THE MORTGAGE SOCIETY OF FINLAND

Financial Statements Release

1 January–31 December 2019

The Audited Financial Statements 2019 will be published on 2 March 2020

and The Annual Report during the week 13

The Interim Report for the period of 1 January to 31 March 2020 will be published on 29 April 2020

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 2018, Interim Reports and Stock Exchange Releases published during period 1 January to 31 December 2019.

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 31 January 2020.

Unaudited Financial Statements Release.

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

Hypo Group's January–December 2019

The home finance specialist Hypo Group's operating profit grew by 17 percent and net interest income by 17 percent.

CEO Ari Pauna:

"Focusing on low risk housing collateralized lending in urbanising Finland is yielding profits. Hypo Group's operating profit grew by 17 percent and net interest income by 17 percent. Common Equity Tier 1 improved significantly and return on equity remained strong. Non-performing loans remained on a very low level and impairment losses were nearly zero."

- Operating profit increased to EUR 8.4 million (EUR 7.2 million 1–12/2018)
- Net interest income increased to EUR 14.5 million (EUR 12.3 million 1–12/2018)
- Non-performing loans remained low at 0.10% of loan book (0.07% 31 December 2018)
- Expected credit losses were 0.0% of the loan book
- Net fee and commission income was EUR 3.6 million (EUR 3.8 million 1–12/2018)
- Other income totaled EUR 2.7 million (EUR 2.1 million 1–12/2018)
- Total costs were EUR 12.3 million (EUR 11.1 million 1–12/2018)
- Common Equity Tier 1 (CET1) ratio calculated with standard and basic methods was 13.4% (12.1% on 31 December 2018)

GROUP'S KEY FIGURES

(1000 €)	1-12/2019	1-12/2018	10-12/2019	10-12/2018
Net interest income	14 452	12 331	4 019	3 350
Net fee and commission income	3 562	3 795	854	886
Total other income	2 689	2 097	631	-278
Total expenses	-12 296	-11 058	-3 483	-2 745
Operating profit	8 407	7 165	2 021	1 214
Receivables from the public and public sector entities	2 586 147	2 588 908	2 586 147	2 588 908
Deposits	1 628 793	1 718 166	1 628 793	1 718 166
Balance sheet total	3 230 657	3 113 817	3 230 657	3 113 817
Return on equity % (ROE)	5,5	5,0	5,3	3,5
Common Equity Tier 1 (CET1) ratio	13,4	12,1	13,4	12,1
Cost-to-income ratio,%	59,6	60,6	63,5	69,4
Non-performing assets, % of the loan portfolio	0,10	0,07	0,10	0,07
LTV-ratio, % / Loan to Value, average, %	35,3	35,8	35,3	35,8
Loans / deposits, %	158,8	150,7	158,8	150,7

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. Nearly 28,000 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’ with stable outlook (S&P Global Ratings).

OPERATING ENVIRONMENT

The global economic growth stayed stable at the latter part of 2019. Manufacturing remained weary as the global trade war loomed but the service sector kept the economy afloat. The stock markets rose strongly and the returns for 2019 were between 20-30 percent in main markets. The European Central Bank kept the key interest rates unchanged after the cut in September. Short-term interest rates that follow the ECB's policy rates remained negative. At the end of December, the 12-month Euribor stood at minus 0.25 percent.

The Finnish economy continued a relatively strong growth in the end of 2019. For the whole year, gross domestic product grew by 1.6% according to the preliminary data. Household and business confidence surveys point to slightly slower growth period to follow. Only construction confidence stayed stronger than average 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 of as usual and transaction volumes declined. Housing loan stock rose by 2.7 percent in November from the previous year and the average interest rate on new mortgage loans was 0.73 percent. The loan stock of housing companies continued to rise by more than 10 percent on an annual basis.

New apartments still boosted housing transaction figures. Newbuilding also kept rents from increasing more than 1.5 percent. At the same time inflation rose by one percent while earnings increased by 2.5 percent. Labor market stayed stable and the improvement starts to be behind us. The employment rate steadied to 72.6 percent and the unemployment rate at 6.7 percent.

RESULTS AND PROFITABILITY

October–December 2019

Hypo Group's operating profit was EUR 2.0 million (EUR 1.2 million for October–December 2018). Income totaled EUR 5.5 million (EUR 4.0 million) and expenses EUR 3.5 million (EUR 2.7 million).

January–December 2019

Hypo Group's operating profit was EUR 8.4 million (EUR 7.2 million for January–December 2018). Income totaled EUR 20.7 million (EUR 18.2 million) and expenses EUR 12.3 million (EUR 11.1 million). Profitability of the core businesses increased. Net interest income continued to strengthen to EUR 14.5 million (EUR 12.3 million) due to lower funding costs. Net fee and commission income totaled EUR 3.6 million (EUR 3.8 million).

Net income from investment properties (housing units and residential land) amounted to EUR 2.9 million (EUR 2.9 million).

Group's cost-to-income ratio was 59.6% (60.6%).

Group's other comprehensive income EUR 8.4 million (EUR 5.6 million) includes EUR 6.9 million (EUR 5.9 million) profit for the financial period, as well as the change in the fair value reserve EUR 0.8 million (EUR -0.0 million), the revaluation of defined benefit pension plans EUR 0.6 million (EUR -0.3 million) and adjustments of retained earnings EUR 0.0 million (EUR -0.1 million).

PERSONNEL

On 31 December 2019, the number of permanent personnel was 53 (47 on 31 December 2018). These figures do not include the CEO and the deputy to the CEO.

ASSETS AND LIABILITIES

Lending

The loan portfolio remained on the same level being EUR 2,586.1 million at the end of the financial period (EUR 2,588.9 million on 31 December 2018).

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 35.3% (35.8% on 31 December 2018).

Amount of non-performing loans remained low at EUR 2.7 million (EUR 1.8 million on 31 December 2018), representing 0.10% of the loan portfolio (0.07%).

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 539.1 million (EUR 442.4 million on 31 December 2018), which corresponds to 16.7% (14.2%) of the total assets. The cash and cash equivalents which totaled EUR 536.1 million consisted of assets distributed widely across various counterparties, and of debt securities tradable on the secondary market, of which 100.0% (95.4%) had a credit rating of at least 'AA-' or were of equivalent credit quality and 94.7% (95.9%) were ECB repo eligible. Liquidity covers wholesale funding cash flows for the following 38 months. The Liquidity Coverage Ratio was 163,8% (122.6%).

The defined benefit plans surplus of EUR 4.6 million (EUR 5.3 million on 31 December 2018) 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 5.0 million (EUR 5.1 million on 31 December 2018).

Derivative contracts

The balance sheet value of derivative receivables was EUR 19.4 million on 31 December 2019 (EUR 4.6 million on 31 December 2018), and the value of liabilities was EUR 7.6 million (EUR 3.2 million).

Deposits and other funding

Deposits decreased to EUR 1,628.8 million (EUR 1,718.2 million on 31 December 2018). The share of deposits accounted for 53.6% (58.2%) of total funding.

The share of long-term funding of total funding was 46.5% on 31 December 2019 (36.2%).

The total funding at the end of the financial period was EUR 3,041.1 million (EUR 2,954.6 million).

RISK TOLERANCE AND RISK MANAGEMENT

At the end of the financial period, Hypo Group's equity amounted to EUR 129.8 million (EUR 121.4 million on 31 December 2018). 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 2019 was 13.4% (12.1% on 31 December 2018). 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 adequate level in relation to Group's current and future business. At the end of the financial period, Group's Leverage Ratio was 3.7% (3.5%).

The 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 (CET1). Additional capital requirement entered into force on 1 July 2019.

The Finnish Financial Supervisory Authority has also set a discretionary additional capital requirement of 1.25 percent (Pillar 2 requirement) to the Hypo Group. The requirement is to be met with Common Equity Tier 1 capital (CET 1). The requirement entered into force on 31 December 2019 and it will remain in force until further notice, however not longer than until 31 December 2022. The decision has been made as a normal part of the Group's continuous supervisory review.

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 2019, no significant changes have occurred in the outlook or financial standing of the Mortgage Society of Finland or its Group.

FUTURE OUTLOOK

The Finnish economy grows at a slower pace. Household income increases and employment stays stable. Housing loan demand is supported by low interest rates. Urbanization will continue and support the housing market and loan demand in growth cities. At the same time areas with declining population will suffer and polarization will deepen. Newbuilding will increase the importance of the largest cities.

Hypo Group focuses on renewal of core systems and strengthening its core business areas. We expect the share of profit from core businesses to continue to rise following the increase of net interest and net fee income. Capital adequacy continues to strengthen.

The operating profit for 2020 is expected to reach the level of 2019. The expectation contains uncertainties due to the development in economy and interest rates.

Helsinki, 31 January 2020

The Board

CONSOLIDATED INCOME STATEMENT, IFRS

(1000 €)	1-12/2019	1-12/2018	10-12/2019	10-12/2018
Interest income	26 462,7	23 614,8	7 151,0	6 135,1
Interest expenses	-12 010,8	-11 284,1	-3 131,7	-2 784,8
NET INTEREST INCOME	14 451,9	12 330,8	4 019,2	3 350,4
Fee and commission income	3 615,7	3 887,3	861,7	899,7
Fee and commission expenses	-53,3	-92,5	-7,9	-13,7
Net income from securities and foreign currency transactions				
Net income from securities trading	-190,0	-1 144,7	40,7	-1 512,1
Net income from financial assets at fair value through other comprehensive income	4,9	291,4	-189,2	183,0
Net income from hedge accounting	73,9	33,2	135,8	59,3
Net income from investment properties	2 850,1	2 930,5	669,0	987,3
Other operating income	-50,3	-12,9	-25,4	4,2
Administrative expenses				
Personnel costs				
Wages and salaries	-5 180,2	-4 920,5	-1 558,6	-1 251,8
Other personnel related costs				
Pension costs	-938,6	-995,8	-271,5	-270,2
Other personnel related costs	-126,3	-109,0	-46,6	-8,7
Other administrative expenses	-3 206,4	-2 663,5	-992,5	-816,4
Total administrative expenses	-9 451,5	-8 688,8	-2 869,2	-2 347,1
Depreciation and impairment losses on tangible and intangible assets	-856,1	-516,1	-288,7	-142,1
Other operating expenses	-2 027,5	-1 830,3	-335,3	-256,7
Net gains/losses on derecognition of financial assets measured at amortised cost	22,2	-31,3	-5,1	1,3
Net gains/losses on derecognition of other financial assets	16,6	8,7	15,1	0,0
OPERATING PROFIT	8 406,7	7 165,2	2 020,8	1 213,6
Income taxes	-1 523,3	-1 216,8	-320,4	-169,1
OPERATING PROFIT AFTER TAX	6 883,4	5 948,5	1 700,4	1 044,5
PROFIT FOR THE PERIOD	6 883,4	5 948,5	1 700,4	1 044,5

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, IFRS

(1000 €)	1-12/2019	1-12/2018	10-12/2019	10-12/2018
Profit for the period	6 883,4	5 948,5	1 700,4	1 044,5
Other comprehensive income items				
Items that may be reclassified subsequently to income statement				
Change in fair value reserve				
Cash flow hedges	0,0	65,0	0,0	0,0
Financial assets at fair value through other comprehensive income	835,1	-114,2	-220,4	136,5
	835,1	-49,2	-220,4	136,5
Items that may not be reclassified subsequently to the income statement				
Revaluation of defined benefit pension plans	634,8	-254,8	296,3	-458,4
Correction for previous year, IFRS 9	0,0	-57,8	0,0	0,0
	634,8	-312,6	296,3	-458,4
Total other comprehensive income items	1 469,9	-361,7	76,0	-321,9
COMPREHENSIVE INCOME FOR THE PERIOD	**8 353,3**	**5 586,7**	**1 776,4**	**722,6**

CONSOLIDATED BALANCE SHEET, IFRS

(1000 €)	**31.12.2019**	**31.12.2018**
ASSETS		
Cash	244 100,0	223 600,0
Debt securities eligible for refinancing with central banks		
Other	267 107,0	201 166,5
Receivables from credit institutions		
Repayable on demand	9 820,9	5 338,7
Other	29,8	60,8
	9 850,7	5 399,5
Receivables from the public and public sector entities		
Other than those repayable on demand	2 586 147,0	2 588 907,9
Debt securities		
From public sector entities	15 006,4	8 506,0
	15 006,4	8 506,0
Shares and holdings	132,4	132,4
Derivative financial instruments	19 351,9	4 562,6
Intangible assets		
Other long-term expenditure	3 636,7	2 788,0
Tangible assets		
Investment properties and shares and holdings in investment properties	61 564,4	61 420,5
Other properties and shares and holdings in real estate corporations	644,5	844,4
Other tangible assets	242,2	258,0
	62 451,1	62 522,9
Other assets	15 134,3	10 626,0
Accrued income and advances paid	7 739,3	5 456,6
Deferred tax receivables	0,0	148,5
TOTAL ASSETS	**3 230 656,9**	**3 113 816,9**

CONSOLIDATED BALANCE SHEET, IFRS

(1000 €)	31.12.2019	31.12.2018
LIABILITIES		
Liabilities to credit institutions		
Central banks	80 000,0	80 000,0
Credit institutions		
Other than those repayable on demand	6 329,2	10 101,5
	86 329,2	90 101,5
Liabilities to the public and public sector entities		
Deposits		
Repayable on demand	829 457,9	806 059,4
Other	799 335,3	912 106,3
	1 628 793,2	1 718 165,6
Other liabilities		
Other than those repayable on demand	14 294,1	16 917,6
	1 643 087,3	1 735 083,3
Debt securities issued to the public		
Bonds	1 275 217,9	960 976,9
Other	36 483,2	168 435,6
	1 311 701,1	1 129 412,5
Derivative financial instruments	7 598,5	3 215,5
Other liabilities		
Other liabilities	35 004,0	17 119,0
Deferred income and advances received	7 445,2	7 663,3
Deferred tax liabilities	9 729,3	9 812,9
EQUITY		
Basic capital	5 000,0	5 000,0
Other restricted reserves		
Reserve fund	25 490,5	22 810,7
Fair value reserve		
From fair value recognition	755,0	-80,2
Defined benefit pension plans	2 839,6	2 204,8
Unrestricted reserves		
Other reserves	22 923,5	22 923,5
Retained earnings	65 870,4	62 601,8
Profit for the period	6 883,4	5 948,5
	129 762,3	121 409,0
TOTAL LIABILITIES	**3 230 656,9**	**3 113 816,9**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(1000 €)	Basic capital	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
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
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 comprehensive income						
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**
Equity 1 January 2019	5 000,0	22 810,7	2 124,6	22 923,5	68 550,2	121 409,0
Profit for the period					6 883,4	6 883,4
Other comprehensive income						
Profit use of funds		2 679,9			-2 679,9	0,0
Financial assets at fair value through other						
Change in fair value			1 052,9			1 052,9
Amount transferred to the income statement			-4,9			-4,9
Change in deferred taxes			-212,9			-212,9
Revaluation of defined benefit plans						
Actuarial gains / losses			793,5			793,5
Change in deferred taxes			-158,7			-158,7
Total other comprehensive income	0,0	2 679,9	1 469,9	0,0	-2 679,9	1 469,9
Equity 31 December 2019	**5 000,0**	**25 490,5**	**3 594,5**	**22 923,5**	**72 753,8**	**129 762,3**

CONSOLIDATED CASH FLOW STATEMENT

(1000 €)	**1–12/2019**	**1–12/2018**
Cash flow from operating activities		
Interest received	24 107,7	23 024,5
Interest paid	-10 049,4	-10 909,5
Fee income	3 696,1	3 741,0
Fee expenses	-53,3	-92,5
Net income from securities and foreign currency transactions	-190,0	-1 144,7
Net income from financial assets at fair value through other comprehensive income	4,9	291,4
Net income from hedge accounting	73,9	33,2
Net income from investment properties	3 024,0	3 594,0
Other operating income	-50,3	-12,9
Administrative expenses	-11 018,6	-7 447,9
Other operating expenses	-2 187,8	-1 927,3
Expected credit losses	38,8	-22,2
Income taxes	-2 260,6	51,3
Total net cash flow from operating activities	**5 135,4**	**9 178,3**
Operating assets increase (-) / decrease (+)		
Receivables from customers (lending)	3 316,5	-373 842,7
Collateral, derivatives	12 539,9	2 501,3
Investment properties	1 794,8	-2 455,2
Operating assets increase (-) / decrease (+) total	**17 651,2**	**-373 796,5**
Operating liabilities increase (+) / decrease (-)		
Liabilities to the public and public sector organisations (deposits)	-89 372,5	177 764,2
Operating liabilities increase (+) / decrease (-) total	-89 372,5	177 764,2
NET CASH FLOWS ACCRUED FROM OPERATING ACTIVITIES	**-66 585,9**	**-186 854,0**
Cash flows from investments		
Change in fixed assets	-1 489,1	-439,5
NET CASH FLOWS ACCRUED FROM INVESTMENTS	**-1 489,1**	**-439,5**
Cash flows from financing		
Bank loans, new withdrawals	89,7	151,5
Bank loans, repayments	-3 862,0	-3 923,9
Other liabilities, increase (+) / decrease (-)	-2 605,8	-2 629,3
Bonds, new issues *	318 624,8	110 462,1
Bonds, repayments *	-14 827,2	-9 429,6
Certificates on deposit, new issues	134 328,4	195 485,8
Certificates on deposit, repayments	-266 280,8	-161 979,2
Subordinated liabilities, new withdrawals	0,0	11,4
Subordinated liabilities, repayments	0,0	-4 501,4
NET CASH FLOWS ACCRUED FROM FINANCING	**165 467,1**	**123 647,3**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**97 392,1**	**-63 646,1**
Cash and cash equivalents at the beginning of the period	**438 672,0**	**502 318,1**
Cash and cash equivalents at the end of the period	**536 064,1**	**438 672,0**
CHANGE IN CASH AND CASH EQUIVALENTS	**97 392,1**	**-63 646,1**

NOTES

1. Key accounting policies

This Financial Statements Release applies the same IFRS accounting policies as the Group’s Financial Statements on 31 December 2018, with the exception of changes in accounting policies as a result of the new IFRS 16 standard adopted on 1 January 2019. The effects of the adoption of IFRS 16 are described in more detail in Interim Report 1 January – 31 March 2019. 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 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 2018, Interim Reports and Stock Exchange Releases published during 1 January to 31 December 2019. The figures in the tables in the Report are presented in thousands of euros.

The 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 31 January 2020. 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. 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 2019. Equity instruments have not been issued nor repaid during the period from 1 January to 31 December 2019.

3. Capital Adequacy Information

Hypo Group's own funds and capital ratios

(1000 €)	31.12.2019	31.12.2018
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	65 870,4	62 601,8
Accumulated other comprehensive income and other reserves	52 008,6	47 858,8
Independently reviewed interim profits net of any foreseeable charge or dividend	6 883,4	5 948,5
Common Equity Tier 1 (CET1) capital before regulatory adjustments	129 762,3	121 409,0
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets	-2 909,4	-2 230,4
Deferred tax assets that rely on future profitability	0,0	-148,5
Value adjustments due to the requirements for prudent valuation	-314,1	-219,9
Defined-benefit pension fund assets	-6 510,3	-6 467,9
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-9 733,7	-9 066,7
Common Equity Tier 1 (CET1) capital	120 028,6	112 342,3
Additional Tier 1 (AT1) capital	0,0	0,0
Tier 2 (T2) capital	0,0	0,0
Total capital (TC = T1 + T2)	120 028,6	112 342,3
Total risk weighted assets	896 212,8	925 239,5
Capital ratios and buffers		
Common Equity Tier 1 (CET1) as a percentage of total risk exposure amount	13,4	12,1
Tier 1 (T1) as a percentage of total risk exposure amount	13,4	12,1
Total capital as a percentage of total risk exposure amount	13,4	12,1
Institution specific buffer requirement, %	8,0	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, %	1,0	0,0
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer, %	0,0	0,0
Discretionary capital add-on (Pillar 2), %	1,25	0,0
Commom Equity Tier 1 available to meet buffers, %	9,9	8,6

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.

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

(1000 €)

31.12.2019				
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	364 618,4	421 686,8	0,0	0,0
Exposures to regional governments or local authorities	138 747,9	147 493,5	0,0	0,0
Exposures to credit institutions	53 091,9	61 075,2	16 676,0	1 334,1
Exposures to corporates	54 738,1	25 919,9	18 426,5	1 474,1
Retail exposures	61 925,5	15 075,3	10 129,7	810,4
Exposures secured by mortgages on immovable property	2 582 115,8	2 514 794,5	738 062,4	59 045,0
Exposures in default	2 412,0	2 238,3	2 290,8	183,3
Exposures in the form of covered bonds	23 451,1	23 451,1	2 345,1	187,6
Other items	65 120,0	65 120,0	65 120,0	5 209,6
	3 346 220,5	3 276 854,7	853 050,5	68 244,0
Operational risk			36 346,8	2 907,7
Other risks			6 815,5	545,2
All items in total	**3 346 220,5**	**3 276 854,7**	**896 212,8**	**71 697,0**

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**

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).

4. Contingent liabilities and other off-balance sheet commitments

(1000 €)	31.12.2019	31.12.2018
Commitments given on behalf of a customer for the benefit of a third party		
Guarantees and other liabilities	2 181,9	2 181,9
Irrevocable commitments given on behalf of a customer		
Granted but unclaimed loans	110 284,1	269 244,0
Purchase commitments of housing units	0,0	2 262,6
Total	112 466,0	273 688,5

5. Fair values of financial instruments

(1000 €)		31.12.2019	31.12.2018
Financial assets	Fair value determination principle		Fair value
Debt securities eligible for refinancing with central banks	A	267 107,0	201 166,5
Debt securities	A	15 006,4	8 506,0
Derivative contracts	B	19 351,9	4 562,6
Total		301 465,3	214 235,1
Financial liabilities			
Derivative contracts	B	7 598,5	3 215,5

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.

6. 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 close family members of the aforementioned as well as related party entities. In addition, The Mortgage Society of Finland's pension fund and joint operations are included in related parties. Those related party transactions that have not been eliminated in the consolidated financial statements are presented.

Subsidiary Suomen Asuntohypopankki Oy has granted an absolute guarantee for its´ parent, The Mortgage Society of Finland. Guarantee of EUR 85 million relates to mortgages originated by the Mortgage Society of Finland.

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

7. IFRS 9 expected credit losses by stage

(1000 €)	Net book value	Expected credit loss allowance	Net book value	Expected credit loss allowance
	31 Dec 2019	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2018**
Receivables from the public and public sector entities				
Level 1, performing loans, no significant increase in credit risk	2 573 585,2	20,4	2 580 027,3	23,9
Level 2, performing loans with a significant increase in credit risk	9 916,9	44,9	7 090,5	41,7
Level 3, non-performing loans	2 644,9	196,1	1 790,1	299,0
Total	**2 586 147,0**	**261,4**	**2 588 907,9**	**364,6**
Debt instruments, FVOCI				
Level 1, performing loans, no significant increase in credit risk	138 728,4	0,0	154 844,7	16,6
Other assets, trade receivables				
Level 1, performing loans, no significant increase in credit risk	369,1	0,0	404,5	0,0
Off-balance sheet commitments; granted but undrawn loans				
Level 1, performing loans, no significant increase in credit risk	110 284,1	0,4	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	Net expected credit losses with P&L impact	Net expected credit losses with P&L impact	Final credit losses	Final credit losses
	1–12/2019	**1–12/2018**	**10–12/2019**	**10–12/2018**	**1–12/2019**	**1–12/2018**
Receivables from the public and public sector entities						
Level 1, performing loans, no significant increase in credit risk	-3,5	-2,8	-0,2	1,4	0,0	0,0
Level 2, performing loans with a significant increase in credit risk	3,2	-38,7	9,8	2,5	0,0	0,0
Level 3, non-performing loans	-102,9	10,5	-85,6	-2,5	-81,0	0,0
Total	**-103,2**	**-31,0**	**-76,1**	**1,4**	**-81,0**	**0,0**
Debt instruments, FVOCI						
Level 1, performing loans, no significant increase in credit risk	16,6	8,7	15,1	0,0	0,0	0,0
Other assets, trade receivables						
Level 1, performing loans, no significant increase in credit risk	0,0	0,0	0,0	0,0	0,0	0,0
Off-balance sheet commitments; granted but undrawn loans						
Level 1, performing loans, no significant increase in credit risk	0,0	-0,4	-0,1	-0,2	0,0	0,0

8. IFRS 15 Income distribution

Group's total income
(1000 €)

	1–12/2019	**1–12/2018**	**10–12/2019**	**10–12/2018**
Interest income	26 462,7	23 614,8	7 151,0	6 135,1
Interest expense	-12 010,8	-11 284,1	-3 131,7	-2 784,8
Net interest income	14 451,9	12 330,8	4 019,2	3 350,4
Net fee income				
from lending operations	1 707,4	2 058,2	395,3	392,5
from land trustee services	1 558,3	1 390,3	383,0	400,1
from other operations	296,7	346,3	75,5	93,4
Total net fee income	3 562,5	3 794,8	853,8	886,0
Net income from treasury operations	-111,3	-820,1	-12,6	-1 269,7
Net income from investment properties	2 708,5	2 554,5	674,1	777,5
Capital gains on investment properties	141,6	376,0	-5,1	209,8
Other income	-50,3	-12,9	-25,4	4,2
Non-interest income	2 688,5	2 097,4	631,0	-278,2
Total income	20 702,9	18 223,0	5 504,0	3 958,2

9. IFRS 16 Leases

Hypo Group as lessee (1000 €)	**1–12/2019**	**10–12/2019**
Right-of-use assets		
Depreciation - IT	35,9	9,0
Depreciation - Apartments	163,1	49,8
Carrying amount - IT	35,9	
Carrying amount - Apartments	325,4	
Lease liabilities		
Interest expense	8,1	1,1
Carrying amounts sorted by remaining maturity		
Non-fixed-term leases	361,3	
Relief options		
Expenses from leases of low-value assets	5,3	1,3

Hypo Group leases office premesis in Helsinki as well as IT products and services. The lease terms of these contracts are non-fixed.

Hypo Group as a lessor (1000 €)	**1–12/2019**	**10–12/2019**
Operative leases		
Lease income	2 369,4	619,5
Undiscounted lease payments to be received		
1 year	1 006,3	
2 year	660,9	
3 year	545,8	
4 year	350,3	
5 year	252,5	
>5 years	7 594,0	

Hypo Group leases out building plots, apartments, office space and parking lots.

10. Information concerning asset encumbrance

31 December 2019

(1000 €)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
A - Assets	1 706 676	1 706 676	1 523 981	1 523 981
Equity instruments			132	132
Debt securities	49 320	49 320	233 368	233 368
Other assets, including lending	1 657 356	1 657 356	1 290 481	1 290 481

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	78 951	94 703
Debt securities issued to the public	1 278 253	1 598 597
Derivative contracts	7 048	13 375
Total	1 364 252	1 706 676

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 1,706.7 million, out of which of covered bonds were EUR 1,649.3 million on 31 December 2019. 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 218.4 million on 31 December 2019. EUR 677.0 million of unencumbered loans may be used as collateral for covered bonds.

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.

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 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 on loans and other commitments)

Return on equity % (ROE)

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

Cost-to-income ratio, %

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

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

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

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, %

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

Loans/deposits %

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

Deposits out of total funding, %

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

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, %

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

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 365 (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.