THE MORTGAGE SOCIETY OF FINLAND

Financial Statements Release

1 January–31 December 2017

The Audited Financial Statements 2017 will be published on 1 March 2018

and The Annual Report during the week 12

The Interim Report for the period of 1 January to 31 March 2018 will be published on 27 April 2017

Unaudited Financial Statements Release

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

Hypo Group's January–December 2017

The home finance specialist Hypo's net interest income and competitiveness strengthen further.

CEO Ari Pauna:

"Hypo's loan portfolio grew to EUR 2.2 billion as a growing number of urban citizens choose Hypo to finance their home or housing company mortgage. The positive development of Hypo's core business continues despite low interest rates and narrowing margins."

- Net interest income increased to EUR 9.0 million (EUR 5.4 million 1–12/2016)
- Low risk loan portfolio secured by housing collateral continued to grow faster than the market
- Non-performing loans remained low and impairment losses were 0 euros
- Net fee and commission income decreased to EUR 3.5 million (EUR 4.5 million 1–12/2016) due to decrease in land trustee service profits.
- Total of other income decreased as capital gains declined especially in investment properties business
- Expenses grew due to Contribution to Financial Stability Authority and increased business volumes
- Common Equity Tier 1 (CET1) ratio, as calculated with standard and basic methods, was 12.7% (13.6% on 31 December 2016)

GROUP'S KEY FIGURES (1000 €)	**1–12/2017**	**1–12/2016**	**10-12/2017**	**10-12/2016**
Net interest income	8 991	5 386	2 712	1 776
Net fee and commission income	3 525	4 439	834	890
Total other income	5 190	7 924	1 142	1 612
Total expenses (incl. depreciation, other operating expenses and impairment losses)	-11 055	-10 403	-2 946	-3 188
Operating profit	6 651	7 347	1 741	1 090
Receivables from the public and public sector entities	2 212 574	1 806 440	2 212 574	1 806 440
Deposits	1 540 400	1 203 042	1 540 400	1 203 042
Balance sheet total	2 792 489	2 305 218	2 792 489	2 305 218
Common Equity Tier 1 (CET1) ratio	12,7	13,6	12,7	13,6
Cost-to-income ratio,%	62,5	57,1	62,6	68,3
Non-performing assets, % of the loan portfolio	0,14	0,11	0,14	0,11
LTV-ratio, % / Loan to Value, average, %	37,4	38,4	37,4	38,4
Loans / deposits, %	143,6	150,2	143,6	150,2

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 “Hypo”) is the only nationwide expert organization specializing in home financing and housing in Finland. Hypo constantly aims to complement traditional home financing and housing products with new, alternative and customer-oriented solutions.

The Mortgage Society of Finland grants loans to households and housing companies with domestic housing or residential property as collateral. Suomen AsuntoHypoPankki Oy deposit bank offers its customers deposit products, payment cards and residential land trustee services. Hypo has close to 29,000 customers. Maintaining the strong capital adequacy and keeping the customer promise “Secure way for better living” guides Hypo in growing the business in a profitable manner, while managing risks.

S&P Global Ratings has assigned a ‘BBB/A-2’ issuer credit ratings with stable outlook to Hypo.

Rating for Hypo’s covered bonds is ‘AAA’ (S&P Global Ratings).

OPERATING ENVIRONMENT

The economic growth picked up at the end of last year. Closely monitored purchase managers indexes rose to record levels in the euro area and in the United States. The financial markets also improved and indicated continuous growth in the world economy continued. The European Central Bank kept the key interest rates unchanged and continued on-going asset purchase programs at a steady pace. Short-term interest rates that follow the ECB's policy rates remained negative without major changes. At the end of December, the 12-month Euribor stood at minus 0.19 percent.

The Finnish economy continued surprisingly strong growth momentum. For the whole year, gross domestic product grew by over 3 percent according to the preliminary data. Household and business confidence surveys remained elevated, new orders in manufacturing increased and construction grew on the back of strong urbanization trend.

Polarization deepened in the housing markets.In the Greater Helsinki Area, housing prices rose by a couple of percent since last year. Other growth centers also enjoyed increase in prices while in rural areas prices dropped by two percent. In November, the housing loan stock rose by 2.3 percent from the previous year and the average interest rate on new mortgage loans fell 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 2017, more homes were completed in the major cities than in the past 25 years. Last year, construction of over 43 000 homes beginned, which will be reflected in the market in the coming years.

Rents went up in the whole country by more than 2 percent from the previous year yet the new rental apartments in the cities as well as decreasing demand in the rural areas helped to smooth the development.

Finally at the end of 2017, the anticipated news came when economic growth was evident also in the labor market. The number of employed persons rose by more than 40 000 last year, while the unemployment rate fell towards 8 percent. There was no material change in consumer purchasing power due to moderate changes in earnings level and inflation.

RESULTS AND PROFITABILITY

October–December 2017

Hypo Group's operating profit was EUR 1.7 million (EUR 1.1 million for October–December 2017). Income totaled EUR 4.7 million (EUR 4.3 million) and expenses EUR 2.9 million (EUR 3.2 million).

January–December 2017

Hypo Group's operating profit was EUR 6.7 million (EUR 7.3 million for January–December 2016). An increasing amount of operating profit originated from core business operations. Net interest income continued to grow. Operating profit included nearly EUR 2 million less net income from investment properties than the reference financial period. Expenses grew moderately despite the increase in Contribution to Financial Stability Authority.

Net interest income strengthened and grew to EUR 9.0 million (EUR 5.4 million) due to loan portfolio growth and lower funding costs.

Net fee and commission income totaled EUR 3.5 million (EUR 4.4 million). Decrease in fee and commission income resulted from intensified competition as well as from the extended VAT liability concerning land trustee services.

Net income from investment properties (housing units and residential land) amounted to EUR 2.9 million (EUR 4.9 million). Capital gains from the sales of investment properties decreased as envisaged, totaling 0.6 million (EUR 2.4 million).

Group's cost-to-income ratio was 62.5% (57.1%). Expenses increased due to Contribution to Financial Stability Authority and growth in business volumes.

Impairments during the financial period were EUR 0.0 million (EUR 0.3 million).

Group's other comprehensive income, EUR 7.0 million (EUR 7.7 million) includes EUR 5.5 million (EUR 6.1 million) profit for the financial period as well as the change in the fair value reserve EUR 0.7 million (EUR 1.4 million), the revaluation of defined benefit pension plans EUR 0.7 million (EUR 0.2 million) and adjustments EUR 0.0 million (EUR 0.0 million).

PERSONNEL AND DEVELOPMENT

On 31 December 2017, the number of permanent personnel was 50 (48 on 31 December 2016). These figures do not include the CEO and the deputy to the CEO. Cooperation with Perho Tourism, Culinary and Business College continued by offering traineeships for the students.

ASSETS AND LIABILITIES

Lending

The loan portfolio grew to EUR 2,212.6 million (EUR 1,806.4 million on 31 December 2016).

Hypo 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 was 37.4% (38.4% on 31 December 2016).

Amount of non-performing loans was low at EUR 3.1 million (EUR 2.1 million on 31 December 2016), representing 0.14% of the loan portfolio (0.11%).

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 506,1 million (EUR 421.0 million on 31 December 2016), which corresponds to 18,1% (18.3%) of the total assets. The cash and cash equivalents (which totaled EUR 502.3 million) consisted of assets distributed widely across various counterparties, and of debt securities tradable on the secondary market, of which 91.5% (92.4%) had a credit rating of at least ‘AA-‘ or were of equivalent credit quality and 100.0% (100.0%) were ECB repo eligible. Liquidity covers wholesale funding cash flows for the following 40 months. The Liquidity Coverage Ratio was 147.6% (144.4%).

The surplus of EUR 6.4 million (EUR 5.7 million on 31 December 2016) from the Mortgage Society of Finland’s pension foundation has been recognized in Group’s other assets.

The share of housing and residential land holdings of total assets remained low at 2.2% level (2.7% on 31 December 2016). Hypo offers rental apartments and residential land for its customers. Hypo’s properties are located in selected growth centers, mainly in the Helsinki Metropolitan Area. The property in Hypo’s own use, the Hypo House, is located in the center of Helsinki. The difference between the fair value and the book value of the properties totaled EUR 5.6 million (EUR 6.1 million on 31 December 2016).

Derivative contracts

The balance sheet value of derivative receivables was EUR 0.3 million on 31 December 2017 (EUR 0.1 million on 31 December 2016), and the value of liabilities was EUR 6.9 million (EUR 4.5 million).

Deposits and other funding

Deposits grew to EUR 1,540.4 million (EUR 1,203.0 million on 31 December 2016). The share of deposits accounted for 58.7% (55.5%) of total funding. 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.

In June, the Mortgage Society of Finland issued a covered bond with a nominal amount of EUR 250.0 million. In October a EUR 50.0 tap issue followed increasing the issue’s nominal amount.

The share of long-term funding of total funding was 36.3% on 31 December 2017 (39.9%).

The total funding at the end of the financial period was EUR 2,626.0 million (EUR 2,169.1 million).

RISK TOLERANCE AND RISK MANAGEMENT

At the end of the financial period, Hypo Group’s equity amounted to EUR 115.8 million (EUR 108.8 million on 31 December 2016). The changes in equity during the period are presented in Group’s statement of equity attached to this Financial Statements Release.

Group’s CET1 capital in relation to risk-weighted assets on 31 December 2017 was 12,7% (13.6% on 31 December 2016). 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 strong in relation to Group’s current and future business, as well as to changes, even exceptional ones, in the operating environment. At the end of the financial period, Group's Leverage Ratio was 3.7% (4.2%).

There have been no significant negative changes in the risk levels during the financial period. More detailed information on capital adequacy and risk management practices is published as part of the Annual Audited Financial Statements, the Notes and the Annual Report. The same information and any updates therein can also be accessed at www.hypo.fi/en.

KEY EVENTS SINCE THE END OF THE FINANCIAL PERIOD

Since the end of the financial period of 1 January–31 December 2017, there have not been any significant changes in the outlook or financial standing of the Mortgage Society of Finland or its Group.

FUTURE OUTLOOK

Finnish economy develops positively in 2018, which has positive repercussions on housing market and loan demand. The urbanization in Finland continues and supports the housing and mortgage markets in the biggest growth centers yet, at the same time, the decline of regions experiencing net population outflows continues. Uncertainties in the European and world economies may weaken the outlook.

Following the increase in loan portfolio and net interest income, Hypo's core business' share of the profit for the financial period keeps growing. The operating profit for 2018 is expected to reach at least the 2017 level. Hypo concentrates on its core business operations, whereupon risk level of lending is expected to become more moderate and capital adequacy to remain almost unchanged.

Helsinki, 30 January 2018

The Board

CONSOLIDATED INCOME STATEMENT, IFRS

(1000 €)	10-12/2017	10-12/2016	1–12/2017	1–12/2016
Interest income	5 323,1	4 991,4	20 414,6	19 951,7
Interest expenses	-2 611,4	-3 215,4	-11 423,4	-14 565,5
NET INTEREST INCOME	2 711,6	1 776,0	8 991,2	5 386,2
Income from equity investments			39,9	
Fee and commission income	853,5	906,3	3 618,0	4 517,1
Fee and commission expenses	-19,2	-16,4	-93,3	-77,6
Net income from securities and foreign currency transactions				
Net income from securities trading	-136,2	500,4	421,4	-522,2
Net income from foreign currency transactions				0,1
Net income from financial assets available for sale	530,5	439,8	1 749,6	3 634,5
Net icome from hedge accounting	6,8	-11,2	-27,1	-53,7
Net income from investment properties	773,8	692,4	2 924,0	4 881,3
Other operating income	-33,3	-9,6	82,4	-16,0
Administrative expenses				
Personnel costs				
Wages and salaries	-1 290,0	-1 275,7	-4 968,5	-4 513,4
Other personnel related costs				
Pension costs	-411,2	-379,8	-1 135,2	-1 054,2
Other personnel related costs	-72,9	-94,0	-218,2	-308,2
Other administrative expenses	-712,3	-849,3	-2 687,5	-2 825,1
Total administrative expenses	-2 486,5	-2 598,8	-9 009,4	-8 700,9
Depreciation and impairment losses on tangible and intangible assets	-139,4	-90,9	-475,0	-328,0
Other operating expenses	-309,0	-231,4	-1 576,3	-1 105,0
Impairment losses on loans and other commitments	-10,7	-266,7	6,0	-268,7
OPERATING PROFIT	1 742,1	1 090,0	6 651,4	7 346,9
Income taxes	-311,8	-145,2	-1 144,0	-1 228,9
OPERATING PROFIT AFTER TAX	1 430,3	944,8	5 507,4	6 118,0
PROFIT FOR THE PERIOD	1 430,3	944,8	5 507,4	6 118,0

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, IFRS

(1000 €)	10-12/2017	10-12/2016	1–12/2017	1–12/2016
Profit for the period	1 430,3	944,8	5 507,4	6 118,0
Items that may be reclassified subsequently to income statement				
Change in fair value reserve				
Cash flow hedges	64,4	211,3	526,2	822,5
Available for sale financial assets	-165,2	-101,2	202,6	580,5
	-100,8	110,1	728,8	1 403,0
Items that may not be reclassified subsequently to the income statement				
Revaluation of defined benefit pension plans	134,3	-563,2	742,1	185,6
Correction for previous year				34,9
	134,3	-563,2	742,1	220,5
Total other comprehensive income items	33,5	-453,1	1 471,0	1 623,6
COMPREHENSIVE INCOME FOR THE PERIOD	**1 463,8**	**491,8**	**6 978,4**	**7 741,6**

CONSOLIDATED BALANCE SHEET, IFRS

(1000 €)	31.12.2017	31.12.2016
ASSETS		
Cash	201 200,0	120 200,0
Debt securities eligible for refinancing with central banks		
Treasury bills		
Other	284 718,7	291 927,8
Receivables from credit institutions		
Repayable on demand	16 322,0	5 153,3
Other	77,5	17,9
	16 399,5	5 171,2
Receivables from the public and public sector entities		
Other than those repayable on demand	2 212 574,4	1 806 439,8
Shares and holdings	132,4	132,4
Derivative financial instruments	258,9	138,4
Intangible assets		
Other long-term expenditure	2 816,9	2 812,6
Tangible assets		
Investment properties and shares and holdings in investment properties	59 686,0	61 691,4
Other properties and shares and holdings in real estate corporations	854,5	864,7
Other tangible assets	295,6	336,7
	60 836,2	62 892,8
Other assets	8 568,8	9 239,5
Accrued income and advances paid	4 843,8	5 964,4
Deferred tax receivables	139,3	299,5
TOTAL ASSETS	**2 792 488,8**	**2 305 218,4**

CONSOLIDATED BALANCE SHEET, IFRS

(1000 €)	31.12.2017	31.12.2016
LIABILITIES		
Liabilities to credit institutions		
Central banks	80 000,0	80 000,0
Credit institutions		
Repayable on demand		
Other than those repayable on demand	13 873,8	38 086,5
	93 873,8	118 086,5
Liabilities to the public and public sector entities		
Deposits		
Repayable on demand	749 110,9	641 954,6
Other	791 289,6	561 087,8
	1 540 400,5	1 203 042,4
Other liabilities		
Other than those repayable on demand	19 545,5	28 476,9
	1 559 946,0	1 231 519,3
Debt securities issued to the public		
Bonds	852 292,2	699 076,2
Other	134 929,0	111 433,3
	987 221,2	810 509,6
Derivative financial instruments	6 944,6	4 536,3
Other liabilities		
Other liabilities	9 636,3	8 660,0
Deferred income and advances received	4 524,1	4 640,3
Subordinated liabilities		
Other	4 490,1	8 980,1
Deferred tax liabilities	10 030,3	9 442,4
EQUITY		
Basic capital	5 000,0	5 000,0
Other restricted reserves		
Reserve fund	22 799,9	22 796,7
Fair value reserve		
From cash flow hedging	-65,0	-591,2
From fair value recognition	34,0	-168,6
Defined benefit pension plans	2 459,6	1 717,4
Unrestricted reserves		
Other reserves	22 923,5	22 923,5
Retained earnings	57 162,9	51 048,1
Profit for the period	5 507,4	6 118,0
	115 822,3	108 843,9
TOTAL LIABILITIES	**2 792 488,8**	**2 305 218,4**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(1000 €)	Basic capital	Reserve fund	Fair value reserve	Other reserves	Retained earnings*	Total
Equity 1 January 2016	5 000,0	22 794,7	-631,0	22 923,5	51 015,2	101 102,4
Profit for the period					6 118,0	6 118,0
Other comprehensive income						
Correction for the year 2015					34,9	34,9
Profit use of funds		2,0			-2,0	0,0
Cash flow hedges						
Amount recognised in equity			-480,3			-480,3
Amount transferred to the income statement			1 508,4			1 508,4
Change in deferred taxes			-205,6			-205,6
Financial assets available for sale						
Change in fair value			4 360,1			4 360,1
Amount transferred to the income statement			-3 634,5			-3 634,5
Change in deferred taxes			-145,1			-145,1
Revaluation of defined benefit plans						
Actuarial gains / losses			232,0			232,0
Change in deferred taxes			-46,4			-46,4
Total other comprehensive income	0,0	2,0	1 588,6	0,0	32,9	1 623,6
Equity 31 December 2016	**5 000,0**	**22 796,7**	**957,6**	**22 923,5**	**57 166,2**	**108 844,0**

* Retained earnings 1 January 2016 have been allocated for amount of -299,5 due to consolidation error.

	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
Other comprehensive income						
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**

CONSOLIDATED CASH FLOW STATEMENT

(1000 €)	**1–12/2017**	**1–12/2016**
Cash flow from operating activities		
Interest received	20 094,9	19 143,7
Interest paid	-11 478,6	-15 477,1
Fee income	3 856,5	4 073,2
Fee expenses	-93,3	-77,6
Net income from securities and foreign currency transactions	421,4	-522,1
Net income from available-for-sale financial assets	1 749,6	3 634,5
Net income from hedge accounting	-27,1	-53,7
Net income from investment properties	2 986,8	3 856,0
Other operating income	82,4	-16,0
Administrative expenses	-7 145,8	-10 804,6
Other operating expenses	-1 682,9	-1 225,8
Credit and guarantee losses	6,0	-268,7
Income taxes	-1 580,4	-1 150,1
Total net cash flow from operating activities	**7 189,5**	**1 111,4**
Operating assets increase (-) / decrease (+)		
Receivables from customers (lending)	-406 340,9	-384 886,1
Collateral, derivatives	345,4	-46,1
Investment properties	5 294,4	7 814,4
Operating assets increase (-) / decrease (+) total	**-400 701,1**	**-377 117,8**
Operating liabilities increase (+) / decrease (-)		
Liabilities to the public and public sector organisations (deposits)	337 357,8	164 101,1
Operating liabilities increase (+) / decrease (-) total	337 357,8	164 101,1
NET CASH FLOWS ACCRUED FROM OPERATING ACTIVITIES	**-56 153,8**	**-211 905,2**
Cash flows from investments		
Change in fixed assets	-428,0	-1 144,5
Equity investments increase (-) / decrease (+)	39,9	0,0
NET CASH FLOWS ACCRUED FROM INVESTMENTS	**-388,1**	**-1 144,5**
Casf flows from financing		
Bank loans, new withdrawals	80 297,2	131 830,4
Bank loans, repayments	-104 509,9	-165 129,7
Other liabilities, increase (-) / decrease (+)	-8 995,6	-6 303,7
Bonds, new issues	344 297,3	429 857,5
Bonds, repayments	-188 533,6	-252 291,5
Certificates on deposit, new issues	217 964,2	180 965,7
Certificates on deposit, repayments	-194 468,4	-138 983,7
Subordinated liabilities, new withdrawals	34,0	59,0
Subordinated liabilities, repayments	-4 523,9	-4 548,6
NET CASH FLOWS ACCRUED FROM FINANCING	**141 561,1**	**175 455,5**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**85 019,2**	**-37 594,3**
Cash and cash equivalents at the beginning of the period	**417 299,0**	**454 893,2**
Cash and cash equivalents at the end of the period	**502 318,1**	**417 299,0**
CHANGE IN CASH AND CASH EQUIVALENTS	**85 019,2**	**-37 594,3**

NOTES

1. Key accounting policies

This Financial Statement Release applies the same IFRS accounting policies as the Group's Financial Statements on 31 December 2016. The release has been prepared in accordance with the IAS 34 standard (Interim Financial Reporting) approved in the EU. No new standards or interpretations with material effect on Hypo Group´s key accounting policies came into effect during the financial year 2017.

The release does not contain all information and Notes that are required in the annual Financial Statements. The figures in the tables in the Release are presented in thousands of euros and it should be read in conjunction with the Group's Financial Statements.

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 the housing company Bostadsaktiebolaget Taos, of which the Group companies own 54.6 percent. The financial statements of AsuntoHypoPankki have been consolidated using the acquisition cost method. To give a true and fair view of consolidated statements, ownerships in housing companies are 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.

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 9 Financial Instruments

Impact assessment of IFRS 9 to financial status and capital in Hypo Group

IFRS 9 "Financial Instruments" came into effect on 1 January 2018 and will result in amendments to the financial statements, with regard to defining and calculating the impairment losses through profit or loss. Application of the standard does not materially effect on Group's consolidated financial statements nor capital adequacy position as lending is secured by mortgage collateral, average loan-to-value ratio in the loan portfolio is low, and liquidity is invested in accordance with conservative counterparty limits. Changes in classification of Financial Instruments and in hedge accounting are not expected to materially affect Group's financial position, result nor equity.

Implementation of IFRS 9 proceeds as scheduled. Systems and models for calculating expected credit loss (ECL model) required by IFRS 9 were taken in use on 1 January 2018. On 1 January 2018 Group´s both equity and own funds will be adjusted with negative net amount, in range of 50,000 – 100.000 euros, which represents the net amount of IAS 39 –standard's reversal of impairments and IFRS 9 –standard's expected credit loss. In Interim Reports and Financial Statements released concerning the financial year 2018, information of year 2017 shall not be restated.

Expected credit losses

In Hypo Group's consolidated income statement, the switch from recognition of impairment and credit losses of the loan portfolio in accordance with IAS 39 to expected credit losses based on forecasting models in accordance with IFRS 9 will takes place as of 1 January 2018. Data utilized in ECL model consists of information on i.a. amount of previously realized losses in Hypo's loan portfolio as well as on contract-related collaterals of liabilities. ECL model also utilizes estimates of the future value of the housing collaterals.

Concerning expected credit loss impairments of debt securities, ECL model utilizes credit ratings, probability of default and expected losses of counterparties.

Classification and measurement of financial instruments

The application of IFRS 9 requires classification of financial instruments based on business model into one of the following categories: financial instruments recognized at fair value through profit or loss, financial instruments recognized through other comprehensive income or financial instruments recognized at amortized cost. Changes in classification of Financial Instruments are not expected to materially affect Group’s financial position, result nor equity. Agreement-based cash flows of Hypo Group’s financial instruments consist of principal and interest payments. Depending on business model, the aim is to either gather the agreement-based cash flows and keep the financial instrument until the agreement expires or alternatively, gather the agreements-based cash flows and sell the financial instrument prior to its expiry.

Loans are classified as “financial instruments recognized at amortized cost”.

Debt securities are classified as “financial instruments recognized at fair value through profit or loss”. The exception to the above is applied in case debt securities are held for collecting agreement-based cash flows and sold prior to instrument’s expiry whereupon changes in fair value are recognized through other comprehensive income.

Calculation and recognition of expected credit loss impairments will be applied to loans and debt securities recognized through other comprehensive income.

Financial liabilities are recognized at amortized cost and classified as “other liabilities”.

Derivative contracts are always recognized at fair value and changes in fair value are recognized at fair value through profit or loss.

Hedge accounting

Hypo Group intends to adopt IFRS 9 hedge accounting from 1 January 2018. Hedge accounting method based on IFRS 9 is considered not to have any negative impact in the hedge accounting results in comparison to hedge accounting method based on IAS 39.Hypo Group adopted IFRS 9 hedge accounting from 1 January 2018.

Disclosures in Financial Statements and in Interim Reports

Group equity will be adjusted on 1 January 2018 by the net of IAS 39 impairment loss reversals and IFRS 9 expected credit losses. The comparison figures will not be corrected as allowed by the standard.

Due to application of IFRS 9, Financial Statements and Interim reports covering the periods commencing from 1 January 2018 will set out information on reclassification on financial instruments and give information on any material impact of the changes on Group’s financial position, results or equity. Interim Reports and Financial Statements concerning the financial year beginning on 1 January 2018 will present more extensive qualitative and quantitative information on financial instruments.

2.2. IFRS 15 Revenue from Contracts with Customers

Impact assessment on IFRS 15

Hypo Group will apply IFRS 15 - standard as of 1 January 2018 instead of the previously applied IAS 18 standard on revenue recognition. IFRS 15 standard concerns mainly fee income from land trustee services and certain fee income from mortgage lending. The implementation of the standard is not expected to have material effect on revenue recognition.

Hypo Group has analyzed its customer contracts as required by the IFRS 15. The analysis has defined by contract type the promises given to customers (performance obligation), the sales revenue Hypo is entitled to, and finally when the performance obligation is satisfied and the sales revenue is recognized.

The standard is applied with full retrospective method.

The effective interest method as per IFRS 9 is still applied on recognition of income from financial instruments and IAS 17 on recognition of rental income from apartments owned and rented by Hypo.

Financial Statements for the financial year starting on 1 January 2018 will present more extensive qualitative and quantitative information on customer contracts and related revenue as required by the IFRS 15 -standard.

Financial Statements for the financial year starting on 1 January 2018, will present more extensive qualitative and quantitative information on customer contracts and related revenue as required by the IFRS 15.

2.3. IFRS 16 Leases

IAS 16 Leases –standard is endorsed by EU. Hypo will adopt the new standard from 1 January 2019 and onwards. Impacts of IFRS 16 –standard will be assessed closely during 2018. Standard will apply to contracts where Hypo's group entity is either lessor or lessee. Application of the standard is not expected to materially affect Group's consolidated financial position nor capital position.

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 2017. Equity instruments have not been issued nor repaid during the period from 1 January to 31 December 2017.

4. Capital Adequacy Information

Hypo Group own funds and capital ratios (1000 €)	31.12.2017	31.12.2016
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	57 162,9	51 048,1
Accumulated other comprehensive income and other reserves	48 152,0	46 677,8
Independently reviewed interim profits net of any foreseeable charge or dividend	5 507,4	6 118,0
Common Equity Tier 1 (CET1) capital before regulatory adjustments	115 822,3	108 843,9
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets	-2 253,5	-2 250,1
Fair value reserves related to gains or losses on cash flow hedges	65,0	591,2
Defined-benefit pension fund assets	-7 563,1	-6 245,4
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-9 751,6	-7 904,3
Common Equity Tier 1 (CET1) capital	106 070,7	100 939,6
Additional Tier 1 (AT1) capital	0,0	0,0
Tier 2 (T2) capital	0,0	0,0
Total capital (TC = T1 + T2)	106 070,7	100 939,6
Total risk weighted assets	836 775,6	743 003,7
Capital ratios and buffers		
Common Equity Tier 1 (CET1) as a percentage of total risk exposure amount	12,7	13,6
Tier 1 (T1) as a percentage of total risk exposure amount	12,7	13,6
Total capital as a percentage of total risk exposure amount	12,7	13,6
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, %	9,2	10,1

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, balance sheet and off-balance sheet items according to the standard method

(1000 €)	31.12.2017 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		
Exposures to regional governments or local authorities	107 120,8	117 387,9		
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

(1000 €)	31.12.2016 Original exposure pre conversion factors	Exposure value	Risk weighted exposure amount after SME-	Own funds requirement
Exposures to central governments or central banks	229 020,1	277 958,3		
Exposures to regional governments or local authorities	82 866,6	93 894,0		
Exposures to public sector entities	13 515,5	13 515,5	2 703,1	216,2
Exposures to credit institutions	65 147,8	84 149,3	26 356,1	2 108,5
Exposures to corporates	144 735,4	80 940,0	76 275,9	6 102,1
Retail exposures	65 075,2	27 480,6	19 330,8	1 546,5
Exposures secured by mortgages on immovable property	1 902 052,4	1 734 863,3	514 426,5	41 154,1
Exposures in default	2 059,7	1 675,1	1 716,4	137,3
Exposures in the form of covered bonds	33 845,1	33 845,1	3 384,5	270,8
Other items	66 604,7	66 604,7	66 604,7	5 328,4
	2 604 922,4	2 414 925,7	710 798,0	56 863,8

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.

5. Contingent off-balance sheet commitments

Consolidated off-balance sheet commitments

(1000 €)	**31.12.2017**	**31.12.2016**
Commitments made on behalf of a customer to benefit a third party		
Guarantees	2 181,9	2 181,9
Irrevocable commitments given on behalf of a customer		
Granted but unclaimed loans	275 063,9	301 014,8
Potential redemptions of partially owned housing units and those to be completed	2 875,1	563,2
Total	280 120,8	303 759,8

6. Fair values of financial instruments

(1000 €)		**31.12.2017**	**31.12.2016**
Financial assets	Fair value determination principle	Fair value	Fair value
Debt securities eligible for refinancing with central banks	A	284 718,7	291 927,8
Debt securities	A	0,0	0,0
Derivative contracts	B	258,9	138,4
Total		284 977,6	292 066,2
Financial liabilities			
Derivative contracts	B	6 944,6	4 536,3

Derivative contracts consist of interest rate and currency 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

7. Information concerning asset encumbrance

31 Dec 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	54 199	1 837 248	231 154
Equity instruments			132	132
Debt securities	54 199	54 199	231 021	231 021
Other assets, including lending	901 088	901 088	1 606 095	1 606 095

B - Collateral received

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

C - Encumbered assets and associated liabilities	Liabilities associated with encumbered assets	Encumbered assets
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

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 tradable on the secondary market and eligible as ECB collateral pledged against a loan from the central bank, cover asset pool and collateral posted for derivative contracts.
Following Hypo's covered bond issuance in June 2017 (EUR 250 million) and tap issue in October 2017 (EUR 50 million), the amount of Group's encumbered assets increased by EUR 352,9 million in comparison to the reference period.
Encumbered assets totaled EUR 955,3 million of which EUR 849,6 million were registered in cover asset pool. Unencumbered debt securities that are tradable on the secondary market and eligible as ECB collateral and that may 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.

31 Dec 2016

(1000 €)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
A - Assets	602 433	602 433	1 702 785	1 702 785
Equity instruments			132	132
Debt securities	51 889	51 889	240 040	240 040
Other assets, including	550 544	550 544	1 462 613	1 462 613

B - Collateral received

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

C - Encumbered assets and associated liabilities	Liabilities associated with encumbered assets	Encumbered assets
Book value of selected financial liabilities	79 924	106 944
Debt securities issued to the public	359 634	494 070
Derivative contracts	-	1 420
Total	439 558	602 433

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 coverd 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.
There has been no significant changes in the group's encumbered assets during the past period.
Group's encumbered assets increased due to issuance of covered bonds. Encumbered assets totaled EUR 602.4 million, out of which of coverde bonds was EUR 550.5 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 totalled EUR 240.0 on 31 December 2016. EUR 987 million of unencumbered loans can be used as collateral for covered bonds.

Sources:
Loans and deposits; Bank of Finland
Housing prices; November 2017, 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 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+ impairment losses on loans and other commitments)

Cost-to-income ratio, %

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

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.

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, impairment losses and depreciations.

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.

This is an unofficial English language translation of the original Finnish language release (Tilinpäätöstiedote) and it has not been approved by any competent authority. Should there be any discrepancies between the Finnish language and the English language versions, the Finnish version shall prevail.