THE MORTGAGE SOCIETY OF FINLAND

Annual Report 2003

English Summary

MANAGING DIRECTOR'S REVIEW

THE YEAR 2003 WAS A GOOD YEAR FOR THE HOUSING MARKET

At our Housing Market Seminar at the beginning of 2003 we estimated that the year would be a good year for the housing market. Now that the year is behind us, it is my pleasure to say that this has indeed happened. The year 2003 was a good year for everyone in the housing market, undoubtedly also for the only specialised operator in housing finance, the Mortgage Society of Finland. The first full year of the reformed Mortgage Society Group's operations showed that our strategic choices for the development of the Group in the upcoming years are correct.

A DESIRE TO MOVE FROM RENTED HOUSING TO ONE'S OWN HOME BOOSTED THE DEMAND FOR LOANS

A historically low level of interest rates maintained very strong demand in the housing market for the entire year despite a general recession in the economy. The recession meant that unlike previous years, the demand for housing loans was not primarily based on migration to centres of employment growth but on a structural change from rental housing and right-of-residence housing to owner-occupied homes, supported by the general level of interest rates. This development can be regarded as a very positive and healthy change in the market, attributable to the final dissolution of the shadows of the bad recession of the early 1990s.

LOANS ARE CHEAP BUT HOMES ARE EXPENSIVE

An interesting phenomenon in the housing loan market was intense price competition between the banks while the demand for loans was very high. Generally, the most intense price competition in other markets does not take place at a time when the products are very fast-selling in any case. However, the competition on margins, which was very favourable for Finnish borrowers, meant that the prices of housing loans were the lowest in the euro area. The situation would be perfect for the customer if similar intense price competition could be focused on keeping a curb on home prices. Unfortunately, this is not the case and prices have been rising. The imbalance between demand and supply, caused by low supply, is a fundamental problem in centres of growth, and while municipalities have a monopoly on town planning, no right solutions seem to be available. Thus, financing issues are not necessarily crucial any longer when assessing the future development of our housing market.

THE MORTGAGE SOCIETY ACHIEVED ITS GROWTH TARGET, COMPETITION ON MARGINS CUT THE NET INTEREST INCOME

The Mortgage Society's objectives for new private customers and controlled growth as a provider of housing loans were achieved and exceeded, even though the targets were set quite high. Our target for the total loan portfolio, €360 million, was exceeded with a total growth of 11.2%. As far as the structure of the loan portfolio is concerned, our objective is to exceed the average in the growth of housing loans for private customers, and we succeeded in this. Loans to households increased by a total of 21.3%, while loans to housing corporations, where the pricing is tighter, remained at the previous year's level.

The intense, and from time to time, excessive competition on housing loan margins cut our net interest income, despite the growth of the loan portfolio. Our net interest income decreased by 4.3%. Any further decrease of margins from the current level is not probable. This would lead to increased cross-subvention of housing loans in large banks at the expense of other products. This is not easy to realise under intense competition of financial services. However, it is not probable that the margins would essentially return to their earlier higher levels.

The Mortgage Society's strategy prepares for intense price competition. In terms of price, we will also be able to offer our customers competitive housing loans in the future. In the pursuit of good results under intense price competition, a low level of fixed costs will play the key role in the upcoming years. We will focus and develop our operations as a special operator in housing finance. Steady and controlled growth in customer memberships is also our goal in the future. We are well-prepared for this by offering competitive and innovative housing finance products to serve the needs of our customers.

OPERATING PROFIT IMPROVED ON THE PREVIOUS YEAR

The financial result of the lively year was good. Operating profit increased to €4.1 million from the previous year's €2.5 million. Sales gains from real estate affected the good earnings more than usually, even though these are a part of the Mortgage Society Group's normal business as a significant owner of residences and real estate. Also in this respect, Reverse Mortgage is a product range that suits our operations well. The year's expenses also included extraordinary, non-recurring costs associated with the reform programme.

STEADY DEVELOPMENT WILL CONTINUE

The outlook for the Mortgage Society Group is good. I strongly believe that the Group will also be able to achieve its targets in the future and, together with its customer members, develop into a housing finance provider in all the sectors of housing finance that customers regard as the best solution. I would like to express my thanks to our customers and personnel for a good housing market year 2003.

Matti Inha

ANNUAL REPORT

Board of Directors' Report

OPERATING ENVIRONMENT

The housing market was lively during the 143rd year of the Mortgage Society of Finland's operations. Residential construction volumes increased rapidly – particularly with regard to do-it-yourself builders; the increase amounted to as much as 50%. One in every three households was planning repairs to its residence within one year. A lot of home sales were conducted particularly in the Helsinki region. The escalation of prices of old residences slowed down on the previous year; prices climbed 6.8% nationwide, 7.4% in the Helsinki region and 6.2% elsewhere in the country. Construction expenses increased by 1.6%, while the change in consumer prices was only 0.5%.

The 12-month Euribor rate declined by 50 basis points during the year: the average interest rate in January was 2.705%, in June 2.014% and in December 2.381%. Total deposits from private households increased by 8.1% to €50.2 billion. The average interest rate of the deposit portfolio decreased from 1.28% in January to 0.97% in December. The total volume of loans raised by households from banks was €53.0 billion; the total volume of housing loans from banks increased by 15.7% to €36.1 billion (compared to 12.7% in 2002). A total of 67.0% (60.4%) of new housing loans were linked to Euribor rates, 21.3% (36.7%) to bank-specific prime rates and 11.8% (2.1%) to fixed rates.

The total volume of euro-denominated debt instruments issued by Finnish credit institutions amounted to €23.8 billion (€24.0 billion), of which institutions other than deposit banks made up €2.7 billion (€2.3 billion).

In January 2003, total deposits from private households still exceeded the total volume of housing loans and consumer credit, but from February onwards, deposits no longer covered the loan portfolio. The interest rate margin between housing loans and deposits from households at deposit banks decreased from 3.26% in January to 2.59% in December, which means that the deposit banks' net interest income decreased in 2003.

Intense competition for housing loan customers continued, benefiting prospective home buyers. The average interest rate on the banks' new housing loans fell by 0.63 percentage points over the January-December period, which is 13 basis points more than the corresponding decline of the 12-month Euribor rate. Over three years the rate of interest on new housing loans has declined by 2.85 percentage points from 6.18% to 3.33%.

The Mortgage Society published its own quarterly housing market analysis. The purpose of this well-received analysis is to provide market participants with a simplified overview of the housing market and related changes, and of topical issues.

The Mortgage Society is a member of the following international housing finance associations: Nordisk Realkreditsamråd, European Mortgage Federation, and the Mortgage Bankers Association. Suomen AsuntoHypoPankki Oy joined the Finnish Bankers' Association and the credit card service company Luottokunta.

OPERATIONAL UPDATE PROGRAMME

A programme developing the Mortgage Society's operations was continued within the framework of the Group's mission, vision and strategy defined in the previous year and its updated visual appearance. Loan services were also reformed, and the Group introduced deposit services and started the marketing of the Hypo Visa card. The first construction project within the scope of the so-called RS system was started.

The Mortgage Society's Reverse Mortgage, which enables homeowners to release dormant equity in their homes for their own use through a tailored contractual arrangement and was introduced in the previous year, received great interest among senior customers. The Hypo Baby account, introduced towards the end of the year, immediately led to deposit contracts. Grandparents can use the account to collect a nest egg for their grandchildren's future housing by monthly payments.

Our marketing and IT partners during the past year included the Tapiola Group, Oy Samlink Ab, OpusCapita Plc, Luottokunta, eQ Bank Ltd., Suomen SKV Oy, Mansoft Oy, Zippoint, ERA Finland, Älvsbyhus, Upseeriliitto and Suomen Vuokranantajat.

THE MORTGAGE SOCIETY GROUP OF COMPANIES

The Mortgage Society Group's consolidated financial statements comprise the Mortgage Society of Finland and Suomen AsuntoHypo-Pankki Oy. There is no material difference between the Mortgage Society Group's consolidated financial statements and the unconsolidated financial statements of the Mortgage Society of Finland. In the following, the information relates to the Mortgage Society unless otherwise specified in context.

SUOMEN ASUNTOHYPOPANKKI OY

Suomen AsuntoHypoPankki Oy is a deposit bank, and the parent company Mortgage Society of Finland is a credit institution that is permitted to engage in other banking operations but not deposit banking. Neither one is involved in payment transmission operations. The purpose of AsuntoHypoPankki is to offer deposit banking services to the housing loan customers of the Mortgage Society. AsuntoHypoPankki is a member of the banks' deposit protection fund.

AsuntoHypoPankki started its operations in stages during the year 2003 in close cooperation with the Mortgage Society, based on a deposit banking licence granted by the Ministry of Finance in 2002. The bank launched deposit services with fixed-term deposit accounts and home buyer's savings programme accounts. The deposit portfolio amounted to €4.3 million at the end of the year. The marketing of the Hypo Visa card, a long-term credit card, was started in the spring. Towards the end of the year, the product range was supplemented with savings programme accounts (ASP) for young home buyers and the new Hypo Baby account for grandparents who save up money for a residence to be acquired for their grandchildren once they come of age.

The net income from financial operations mainly originates in the equity investment; the expenses originate in the start-up of the operations and joining the Finnish Bankers' Association. According to the plans, the deposit system will be completed and introduced into widespread use in the spring of 2004, for which reason there was no depreciation in 2003.

The Board of Directors, which comprises the same people as the Board of Directors of the Mortgage Society, convened eleven times.

MEMBERSHIP BENEFITS

The Mortgage Society Group provides its customer members with competitive housing loans and other credit, deposit services, the Hypo Visa credit card and safekeeping of collateral documents free of charge, even after the mortgage period, as well as discounts on the services of its partners eQ Bank, Suomen SKV, Suomen Vuokranantajat and the Tapiola Group.

LENDING

The Mortgage Society's total loan portfolio grew by 11.2% to €364.7 million (€328.0 million). The customers of the Mortgage Society are able to choose the reference rate for their loan, which can be either a Euribor rate, a fixed rate or a combination of these that balances the interest rate risk.

A total of €112.6 million was drawn in new loans, which was 21.1% more than the year before (€93.0 million).

The Mortgage Society's loan portfolio at year-end, grouped by main categories:

Loans outstanding € million	**2003**	**2002**	**Change**	**Change %**
Housing loans to households	198.9	166.1	32.8	19.7
Consumer loans to households	21.3	15.4	5.9	38.3
Households total	220.2	181.5	38.7	21.3
Housing corporations and similar entities	107.2	108.4	-1.2	-1.1
Interest-subsidised housing corporation loans	36.0	36.4	-0.4	-1.1
Housing corporations total	143.2	144.8	-1.6	-1.1
Loans made from government funds	1.4	1.7	-0.3	-17.8
Total loans	364.7	328.0	36.7	11.2

The average loan amount grew by 13.4% (15.5%).

INVESTMENTS

The Mortgage Society's assets were invested in three areas: lending, real estate and listed equities. The Society's return target on real estate investments is 5 to 7 per cent. All real estate investments are located in the key residential areas of Helsinki. The Mortgage Society's investments in listed equities are long-term holdings, and it does not actively trade in securities.

In addition to rents, income from real estate includes sales gains to the amount of €2.8 million. The property at Piikkikuja 6 was formed into the housing corporation Asunto Oy Vantaan Piikkikuja 6, which created sales gains of €2.0 million. In connection with the sale, a revaluation reserve of €1.4 million was dissolved.

The net yield on real estate investments was 8.0% (6.2%) based on book values. Monthly rental income from residential real estate averaged €11.87 (€10.65) per square metre. The average book value of residential real estate was €1,029 (€1,146) per square metre, while business premises in central Helsinki averaged €2,748 (€2,904) per square metre. The book values of residential real estate, the majority of which is located in the Helsinki region, amounted to approximately 46% (53%) of average sales prices in the region.

Unrecognised gains on listed equities carried as current assets totalled €2.8 million at the end of the year, as compared to €2.1 million a year earlier. Sales gains on equities and cancellations of write-downs amounted to €0.4 million (€-0.2 million).

FUNDING

Fennorating Oy renewed the Mortgage Society's long-term credit rating of A+ stable. More detailed information is available at www.fennorating.fi.

Total borrowings stood at €343.5 million at the end of the year (€310.8 million). Lent funds included €21.3 million of the Mortgage Society's regulatory capital (€17.3 million). The Mortgage Society's drawn and undrawn credit facilities to cover for housing loans with a loan period longer than ten years, with a similar loan period, amounted to €88.0 million, which is 24.1% of the loan portfolio.

Bonds

The Mortgage Society's bonds are issued under a €200 million face value bond programme set up in 2000 and increased in 2003, which was arranged by Sampo Bank Plc. The total book value of outstanding bonds and certificates of deposit was €97.4 million (€86.3 million).

The first instalment of the 1/2003 bond issue, amounting to €20 million, was issued on 2 June 2003. The issue will mature on 2 June 2008 and its coupon rate is 6-month Euribor + 0.15%. The issue was arranged by Sampo Bank Plc.

The outstanding amount of the serial bond 1/2000 is €55 million. The issue will mature on 2 November 2005 and its coupon rate is 6-month Euribor + 0.175%. The issue was arranged by Sampo Bank Plc.

A total of €1.8 million remains outstanding of the bond issue 2/2000, whose coupon rate is 12-month Euribor + 0.175%. These bonds will mature on 2 November 2005. The bond issue was arranged by the Mortgage Society.

The bond issue 1/2001 is a €9.3 million face value equity index loan that will mature in three instalments on 2 November 2006, 2 December 2006 and 2 January 2007. The issue was arranged by Nordea Bank Finland Plc. The return of the equity index linked bond issue 1/2001 is tied to an equity index basket comprising 45% of EURO STOXX 50, 40% of Standard & Poors 500 and 15% of Nikkei 225. At least a 10% return will be paid upon maturity in addition to the principal amount of the bonds.

Interest rate derivatives

The Mortgage Society has hedged the interest rate and equity index risk through derivatives contracts so that the rate of interest payable is linked to the reference rate charged on its loan portfolio. The total face value of interest rate swaps stood at €84.8 million at the end of the year (€61.3 million). The index bonus on the equity index linked bond has been converted into obligations based on the 12-month Euribor through interest rate swaps. The 6-month Euribor rate of the bond issues 1/2000 and 1/2003 has been contractually swapped for 12-month Euribor and 3 and 5-year fixed rates based on the loan portfolio's reference rates.

Certificates of deposit

The book value of the certificates of deposit belonging to the Mortgage Society's €100 million CD programme was €10.8 million. The certificates of deposit will be issued through Sampo Bank Plc, Nordea Bank Finland Plc and Danske Bank A/S, Helsinki branch.

Other funding

The deposit portfolio of AsuntoHypoPankki, €4.3 million, constitutes a part of the Group's funding. The Mortgage Society's other fund raising is based on promissory notes issued to banks, insurance companies, and to corporations in respect of personnel loans.

RISK MANAGEMENT

The purpose of risk management is to recognise threats and opportunities that have a bearing on the achievement of the Mortgage Society's strategic objectives, and to make sure that risks are taken in appropriate proportion to the ability to bear risk. Most of the Mortgage Society's operations are directed towards households. The risk management of the Mortgage Society is based on policies, guidelines and authorisation issued by the Board of Directors and monitored using risk and deviation reports. The Mortgage Society has arranged its risk management with respect to its organisational structure and the scope of its business operations.
Risk management covers the following risks associated with the Mortgage Society's operations, among others: credit risk, interest rate and funding risk, real estate and investment risk, operational risk and strategic risk.

Credit risk

The purpose of credit risk management is to keep the impacts of customer liabilities on earnings and capital adequacy down to an acceptable conservative level. The focus of the Mortgage Society's lending is on housing loans granted to households and other closely related financing services against a residence as collateral. The taking of credit risk is limited to loans granted in accordance with the general terms and conditions for lending, confirmed by the Supervisory Board as required by the Society's rules. The fundamental principle is that lending is based on the customer's creditworthiness, an adequate ability to service the loan and sufficient security. Lending has focused more and more on centres of growth, where the development of residential real estate values can be predicted better. The customer's ability to service the loan has also been evaluated using stress tests that include provisions for a potential rise of the interest rate. The credit decisions made by the management team are communicated monthly to the Board of Directors. The Board of Directors shall decide on the granting of any loans with an unconventional amount or security. Loans of more than €200,000 require special grounds. The credit approval process pays specific attention to the sufficiency of the documentation serving as the basis of the credit decision, the separation of the process stages and the correctness of information.

The Mortgage Society does not grant corporate credit without collateral. The amount of loans granted against mortgage security to corporate customers other than housing corporations was minor, €10.1 million or 18% of regulatory capital. The Mortgage Society does not have any customer entities whose liabilities would exceed the limit specified in the Credit Institutions Act, 25% of regulatory capital. The amount of liabilities attributable to customer entities exceeding the 10% limit is €11.4 million or 20.5% of regulatory capital. The amount of loans granted to the Mortgage Society's subsidiaries is €9.0 million or 16.1% of regulatory capital, while the maximum in accordance with the Credit Institutions Act is 20%.

In accordance with the loan terms and conditions, the borrower must take out an insurance policy covering the real estate mortgaged as collateral. The Mortgage Society has taken out a collective insurance policy for the real estate mortgaged as collateral to cover for any failures to pay insurance premiums.

Unserviced credit is monitored regularly and collection actions are started immediately when even the slightest risk of credit losses is suspected to exist. A conservative lending policy and sufficient security have kept the Mortgage Society's credit losses to a minimum.

Interest rate risk

Interest rate risk refers to the impact of changes in the interest rate level on earnings and capital adequacy. Interest rate risk is caused by differences in the reference rates of receivables and liabilities, as well as in their different rollover periods and maturity dates. Interest rate risk is the most significant of the market risks. Interest rate risk is controlled by matching borrowing with lending, keeping the reference rates and rollover periods in line with each other with respect to the money market situation. The interest rate risk at the end of the year amounted to 5.85% of net income from financial operations.

Funding risk

Funding risk is a risk associated with the availability and price of funding, caused by different maturities of receivables and liabilities. Funding risk is also created if receivables, liabilities or derivatives contracts are too dominated by single counterparties. The Mortgage Society raises most of its funding by means of long-term promissory notes and bonds, keeping the ratio between funding and lending at an adequate level and maintaining good liquidity. The maturity of the Mortgage Society's funding is significantly longer than what is generally applicable to deposit banks. The financing position remained good and stable throughout 2003.

Real estate and equity risk

Real estate risk refers to the risk of loss of value, yield and damage on real estate assets. The real estate shares held by the Mortgage Society are located in the Helsinki region and mostly consist of residential units. The ratio between the book values and market values of shares in housing corporations is kept at a conservative level, eliminating any significant earnings impacts from potential decreases in value. At €16.2 million, the book value of real estate amounts to 4.0% of the balance sheet total, while the maximum prescribed in the Credit Institutions Act is 13% of the balance sheet total.

Equity risk is realised through a decrease in price or yield, causing a negative effect on earnings. The Mortgage Society will be essentially reducing its equity risk in the upcoming years by divesting itself of equity investments.

At €4.2 million, the book value of equity investments amounts to 7.5% of regulatory capital, while the maximum prescribed in the Credit Institutions Act is 60%.

Operational risk

Operational risk refers to losses due to deficiencies in systems, processes and the actions of personnel, or losses due to external factors. The identification of operational risks, their impact and probability have been assessed on the basis of a self-evaluation method implemented by the internal auditors. The management of risks associated with the functionality of information systems, personnel, insufficient routines and instructions, as well as intentional malpractice, has been improved by arranging appropriate training, as well as developing and increasing the amount and availability of instructions through the Mortgage Society's intranet pages.

Crucial information systems have been outsourced or procured as software packages, and contingency plans have been made to cover for risks caused by operational disturbances. Legal risks are managed by means of standardised contract terms approved by the authorities.

Strategic risk

The growth strategy of the Mortgage Society's business is based on conservative risk-taking so that the Mortgage Society's risk position is kept at a targeted level. The strategies chosen are dimensioned so that they are in correct proportion to the Mortgage Society's ability to bear risk, technical and human resources and the competence of personnel. Strategic risks are managed by updating the strategies annually and regularly monitoring the realisation of the annual plans.

INTERNAL AUDIT

The reformed internal audit function performed extensive internal audits in accordance with an audit plan and participated in development and training operations.The Mortgage Society has internal audit contracts with Oy Inreviso Ab and Control Consulting CC Ltd Oy. The tasks have been performed by Eila Koivu, CIA, CCSA, CISA, CFE, and Atte Holopainen, M.Sc., CISA.

NON-PERFORMING AND OTHER NON-INTEREST BEARING LOANS AND COLLECTION OF RECEIVABLES

The amount of non-performing and other non-interest bearing loans fell by 18.0%, to €2.1 million (€2.6 million). They accounted for 0.6% (0.8%) of the total loan portfolio.

NET INCOME AND PROFITABILITY

On 20 August 2003, the Mortgage Society published an interim report for the period 1 January to 30 June 2003.

The objectives set for the year's net income and loan portfolio growth were achieved. The Mortgage Society Group's net interest income decreased by 4.3% to €3.6 million (compared to €3.8 million the previous year). A substantial growth in the loan portfolio was not enough to compensate for the decline in loan margins and interest rates that impacted net interest income. The Mortgage Society's net interest income declined by 7.8% to €3.5 million (€3.8 million).

Dividend income remained at €0.3 million. Net income from securities transactions amounted to €0.4 million (€-0.2 million), consisting of €0.2 million (€0.0 million) of sales gains and €0.2 million of cancelled write-downs (compared to € 0.2 million of write-downs in the previous year).

Other operating income – that is, income from real estate investments – totalled €4.4 million (€2.1 million). This income includes €0.7 million (€0.6 million) of gains on the disposal of some residential real estate not integral to the Society's real estate investment strategy, as well as €2.0 million of sales gains generated by the corporate formation of the property at Piikkikuja 6, €1.4 million of which is attributable to cancelled revaluations.

The Group's administrative expenses increased by 30.9% to €4.0 million (€3.0 million) mostly in accordance with the operational update programme due to office repairs, marketing and IT expenses, as well as increased staff costs. The Mortgage Society's administrative expenses, which stood at €3.9 million, increased by 28.5%.

Other operating expenses amounted to €0.7 million (€0.6 million).

Scheduled depreciation on real estate and equipment, and the amortisation of software licences, was based on the maximum amounts allowable under the Business Tax Act.

The total amount of realised credit losses €0.01 million (€0.2 million), returned credit losses €0.03 million (€0.01 million) and adjustment in specific credit loss provisions decreased the profit by €0.07 million (compared to an increase of €0.09 million). Realised credit losses amounted to 0.004% of the loan portfolio (0.05%).

The consolidated operating profit increased by 62.2% and totalled €4.1 million (€2.5 million). Due to the growth of the loan portfolio, the tax-deductible amount of the general loss provision booked earlier increased, which cut income taxes by €0.5 million. After direct taxes the year's net income grew by 47.0%, totalling €3.4 million (€2.3 million). The income/expense ratio was 1.9 (1.6). Expenses totalled 54.1% of income (61.4%). Balance sheet equity and reserves grew by €1.9 (2.5) million to €55.7 (53.8) million. The balance sheet total was €403.2 million (€370.1 million).

The Mortgage Society's operating profit increased by 59.0% and totalled €4.1 million (€2.6 million). After direct taxes the year's net income grew by 43.8%, totalling €3.4 million (€2.4 million). The income/expense ratio was 1.9 (1.7). Expenses totalled 53.4% of income (60.6%). Balance sheet equity and reserves grew by €1.9 (2.5) million to €55.7 (53.8) million. The balance sheet total was €404.7 million (€376.1 million).

Contingent liabilities, which consist of interest rate swaps for hedging purposes and undrawn lending, grew by 33.0% (32.2%) to €96.7 million (€72.7 million).

CAPITAL ADEQUACY

Based on applicable legislation on the capital adequacy of credit institutions, the equity and reserves (regulatory capital) of a credit institution must total at least 8% of its risk-weighted receivables, assets and contingent liabilities.

The Mortgage Society's capital adequacy ratio was 22.2% (22.9%), consisting of:

€ million	31 Dec 2003	31 Dec 2002	Change %
Regulatory capital			
Tier 1 capital	45.9	42.3	8.5
Tier 2 capital	9.8	11.5	-14.8
Total regulatory capital	55.7	53.8	3.5
Risk-weighted receivables, assets and contingent liabilities			
Group I (public sector entities)	0.0	0.0	-
Group II (credit institutions)	2.7	2.9	-6.9
Group III (housing loans)	99.3	83.7	18.6
Group IV (other loans and assets)	149.1	147.8	0.9
Total	251.1	234.4	7.1
Ratio of Tier 1 capital to risk-weighted receivables, assets and contingent liabilities	18.3%	18.1%	
Capital adequacy ratio	22.2%	22.9%	
Equity/total assets	13.8%	14.3%	

The consolidated capital adequacy ratio was 22.4% (22.9%).

FUTURE OUTLOOK

A stable overall economy and money market will contribute to a favourable housing market also in the future. The development of the housing market is also affected by actions of the government. Poor availability of new sites for residential buildings is a bottleneck particularly in the Helsinki region. Home sales are expected to continue at a fairly brisk pace. Consumers' confidence in their personal financial situation will remain favourable. The low general level of interest rates will continue to contribute to housing loan demand; it is reasonable to move from rented housing to one's own home. A moderate rise in home prices is expected. The ratio of total housing loans to GNP remains below the EU average in Finland. Competition between banks for housing loan customers will benefit prospective home buyers but pose challenges for the banks. Customers will be in a particularly good position in 2004 to smooth out their interest rate risk by tying either all or parts of their loans to longer reference rates.

At the Mortgage Society 2004 will be a year characterised by a new corporate image, reformed procedures, as well as established and growing housing finance services. AsuntoHypoPankki's specialised deposit-taking services, the Hypo Visa card and Reverse Mortgage solutions will complement the range of housing finance services offered to our customer members.

The Mortgage Society seeks stable and profitable growth by capitalising on its solid financial position, and places importance on offering reliable and high-quality services that address the lifelong housing needs of its customer members. The sales of shares in Asunto Oy Vantaan Piikkikuja 6, established in 2003, have started at the beginning of the year, mainly targeting the current tenants of the building. By the end of January, a sales contract had been signed on one third of the units. The Mortgage Society's rental properties will also serve our customer membership through new solutions, such as temporary residences to bridge the sale of an existing home and the purchase of a new one.

Supervisory Board

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Managing Director Pentti Vartia

Auditors:
Risto Mäkiö, APA
SVH Pricewaterhouse Coopers Oy,
Juha Wahlroos, APA
Jukka Mynttinen, APA

144 years of the Mortgage Society of Finland

From imperial proclamation to a loan portfolio of some € 365 million

25.5.1859	His Imperial Majesty’s Gracious Proclamation on the terms and general principles of the Mortgage Society of Finland.
15.9.1859	First general meeting in Helsinki for the establishment of a Mortgage Society in Finland.
4.6.1860	Decision on the establishment of the Mortgage Society of Finland in Hamina in connection with a general agricultural meeting.
24.10.1860	Senate ratifies the rules of the Mortgage Society of Finland.
II/1862	Lending operations start with funds received from the Bank of Finland and the Mortgage Society's own bonds. Loans are repayable over 55 years in level annuity instalments.
1862	Finland's first private bond issue.
XII/1864	First foreign loan from M. A. V. Rothschild & Söhne (Frankfurt am Main) 3 million Prussian thaler/FIM 8,998,300 after 19% issue discount.
1865	The Finnish Markka is tied to a silver standard backed up by a FIM 8 million currency reserve deposited at the Bank of Finland by the Mortgage Society.
1869-1881	Senator J.V. Snellman serves as a Managing Director of the Mortgage Society of Finland at a fixed annual salary of FIM 8,000.
1865-1915	Freedom fighter, Lieutenant and Knight of Dannebrog, Herman Liikanen, serves the Mortgage Society of Finland as an accountant for nearly 50 years.
1890s	Economic growth. The Mortgage Society's loan portfolio totalled FIM 22 million in 1890 and FIM 73 million in 1913.
1914-1918	First World War. Based on the guarantee of the Grand Duchy, the government of Finland, the Republic of Finland paid off bonds issued before the war in the 1920s as creditors demanded payment on four currency-denominated loans in the currency least affected by inflation, the Swedish Krona.
1913-1917	The Mortgage Society finances AB Brändö Villastad, the garden suburb of Kulosaari in Helsinki.
1927-1979	The Housing Mortgage Bank of Finland. An 18% market share in all loans made on urban real estate in the latter 1920s. Slightly less than 70% of these loans went to Helsinki. The bank was toppled by foreign exchange losses.
1929	Start of the Great Depression.
1937	Head office, which now houses the Ministry of Transportation, taken over by the government as old bonds and related agricultural loans were assumed by the state.
1939-1945	War years.
1945-1959	Post-war relocation activity. In addition to land loans, government funds also used for condominium association and association member loans, or home mortgage banking. Kansallis-Osake-Pankki and Pohjoismaiden Yhdyspankki, for example, served as agents. Subsequently also Postisäästöpankki.
1960-1980	Loan portfolio grows slowly. Farm loans from government funds.
1980-1997	Lending expands to home building and purchase of condominium shares, and to condominium association repairs and new construction. Positive net income even during banking crisis.
1999	Funding raised in euros. Total loan portfolio € 277 million.
2000	Year 2000 preparations. Total loan portfolio € 280 million.
2002	The operational update programme of the Mortgage Society of Finland approved. Total loan portfolio € 330 million. Establishment of a deposit taking bank called Suomen Asuntohypopankki Oy. Bank's equity € 6 million.
2003	Thanks to the operational update programme membership of the Mortgage Society starts to rise again. Loan portfolio € 365 million. Volume of deposits € 4.3 million. Products like Hypo Visa card, Reverse Mortgages and Reverse Mortgage Loans, ASP-loans and a diverse range of deposit products become available to members.
2004	Granting of Student Loans commences.

PROFIT AND LOSS STATEMENT
1 January – 31 December 2003

€ 000s	Consolidated 2003	Consolidated 2002
Interest income	**14 653.9**	15 578.4
Interest expenses	**-11 025.3**	-11 786.3
NET INTEREST INCOME FROM FINANCIAL OPERATIONS	**3 628.8**	3 792.1
Income from equity investments		
Group undertakings	**23.7**	35.2
Other undertakings	**256.0**	233.1
	279.7	268.3
Commission income	**300.0**	327.9
Commission expenses	**-47.6**	-50.3
Net income from securities transactions and foreign exchange dealing		
Net income from securities transactions	**432.6**	-214.4
Other operating income	**4 407.7**	2 126.5
Administrative expenses		
Staff costs		
Salaries and fees	**-1 556.1**	-1 307.3
Staff-related costs		
Pension costs	**-248.4**	-223.1
Other staff-related costs	**-75.9**	-72.0
Other administrative expenses	**-2 085.9**	-1 428.0
	-3 966.3	-3 030.3
Depreciation, amortisation and write-downs on tangible and intangible assets	**-139.6**	-87.3
Other operating expenses	**-744.7**	-678.7
ö		
Loan and guarantee losses	**-73.3**	89.4
Write-downs on securities held as fixed assets	**-1.8**	-30.2
PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES	**4 075.6**	2 513.0
Appropriations	**0**	0
Income taxes	**-628.2**	-204.4
PROFIT FOR THE YEAR	**3 393.4**	2 308.5

BALANCE SHEET
31 December 2003

€ 000s	Consolidated 2003	Consolidated 2002
ASSETS		
Cash and equivalents	4.0	4.1
Claims on credit institutions		
Payable on demand	14 246.1	6 216.1
Other	498.9	7 220.5
	14 745.0	13 436.7
Claims on the public and public sector entities	364 749.7	328 028.1
Debt securities		
On public sector entities	208.3	3 431.0
Other		21.9
	208.3	3 452.8
Shares and equity participations	4 092.8	4 081.2
Shares and equity participations in subsidiaries	168.2	168.2
Intangible assets	733.8	93.3
Tangible assets		
Real estate and shares and equity participations in real estate entities	16 195.8	17 812.8
Other tangible assets	466.2	274.1
	16 662.1	18 086.9
Other assets	113.5	293.5
Accrued income and prepaid expenses	1 715.1	2 412.9
	403 192.6	370 057.8
LIABILITIES AND EQUITY CAPITAL		
LIABILITIES		
Liabilities to credit institutions and central banks		
Credit institutions		
Not payable on demand	197 362.6	211 339.1
Liabilities to the public and public sector entities		
Other liabilities	53 073.6	13 077.0
Debt securities issued to the public		
Bonds	86 573.4	66 393.7
Other/certificates of deposit	4 982.0	19 940.8
	91 555.4	86 334.5
Other liabilities	1 815.4	1 218.9
Accrued expenses and deferred income	3 671.1	4 294.3
APPROPRIATIONS		
Voluntary provisions	13 118.7	13 118.7
EQUITY CAPITAL		
Basic capital and share capital	5 000.0	5 000.0
Revaluation reserve	9 782.7	11 461.2
Other restricted reserves		
Reserve fund	19 531.8	18 117.7
Non-restricted reserves		
Contingency reserve	4 925.8	3 775.8
Profit or loss brought forward	-37.9	12.0
Profit or loss for the year	3 393.4	2 308.5
	42 595.8	40 675.3
	403 192.6	370 057.8
OFF-BALANCE SHEET COMMITMENTS		
Unrevocable commitments issued on behalf of customers	11 898.9	11 397.8
Derivatives contracts/interest rate swap agreements	84 840.0	61 340.0
	96 738.9	72 737.8

FINANCIAL INDICATORS 1999 – 2003

(1 000 €)
Indicators from years 1999-2001 are presented as the parent company and thereafter the Group

	1999	2000	2001	2002	2003
Net revenue	16 625	17 578	19 230	18 087	20 074
Change %	-5.6	5.7	9.4	-5.9	11.0
Net income from financial operations	4 213	3 749	3 819	3 792	3 629
% of revenue	25.3	21.3	19.9	21,0	18.1
Net operating profit / Profit/loss before appropriations and taxes	3 239	2 508	2 722	2 513	4 076
% of net revenue	19.5	14.3	14.2	13.9	20.3
Depreciation, amortisation and increase in voluntary appropriations	1 501	412	-9	87	140
Loan loss items	-46	83	-9	-89	73
Loans outstanding	277 163	280 854	296 002	328 028	364 750
Non-performing and other non-interest bearing loans	2 952	2 511	2 778	2 577	2 113
% of loans outstanding	1.1	0.9	0.9	0.8	0.6
Funding	261 399	272 367	279 517	310 751	341 992
Equity capital and voluntary provisions	47 138	49 080	51 397	53 794	55 714
Total assets	313 136	327 541	336 491	370 058	403 193
Return on equity % (ROE)	5.3	3.7	4.3	4.3	6.2
Return on assets % (ROA)	0.79	0.56	0.64	0.62	0.88
Equity ratio %	15.1	15.0	15.2	14.5	13.8
Capital adequacy ratio %	25.7	25.4	24.6	22.9	22.4
Interest margin %	1.5	1.3	1.3	1.2	1.0
Income/expense ratio	1.9	1.8	1.9	1.6	1.8
Expense/income %	53.0	56.6	53.5	61.3	54.1

CALCULATION OF FINANCIAL INDICATORS

Net revenue	Interest income + income from equity investments + commission income + net income from securities transactions and foreign exchange dealing + other operating income
Equity capital	Equity capital + voluntary provisions
Return on equity % (ROE)	(Net operating profit – income taxes) / (Equity capital + voluntary provisions (mean of opening and ending balance)) x 100
Return on assets % (ROA)	(Net operating income – income taxes) / (Average assets (mean of beginning and ending balance)) x 100
Equity/total assets %	(Equity capital + voluntary provisions) / (Total assets) x 100
Capital adequacy ratio %	(Equity capital + voluntary provisions – intangible assets) / (Total risk-weighted receivables, investments and off-balance sheet commitments) x 100
Interest margin %	(Net income from financial operations) / (Average loans outstanding (mean of beginning and ending balance)) x 100
Income/expense ratio	(Net income from financial operations + income from equity investments + commission income + net income from securities transactions and foreign exchange dealing + other operating income) / (Commission expenses + administrative expenses + depreciation and amortisation + other operating expenses) x 100
Expense/income %	1 / (Income/expense ratio) x 100

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