of non-performing loans was low at EUR 1.8 million (EUR 3.1 million on 31

December 2017), representing 0.07% of the loan portfolio (0.14%).

Liquid assets and other receivables

At the end of the financial period, cash and cash equivalents in accordance with the cash flow statement, combined with current account and other binding credit facilities, totaled EUR 442.4 million (EUR 506.1 million on 31 December 2017), which corresponds to 14.2% (18.1%) of the total assets. The cash and cash equivalents which totaled EUR 438.7 million consisted of assets distributed widely across various counterparties, and of debt securities tradable on the secondary market, of which 95.4% (91.5%) had a credit rating of at least 'AA-' or were of equivalent credit quality and 95.9% (100.0%) were ECB repo eligible. Liquidity covers wholesale funding cash flows for the following 31 months. The Liquidity Coverage Ratio was 122.6% (147.6%).

The defined benefit plans surplus of EUR 5.3 million (EUR 6.4 million on 31 December 2017) from the Mortgage Society of Finland's pension fund has been recognized in Group's other assets.

Hypo Group offers rental apartments and residential land for its customers. Hypo Group's properties are located in selected growth centers, mainly in the Helsinki Metropolitan Area. The property in Hypo Group's own use, the Mortgage House, is located in the center of Helsinki. The difference between the fair value and the book value of the properties totaled EUR 5.1 million (EUR 5.6 million on 31 December 2017). Group's properties carry no housing company loans.

Derivative contracts

The balance sheet value of derivative receivables was EUR 4.6 million on 31 December 2018 (EUR 0.3 million on 31 December 2017), and the value of liabilities was EUR 3.2 million (EUR 6.9 million).

Deposits and other funding

Deposits increased to EUR 1,718.2 million (EUR 1,540.4 million on 31 December 2017). The share of deposits accounted for 58.2% (58.2%) of total funding.

The share of long-term funding of total funding was 36.2% on 31 December 2018 (36.3%).

The total funding at the end of the financial period was EUR 2,954.6 million (EUR 2,645.5 million).

RISK TOLERANCE AND RISK MANAGEMENT

At the end of the financial period, Hypo Group's equity amounted to EUR 121.4 million (EUR 115.8 million on 31 December 2017). The changes in equity during the period are presented in Group's statement of equity attached to this Release.

Group's CET1 capital in relation to risk-weighted assets on 31 December 2018 was 12.1% (12.7% on 31 December 2017). Profit for the financial period is included in the Common Equity Tier 1 capital, based on the statement by the auditors. In measuring credit and counterparty risk, the standardized approach is used. Group's own funds are quantitatively and qualitatively on an excellent level in relation to Group's current and future business. At the end of the financial period, Group's Leverage Ratio was 3.5% (3.7%).

Finnish Financial Supervisory Authority has set an additional capital requirement of one (1) percent to The Mortgage Society of Finland. The requirement is set on the basis of structural features in the financial system (systemic risk buffer) and it shall be met with consolidated Common Equity Tier 1 capital. Additional capital requirement takes effect on 1 July 2019.

Financial stability authority has decided not to impose an MREL-requirement on Hypo Group.

There have been no significant negative changes in the risk levels during the financial period. More detailed information on risk management practices and on capital adequacy is published with the Annual Financial Statements.

KEY EVENTS SINCE THE END OF THE FINANCIAL PERIOD

Since the end of the financial period of 1 January – 31 December 2018, no significant changes have occurred in the outlook or financial standing of the Mortgage Society of Finland or its Group.

Hypo Group's main banking and information system provider Oy Samlink Ab's owners have informed the public on 23 January 2019 that they have sold their shares to Cognizant Technology Solutions Finland Oy.

FUTURE OUTLOOK

Finnish economy grows at a slower pace but employment continues to improve in the next 12 months. Housing loan demand is also supported by low interest rates. Urbanization will continue and support the housing market and loan demand in growth cities, while areas with declining population will suffer and polarization will deepen. Newbuilding will increase the importance of the largest cities.

Hypo Group focuses on its core business and expects the share of profit made by it to continue to rise following the increase in loan portfolio and net interest income. Capital adequacy is expected to remain unchanged and the operating profit for 2019 is estimated to reach at least the 2018 level.

The effects of aforementioned selling of Oy Samlink Ab will be determined. Hypo Group is not expecting the sale to have immediate effects on its business in the near future.

Helsinki, 30 January 2019

The Board

CONSOLIDATED INCOME STATEMENT, IFRS

(1000 €)	10-12/2018	10-12/2017	1–12/2018	1–12/2017
Interest income	6 135.1	5 323.1	23 614.8	20 414.6
Interest expenses	-2 784.8	-2 611.4	-11 284.1	-11 423.4
NET INTEREST INCOME	3 350.4	2 711.6	12 330.8	8 991.2
Income from equity investments				39.9
Fee and commission income	899.7	853.5	3 887.3	3 618.0
Fee and commission expenses	-13.7	-19.2	-92.5	-93.3
Net income from securities and foreign currency transactions				
Net income from securities trading	-1 512.1	-136.2	-1 144.7	421.4
Net income from financial assets available for sale		530.5		1 749.6
Net income from financial assets at fair value through other comprehensive income	183.0		291.4	
Net income from hedge accounting	59.3	6.8	33.2	-27.1
Net income from investment properties	987.3	773.8	2 930.5	2 924.0
Other operating income	4.2	-33.3	-12.9	82.4
Administrative expenses				
Personnel costs				
Wages and salaries	-1 251.8	-1 290.0	-4 920.5	-4 968.5
Other personnel related costs				
Pension costs	-270.2	-411.2	-995.8	-1 135.2
Other personnel related costs	-8.7	-72.9	-109.0	-218.2
Other administrative expenses	-816.4	-712.3	-2 663.5	-2 687.5
Total administrative expenses	-2 347.1	-2 486.5	-8 688.8	-9 009.4
Depreciation and impairment losses on tangible and intangible assets	-142.1	-139.4	-516.1	-475.0
Other operating expenses	-256.7	-309.0	-1 830.3	-1 576.3
Impairment losses on loans and other commitments		-10.7		6.0
Net gains/losses on derecognition of financial assets measured at amortised cost	1.3		-31.3	
Net gains/losses on derecognition of other financial assets	0.0		8.7	
OPERATING PROFIT	1 213.6	1 742.1	7 165.2	6 651.4
Income taxes	-169.1	-311.8	-1 216.8	-1 144.0
OPERATING PROFIT AFTER TAX	1 044.5	1 430.3	5 948.5	5 507.4
PROFIT FOR THE PERIOD	1 044.5	1 430.3	5 948.5	5 507.4

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, IFRS

(1000 €)	10-12/2018	10-12/2017	1–12/2018	1–12/2017
Profit for the period	1 044.5	1 430.3	5 948.5	5 507.4
Other comprehensive income items				
Items that may be reclassified subsequently to income statement				
Change in fair value reserve				
Cash flow hedges	0.0	64.4	65.0	526.2
Available for sale financial assets		-165.2		202.6
Financial assets at fair value through other comprehensive income	136.5		-114.2	
	136.5	-100.8	-49.2	728.8
Items that may not be reclassified subsequently to the income statement				
Revaluation of defined benefit pension plans	-458.4	134.3	-254.8	742.1
Correction for previous year, IFRS 9	0.0		-57.8	
	-458.4	134.3	-312.6	742.1
Total other comprehensive income items	-321.9	33.5	-361.7	1 471.0
COMPREHENSIVE INCOME FOR THE PERIOD	**722.6**	**1 463.8**	**5 586.7**	**6 978.4**

CONSOLIDATED BALANCE SHEET, IFRS

(1000 €)	31.12.2018	31.12.2017
ASSETS		
Cash	223 600.0	201 200.0
Debt securities eligible for refinancing with central banks		
Other	201 166.5	284 718.7
Receivables from credit institutions		
Repayable on demand	5 338.7	16 322.0
Other	60.8	77.5
	5 399.5	16 399.5
Receivables from the public and public sector entities		
Other than those repayable on demand	2 588 907.9	2 212 574.4
Debt securities		
From public sector entities	8 506.0	0.0
	8 506.0	0.0
Shares and holdings	132.4	132.4
Derivative financial instruments	4 562.6	258.9
Intangible assets		
Other long-term expenditure	2 788.0	2 816.9
Tangible assets		
Investment properties and shares and holdings in investment properties	61 420.5	59 686.0
Other properties and shares and holdings in real estate corporations	844.4	854.5
Other tangible assets	258.0	295.6
	62 522.9	60 836.2
Other assets	10 626.0	8 568.8
Accrued income and advances paid	5 456.6	4 843.8
Deferred tax receivables	148.5	139.3
TOTAL ASSETS	**3 113 816.9**	**2 792 488.8**

CONSOLIDATED BALANCE SHEET, IFRS

(1000 €)	31.12.2018	31.12.2017
LIABILITIES		
Liabilities to credit institutions		
Central banks	80 000.0	80 000.0
Credit institutions		
Other than those repayable on demand	10 101.5	13 873.8
	90 101.5	93 873.8
Liabilities to the public and public sector entities		
Deposits		
Repayable on demand	806 059.4	749 110.9
Other	912 106.3	791 289.6
	1 718 165.6	1 540 400.5
Other liabilities		
Other than those repayable on demand	16 917.6	19 545.5
	1 735 083.3	1 559 946.0
Debt securities issued to the public		
Bonds	960 976.9	852 292.2
Other	168 435.6	134 929.0
	1 129 412.5	987 221.2
Derivative financial instruments	3 215.5	6 944.6
Other liabilities		
Other liabilities	17 119.0	9 636.3
Deferred income and advances received	7 663.3	4 524.1
Subordinated liabilities		
Other	0.0	4 490.1
Deferred tax liabilities	9 812.9	10 030.3
EQUITY		
Basic capital	5 000.0	5 000.0
Other restricted reserves		
Reserve fund	22 810.7	22 799.9
Fair value reserve		
From cash flow hedging	0.0	-65.0
From fair value recognition	-80.2	34.0
Defined benefit pension plans	2 204.8	2 459.6
Unrestricted reserves		
Other reserves	22 923.5	22 923.5
Retained earnings	62 601.8	57 162.9
Profit for the period	5 948.5	5 507.4
	121 409.0	115 822.3
TOTAL LIABILITIES	**3 113 816.9**	**2 792 488.8**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(1000 €)	Basic capital	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
Equity 1 January 2017	5 000.0	22 796.7	957.6	22 923.5	57 166.1	108 843.9
Profit for the period					5 507.4	5 507.4
Profit use of funds		3.2			-3.2	0.0
Cash flow hedges						
Amount recognised in equity			-58.4			-58.4
Amount transferred to the income statement			716.2			716.2
Change in deferred taxes			-131.6			-131.6
Financial assets available for sale						
Change in fair value			2 002.8			2 002.8
Amount transferred to the income statement			-1 749.6			-1 749.6
Change in deferred taxes			-50.7			-50.7
Revaluation of defined benefit plans						
Actuarial gains / losses			927.7			927.7
Change in deferred taxes			-185.5			-185.5
Total other comprehensive income	0.0	3.2	1 471.0	0.0	-3.2	1 471.0
Equity 31 December 2017	**5 000.0**	**22 799.9**	**2 428.6**	**22 923.5**	**62 670.3**	**115 822.3**
Equity 1 January 2018	5 000.0	22 799.9	2 428.6	22 923.5	62 670.3	115 822.3
Change in accounting policy					-57.8	-57.8
Restated equity 1 January 2018	5 000.0	22 799.9	2 428.6	22 923.5	62 612.5	115 764.5
Profit for the period					5 948.5	5 948.5
Other comprehensive income						
Profit use of funds		10.7			-10.7	0.0
Cash flow hedges						
Amount recognised in equity			-89.0			-89.0
Amount transferred to the income statement			170.3			170.3
Change in deferred taxes			-16.3			-16.3
Financial assets at fair value through other						
Change in fair value			144.5			144.5
Amount transferred to the income statement			-291.4			-291.4
Change in deferred taxes			32.7			32.7
Revaluation of defined benefit plans						
Actuarial gains / losses			-318.5			-318.5
Change in deferred taxes			63.7			63.7
Total other comprehensive income	0.0	10.7	-303.9	0.0	-10.7	-303.9
Equity 31 December 2018	**5 000.0**	**22 810.7**	**2 124.6**	**22 923.5**	**68 550.2**	**121 409.0**

CONSOLIDATED CASH FLOW STATEMENT

(1000 €)	1–12/2018	1–12/2017
Cash flow from operating activities		
Interest received	23 024.5	20 094.9
Interest paid	-10 909.5	-11 478.6
Fee income	3 741.0	3 856.5
Fee expenses	-92.5	-93.3
Net income from securities and foreign currency transactions	-1 144.7	421.4
Net income from available-for-sale financial assets		1 749.6
Net income from financial assets at fair value through other comprehensive income	291.4	
Net income from hedge accounting	33.2	-27.1
Net income from investment properties	3 594.0	2 986.8
Other operating income	-12.9	82.4
Administrative expenses	-7 447.9	-7 145.8
Other operating expenses	-1 927.3	-1 682.9
Credit and guarantee losses		6.0
Expected credit losses	-22.2	
Income taxes	51.3	-1 580.4
Total net cash flow from operating activities	**9 178.3**	**7 189.5**
Operating assets increase (-) / decrease (+)		
Receivables from customers (lending)	-373 842.7	-406 340.9
Collateral, derivatives	2 501.3	345.4
Investment properties	-2 455.2	5 294.4
Operating assets increase (-) / decrease (+) total	**-373 796.5**	**-400 701.1**
Operating liabilities increase (+) / decrease (-)		
Liabilities to the public and public sector organisations (deposits)	177 764.2	337 357.8
Operating liabilities increase (+) / decrease (-) total	177 764.2	337 357.8
NET CASH FLOWS ACCRUED FROM OPERATING ACTIVITIES	**-186 854.0**	**-56 153.8**
Cash flows from investments		
Change in fixed assets	-439.5	-428.0
Equity investments increase (-) / decrease (+)	0.0	39.9
NET CASH FLOWS ACCRUED FROM INVESTMENTS	**-439.5**	**-388.1**
Casf flows from financing		
Bank loans, new withdrawals	151.5	80 297.2
Bank loans, repayments	-3 923.9	-104 509.9
Other liabilities, increase (-) / decrease (+)	-2 629.3	-8 995.6
Bonds, new issues	389 734.2	344 297.3
Bonds, repayments	-288 701.7	-188 533.6
Certificates on deposit, new issues	195 485.8	217 964.2
Certificates on deposit, repayments	-161 979.2	-194 468.4
Subordinated liabilities, new withdrawals	11.4	34.0
Subordinated liabilities, repayments	-4 501.4	-4 523.9
NET CASH FLOWS ACCRUED FROM FINANCING	**123 647.3**	**141 561.1**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**-63 646.1**	**85 019.2**
Cash and cash equivalents at the beginning of the period	**502 318.1**	**417 299.0**
Cash and cash equivalents at the end of the period	**438 672.0**	**502 318.1**
CHANGE IN CASH AND CASH EQUIVALENTS	**-63 646.1**	**85 019.2**

NOTES

1. Key accounting policies

This Financial Statements Release applies the same IFRS accounting policies as the Group's Financial Statements on 31 December 2017, with the exception of changes in accounting policies as a result of the new IFRS 9 and IFRS 15 standards adopted on 1 January 2018. The effects of the adoption of IFRS 9 are described in more detail in Interim Report 1 January – 31 March 2018. The Financial Statements Release has been prepared in accordance with the IAS 34 standard (Interim Financial Reporting) approved in the EU. No other new standards or interpretations with material effect on Hypo Group's financial position, profit or equity, entered into force in the financial period beginning 1 January 2018.

The Financial Statements Release does not contain all information and Notes that are required in the annual Financial Statements. The Financial Statements Release should be read in conjunction with the Group's Financial Statements 2017 and Interim Report and Stock Exchange Releases published during 1 January to 31 December 2018. The figures in the tables in the Release are presented in thousands of euros.

Parent company of the Group, the Mortgage Society of Finland has its domicile and administrative headquarters in Helsinki. The street address of the Mortgage Society of Finland is Yrjönkatu 9 A, 00120 Helsinki and the mail address is P.O.Box 509, 00101 Helsinki. Hypo is a mutual company governed by its member customers.

The Financial Statements Release has been approved by the Board of Directors of The Mortgage Society of Finland to be published on 30 January 2019. The Financial Statements Release has not been audited.

Hypo Group's business operations constitute a single segment, retail banking.

Hypo Group's consolidated financial statements cover The Mortgage Society of Finland as well as the deposit bank Suomen AsuntoHypoPankki Oy, of which The Mortgage Society of Finland owns 100 percent, and Bostadsaktiebolaget Taos, of which the Group companies own 54.6 percent. The financial statements of AsuntoHypoPankki have been consolidated using the acquisition cost method. Ownership in housing company Bostadsaktiebolaget Taos is accounted for using IFRS 11 Joint Arrangements –standard. Assets, liabilities, revenue and expenses of the joint operations are recognized in relation to Hypo Group's interest in the joint operation. Inter-company transactions and balances between Group companies are eliminated.

2. New standards and interpretations

New standards and interpretations that have not yet been adopted but may have an effect on Group's Financial Statements in the future include the following:

2.1. IFRS 16 Leases

Hypo Group will apply IFRS 16 as of 1 January 2019 instead of the previously applied IAS 17 on leases. Hypo Group will transition to IFRS 16 in accordance with the simplified retrospective approach; the prior-year figures will not be adjusted. Practical expedients on assessing whether the leases are onerous and excluding initial costs from the measurement of the right-of-use asset at the time of initial application are also used.

Balance sheet: As IFRS 16 requires Hypo Group as lessee will recognize assets for the right of use received and liabilities for the payment obligations entered into for all leases. Hypo Group will use relief options provided for leases of low-value assets. The accounting requirements for lessors remain largely unchanged and they are not expected to have significant impact on the Group, apart from some additional disclosures. For leases that have been classified to date as operative leases in accordance with IAS 17, the lease liability will be recognized at the present value of the remaining payments or when the lease period is not fixed term an appropriate period will be determined based on economic and business factors. The remaining lease payments will be discounted using the lessee's incremental borrowing rate at the time the IFRS 16 is first applied. The right-of-use assets will be measured at the amount of the lease liability. Possible advance payments and liabilities will also be accounted for as well as initial direct costs. On initial application of IFRS 16 the recognition of lease liabilities is expected to be EUR 0.4 million in the balance sheet. As the increase in total assets and liabilities is relatively subtle, the impact on Hypo Group's financial ratios is very limited.

Income statement: The depreciation charges on the right-of-use assets and the interest expense from unwinding of the discount on the lease liabilities will be recognized on the income statement

Cash Flow statement: The change in the presentation of operating leases will result in an equivalent improvement is cash flows from operating activities and a decline in cash flows from financing activities.

3. Issuances and repayments of debt securities and equity instruments

Issuances, repayments and repurchases of debt securities appear on cash flow statement for the period from 1 January to 31 December 2018. Equity instruments have not been issued nor repaid during the period from 1 January to 31 December 2018.

4. Capital Adequacy Information

Hypo Group own funds and capital ratios

(1000 €)	31.12.2018	31.12.2017
Common Equity Tier 1 (CET1) capital: Instruments and reserves		
Capital instruments and the related share premium accounts	5 000.0	5 000.0
of which: Basic capital	5 000.0	5 000.0
Retained earnings	62 601.8	57 162.9
Accumulated other comprehensive income and other reserves	47 858.8	48 152.0
Independently reviewed interim profits net of any foreseeable charge or dividend	5 948.5	5 507.4
Common Equity Tier 1 (CET1) capital before regulatory adjustments	121 409.0	115 822.3
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets	-2 230.4	-2 253.5
Deferred tax assets that rely on future profitability	-148.5	0.0
Value adjustments due to the requirements for prudent valuation	-219.9	0.0
Fair value reserves related to gains or losses on cash flow hedges	0.0	65.0
Defined-benefit pension fund assets	-6 467.9	-7 563.1
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-9 066.7	-9 751.6
Common Equity Tier 1 (CET1) capital	112 342.3	106 070.7
Additional Tier 1 (AT1) capital	0.0	0.0
Tier 2 (T2) capital	0.0	0.0
Total capital (TC = T1 + T2)	112 342.3	106 070.7
Total risk weighted assets	925 239.5	836 775.6
Capital ratios and buffers		
Common Equity Tier 1 (CET1) as a percentage of total risk exposure amount	12.1	12.7
Tier 1 (T1) as a percentage of total risk exposure amount	12.1	12.7
Total capital as a percentage of total risk exposure amount	12.1	12.7
Institution specific buffer requirement, %	7.0	7.0
of which: capital conservation buffer requirement, %	2.5	2.5
of which: countercyclical buffer requirement, %	0.0	0.0
of which: systemic risk buffer requirement, %	0.0	0.0
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer, %	0.0	0.0
Commom Equity Tier 1 available to meet buffers, %	8.6	9.2

The own funds and capital adequacy are presented in accordance with the EU's Capital Requirements Regulation (575/2013).
The capital requirement for credit risk is calculated using the standard method.
The capital requirement for operational risk is calculated using the basic method.
The other risk-weighted items consist of credit valuation risk (CVA).
No restrictions applied in the EU's Capital Requirements Regulation (575/2013) compliant own funds calculation
and no elements of own funds other than what is laid down in this regulation is used.
Contribution EUR 750 000 from the pension foundation of the Mortgage Society of Finland
has been included in Group's own funds.
An authorization for the contribution has been sought from the Financial Supervisory Authority on 11 January 2019.

Credit and counterparty risks according to the standard method, operative risk and other risks, balance sheet and off-balance sheet items

(1000 €)

31.12.2018

Credit and counterparty risks	Original exposure pre conversion factors	Exposure value	Risk weighted exposure amount after SME-supporting factor	Own funds requirement
Exposures to central governments or central banks	277 765.2	337 111.0	0.0	0.0
Exposures to regional governments or local authorities	100 496.5	110 003.0	0.0	0.0
Exposures to public sector entities	5 854.8	5 854.8	1 171.0	93.7
Exposures to credit institutions	24 169.1	32 658.5	11 652.1	932.2
Exposures to corporates	84 510.4	39 188.4	32 584.8	2 606.8
Retail exposures	62 615.0	16 635.4	11 220.0	897.6
Exposures secured by mortgages on immovable property	2 716 899.7	2 572 499.5	755 204.2	60 416.3
Exposures in default	1 391.4	1 339.6	1 359.4	108.8
Exposures in the form of covered bonds	40 280.2	40 280.2	4 028.0	322.2
Other items	67 952.5	67 952.5	67 952.5	5 436.2
	3 381 934.8	3 223 522.8	885 172.0	70 813.8
Operational risk			32 506.8	2 600.5
Other risks			7 560.7	604.9
All items in total	**3 381 934.8**	**3 223 522.8**	**925 239.5**	**74 019.2**

31.12.2017

Credit and counterparty risks	Original exposure pre conversion factors	Exposure value	Risk weighted exposure amount after SME-supporting factor	Own funds requirement
Exposures to central governments or central banks	285 536.7	341 569.4	0.0	0.0
Exposures to regional governments or local authorities	107 120.8	117 387.9	0.0	0.0
Exposures to public sector entities	12 066.7	12 066.7	2 413.3	193.1
Exposures to credit institutions	74 280.3	84 612.7	25 835.0	2 066.8
Exposures to corporates	97 443.5	45 993.2	40 694.0	3 255.5
Retail exposures	57 487.6	20 767.1	13 993.8	1 119.5
Exposures secured by mortgages on immovable property	2 338 432.0	2 179 657.6	647 467.1	51 797.4
Exposures in default	2 762.4	2 372.2	2 394.9	191.6
Exposures in the form of covered bonds	33 650.7	33 650.7	3 365.1	269.2
Other items	63 157.8	63 157.8	63 157.8	5 052.6
	3 071 938.6	2 901 235.4	799 321.0	63 945.7
Operational risk			29 782.5	2 382.6
Other risks			7 672.1	613.8
All items in total	**3 071 938.6**	**2 901 235.4**	**836 775.6**	**66 942.0**

Risk-weighting of the following exposures: sovereigns, regional governments, local authorieties, public sector entities, institutions and companies;
is based on the ratings assigned by S&P, Fitch and Moody's where applicable.
Own funds requirement for credit and counterparty risks have been calculated using eight percent requirement of risk-weighted exposures
in accordance with the EU's Capital Requirements Regulation (575/2013).

5. Contingent liabilities and other off-balance sheet commitments

(1000 €)	31.12.2018	31.12.2017
Commitments given on behalf of a customer for the benefit of a third party		
Guarantees and other liabilities	2181.9	2 181.9
Irrevocable commitments given on behalf of a customer		
Granted but unclaimed loans	269 244.0	275 063.9
Purchase commitments of housing units	2 262.6	2 875.1
Total	273 688.5	280 120.8

6. Fair values of financial instruments

(1000 €)		31.12.2018	31.12.2017
Financial assets	Fair value determination principle	Fair value	Fair value
Debt securities eligible for refinancing with central banks	A	201 166.5	284 718.7
Debt securities	A	8 506.0	0.0
Derivative contracts	B	4 562.6	258.9
Total		214 235.1	284 977.6
Financial liabilities			
Derivative contracts	B	3 215.5	6 944.6

Derivative contracts consist of interest rate swaps with various counterparties for hedging purposes.

Fair value determination principles:

A: Quoted price on an active market

B: Verifiable price, other than quoted

C: Unverifiable market price

Fair values and valuation principles are disclosed above for items that are measured at fair value on a recurring basis. The fair values of debt securities (financial assets) are presented based on public quotes from active markets. The fair values of derivatives are calculated by discounting the future cash flows of the contracts using the market interest rates of the closing date. Fair values are presented excluding accrued interest.

7. Related party information

Hypo Group's related parties include its subsidiary, members of the Board of Directors and the Supervisory Board, CEO and debuty to the CEO, members of the Management Group and their immediate family. In addition, related parties include The Mortgage Society of Finland's pension fund and joint operations. Those related party transactions that have not been eliminated in the consolidated financial statements are presented.

The Mortgage Society of Finland sold one apartment to Department A of Hypo´s pension fund in June 2018. Trade was executed at market value 0.4 million EUR estimated by an external and independent real estate broker. Subsidiary Suomen Asuntohypopankki Oy has granted an absolute guarantee for its´ parent, The Mortgage Society of Finland. Guarantee of EUR 94 million relates to mortgages originated by the Mortgage Society of Finland. In December 2018 Department A of Hypo's pension foundation returned 0.75 million EUR of surplus from the assets and obligations of the pension foundation to the parent company.

There have been no material changes in the related party transactions since 31 December 2018

8. IFRS 9 expected credit losses by stage

(1000 €)	Net book value	Expected credit loss allowance	Net book value	Expected credit loss allowance
	1 Jan 2018	1 Jan 2018	31 Dec 2018	31 Dec 2018
Receivables from the public and public sector entities				
Level 1, performing loans, no significant increase in credit risk	2 203 965.7	21.0	2 580 027.3	23.9
Level 2, performing loans with a significant icrease in credit risk	5 600.4	3.0	7 090.5	41.7
Level 3, non-performing loans	3 007.4	309.6	1 790.1	299.0
Total	**2 212 573.5**	**333.6**	**2 588 907.9**	**364.6**
Debt instruments, FVOCI				
Level 1, performing loans, no significant increase in credit risk	213 488.7	25.3	154 844.7	16.6
Other assets, trade receivables				
Level 1, performing loans, no significant increase in credit risk	288.5	0.0	404.5	0.0
Off-balance sheet commitments; granted but undrawn loans				
Level 1, performing loans, no significant increase in credit risk	275 063.9	0.0	269 244.0	0.4

There were no significant ECL-level transitions and new loans were originated to level one.

(1000 €)	Net expected credit losses with P&L impact	Net expected credit losses with P&L impact
	10-12/2018	1–12/2018
Receivables from the public and public sector entities		
Level 1, performing loans, no significant increase in credit risk	1.4	-2.8
Level 2, performing loans with a significant icrease in credit risk	2.5	-38.7
Level 3, non-performing loans	-2.5	10.5
Total	**1.4**	**-31.0**
Debt instruments, FVOCI		
Level 1, performing loans, no significant increase in credit risk	0.0	8.7
Other assets, trade receivables		
Level 1, performing loans, no significant increase in credit risk	0.0	0.0
Off-balance sheet commitments; granted but undrawn loans		
Level 1, performing loans, no significant increase in credit risk	-0.2	-0.4

9. Income distribution

Applying IFRS 15 on 1 January 2018 did not give rise to any adjustments to the income statement, balance sheet, statement of changes in equity or cash flow statement for the comparative period 1 January – 31 December 2017. The Group applies IFRS 15 retrospectively.

IFRS 15 applies to lending fee income such as entry fees, loan servicing fees and other service fees. In addition, management and service fees from land trustee services, fees from so called umbrella agreements and fees from Hypo's credit card business are recognised according to IFRS 15.

Income from financial instruments is recognised in accordance with IFRS 9 effective interest method. Rental income from investment properties is recorded in accordance with IAS 17.

Group's total income
(1000 €)

	10–12/2018	**10–12/2017**	**1–12/2018**	**1–12/2017**
Interest income	6 135.1	5 323.1	23 614.8	20 414.6
Interest expense	-2 784.8	-2 611.4	-11 284.1	-11 423.4
Net interest income	3 350.4	2 711.6	12 330.8	8 991.2
Net fee income				
from lending operations	392.5	389.5	2 058.2	1 910.3
from land trustee services	400.1	351.9	1 390.3	1 262.5
from other operations	93.4	92.9	346.3	351.9
Total net fee income	886.0	834.4	3 794.8	3 524.7
Net income from treasury operations	-1 269.7	401.1	-820.1	2 143.9
Net income from investment properties	777.5	767.0	2 554.5	2 327.6
Capital gains on investment properties	209.8	6.8	376.0	596.5
Other income	4.2	-33.3	-12.9	82.4
Non-interest income	-278.2	1 141.7	2 097.4	5 150.3
Total income	3 958.2	4 687.7	18 223.0	17 666.2

10. Information concerning asset encumbrance

31 December 2018

(1000 €)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
A - Assets	1 345 044	1 345 044	1 768 773	1 768 773
Equity instruments			132	132
Debt securities	50 648	50 648	159 514	159 514
Other assets, including lending	1 294 396	1 294 396	1 609 126	1 609 126

B - Collateral received

Nothing to report, as the Group's received collaterals meet the conditions for recognition on the balance sheet and are reported in Template A.

	Liabilities associated with encumbered assets	Encumbered assets
C - Encumbered assets and associated liabilities		
Book value of selected financial liabilities	79 275	97 589
Debt securities issued to the public	962 817	1 239 491
Derivative contracts	3 484	7 964
Total	1 045 575	1 345 044

D - Information on the importance of encumbrance

The amount of assets reported under items A and C above does not include excess collateral except for covered bonds. Group's encumbered assets consist of debt securities, cover asset pool and cash collateral for derivative contracts that are tradable on the secondary market and eligible as ECB collateral and that have been pledged against a loan from the central bank.

Encumbered assets totaled EUR 1,345.0 million, out of which of covered bonds were EUR 1,290.1 million on 31 December 2018. Unencumbered debt securities that are tradable on the secondary market and eligible as ECB collateral and that can be used as collateral in monetary policy operations totaled EUR 159,5 million on 31 December 2018. EUR 1,035.1 million of unencumbered loans may be used as collateral for covered bonds.

31 December 2017

(1000 €)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
A - Assets	955 287	955 287	1 837 248	1 837 248
Equity instruments			132	132
Debt securities	54 199	54 199	231 021	231 021
Other assets, including	901 088	901 088	1 606 095	1 606 095

B - Collateral received

Nothing to report, as the Group has not received collateral that it would have pledged further or that it could pledge further.

	Liabilities associated with encumbered assets	Encumbered assets
C - Encumbered assets and associated liabilities		
Book value of selected financial liabilities	79 600	100 827
Debt securities issued to the public	653 446	849 597
Derivative contracts		4 863
Total	733 045	955 287

D - Information on the importance of encumbrance

Provided figures are based on the situation as at 31 December 2017. The amount of assets reported under items A and C above does not include excess collateral except for covered bonds. Group's encumbered assets consist of debt securities, cover asset pool and cash collateral for derivative contracts that are tradable on the secondary market and eligible as ECB collateral and that have been pledged against a loan from the central bank. The Group's encumbered assets increased due to issuance of covered bonds. Encumbered assets totaled EUR 955.3 million, out of which of covered bonds were EUR 900.0 million. Unencumbered debt securities that are tradable on the secondary market and eligible as ECB collateral and that can be used as collateral in monetary policy operations totaled EUR 231.0 on 31 December 2017. EUR 1,079.0 million of unencumbered loans may be used as collateral for covered bonds.

Sources:
Loans and deposits; Bank of Finland
Housing prices; Statistics Finland

Key indicators and alternative performance measures are reported together with indicators defined and named in the IFRS standards in order to give useful additional information on the business operations. Key indicators and alternative performance measures describe the economic profit, financial standing or cash flows from business operations, but are other than the indicators defined and named in the IFRS standards. The indicators defined in the Capital Requirements Regulation (EU 575/2013) CRR, describe the risk-absorbing capacity of a credit institution.

Definitions of Alternative Performance Measures:

Operating profit/profit before appropriations and taxes, milj. €

Interest income + income from equity investments + fee income + net income from financial assets at fair value through other comprehensive income/net income from available-for-sale financial assets + net income from currency operations and securities trading + net income from hedge accounting + income from investment properties + other operating income – (administrative expenses + depreciation and impairment losses on tangible and intangible assets + other operating expenses+ expected credit losses/impairment losses on loans and other commitments)

Return on equity % (ROE)

$$\frac{\text{Operating profit - income taxes}}{\text{Equity + accumulated appropriations less deferred tax liabilities (average total at the beginning and end of the year)}} \times 100$$

Cost-to-income ratio, %

$$\frac{\text{Administrative expenses + depreciation and impairment losses on tangible and intangible assets + other operating expenses}}{\text{Net interest income + income from equity investments + net fee and commission income + net income from currency operations and securities trading + net income from financial assets at fair value through other comprehensive income/net income from available-for-sale financial assets + net income from hedge accounting + net income from investment properties + other operating income}} \times 100$$

LTV-ratio (Loan to Value, average), %

$$\frac{\text{Receivables from the public and public sector entities}}{\text{Fair value of collateral received against the receivables from the public and public sector entities}} \times 100$$

Loan-to-value ratio is calculated by dividing the outstanding loan balance with the fair value of the total amount of the collaterals allocated to the loan. Only housing and residential property collaterals are taken into account. The average LTV ratio is the weighted average of individual loan-to-value ratios.

Expected credit losses, %

$$\frac{\text{Expected credit losses from loans to the public in P\&L}}{\text{Lending to the public at the end of the period}} \times 100$$

Loans/deposits %

$$\frac{\text{Receivables from the public and public sector entities}}{\text{Deposits}} \times 100$$

Deposits out of total funding, %

$$\frac{\text{Deposits}}{\text{Total funding}} \times 100$$

Total funding includes liabilities to credit institutions, liabilities to the public and public sector entities, debt securities issued to the public as well as subordinated liabilities.

Long-term funding out of total funding, %

$$\frac{\text{Total funding with a remaining maturity of 12 months}}{\text{Total funding}} \times 100$$

Total funding includes liabilities to credit institutions, liabilities to the public and public sector entities, debt securities issued to the public as well as subordinated liabilities.

Short-term liquidity, months

Coverage of short-term liquidity to wholesale funding cash flows (difference of days multiplied with 356 (days in a year)multiplied with 12 (months in a year))

Average number of personnel

Number of personnel includes those in employment relationship during the financial year (excl. The CEO and the COO). Average number of personnel is calculated by dividing the sum of the number of permanent full-time personnel at the end of each month by the total number of months.

Definitions of Key Financial Indicators set out in EU's Capital Requirements Regulation:

Non-performing assets, % of the loan portfolio

$$\frac{\text{Receivables from the public and public sector entities deemed unlikely to be paid + receivables past due and unpaid over 90 days}}{\text{Receivables from the public and public sector entities}} \times 100$$

Non-performing assets are presented in accordance with the EU's Capital Requirements Regulation (575/2013).

LCR-ratio, %

$$\frac{\text{Liquid assets}}{\text{Outflow of liquidity – Inflow of liquidity (within 30 days)}} \times 100$$

LCR-ratio is calculated in accordance with the EU's Capital Requirement Regulation CRR (EU 575/2013).

Leverage Ratio, %

$$\frac{\text{Tier 1 Capital}}{\text{Total exposure}} \times 100$$

Leverage Ratio, % is calculated in accordance with the EU's Capital Requirement Regulation CRR (EU 575/2013).

Common Equity Tier 1 (CET1) ratio %

$$\frac{\text{Common Equity Tier 1, CET1}}{\text{Total risk}} \times 100$$

The capital requirement for total risk is calculated using the standard method. The capital requirement for operational risk is calculated using the basic method.

Description of Alternative Performance Measures:

Operating profit, profit before appropriations and taxes is an indicator of profitability in the financial statement describing the net revenues from business operations after taking into account expenses, expected credit losses/impairment losses and depreciations.

Return on equity % (ROE) measures profitability of business operations by revealing how much profit is generated in relaton to the equity accrued over a financial period. The Mortgage Society of Finland is a mutual company and thus it does not pay dividends.

Cost-to-income ratio, % describes business performance by comparing total costs to total income. The less input is used to accumulate revenue, the better the efficiency.

LTV-ratio (Loan to Value, average), % compares the outstanding balance of credit owed by a customer to the fair value of the collaterals provided by the customer. The ratio reflects a credit institution's lending in relation to its collateral position.

Loans / deposits, % describes the relation of lending to deposit funding. A ratio exceeding 100 per cent indicates that in addition to deposit funding, wholesale funding and equity are used as funding sources.

Deposits out of total funding, % indicator describes the structure of funding.

Long-term funding out of total funding, % the ratio describes the structural funding risk of a credit institution. Long-term funding extends the planning and implementation horizon of the credit institution's funding therefore reducing the risk of having to raise funds under disadvantageous market conditions.

Short-term liquidity, months, describes the coverage of short-term liquidity to wholesale funding cash flows.

Average number of personnel describes the personnel resources available.

Expected credit losses, % compares expected credit losses in P&L from the loan portfolio to the loan portfolio in total. The smaller the ratio the less credit losses are expected in the future.

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