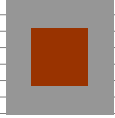


HYPO



**THE MORTGAGE SOCIETY  
OF FINLAND GROUP**

***ANNUAL REPORT 2005  
IN SHORT***



# HYPO



## Hypo in brief

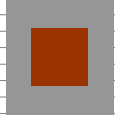
As a specialist in home financing, Hypo has been creating special solutions to meet the needs of its customers for 145 years. Even though visitors are prompted by the traditional architecture of our headquarters to call us the "old style bank", we have not merely preserved our roots, but have also diligently followed the march of progress by continually introducing new and innovative services. Our modernisation has been based on a firm historical foundation that flourishes again and again.

The operations of Hypo are based on the work of the Mortgage Society of Finland (Finland's oldest national private credit institution) and of the newer deposit bank Suomen Asuntohypopankki Oy. These operations together comprise the Hypo Group. With a staff of about thirty permanent specialists at a private service office in the centre of Helsinki, Hypo serves its member customers through encrypted Internet connections, by telephone and over the counter.

Besides traditional solutions, Hypo continually seeks to create new, customer-oriented options for housing and home financing. We provide our customers, individually and privately, with Finland's finest housing loan expertise. Our customers remain free to maintain their current accounts, investment and insurance banking at any clearing bank, as Hypo does not insist on centralised banking.

The mission, vision and strategy of Hypo have remained unchanged. The long-term vision to the year 2010 is unfolding as planned. The high level of solidity that is typical of Hypo continues to be the basis for operations. This high level will be maintained by profitable business and operations will be improved for the benefit of the customer now and in future years.

The A + (stable) credit rating of Hypo was reconfirmed on 19 October 2005. This rating indicates that Hypo has maintained good financial operating conditions. Its performance has been above average in terms of profitability, efficiency and solidity. The market position of Hypo has strengthened and it has become a force to be reckoned within the home financing sector. The risks associated with Hypo's business operations have also been analysed and actively minimised.



## Operating environment

Housing savers continued to benefit from fierce competition for housing loan customers during the 145<sup>th</sup> operating year of the Mortgage Society of Finland. The total value of loans granted to private households by Finnish financial institutions increased by 16.7 per cent in 2005 (15.4 per cent in 2004). The rate of increase in new and renegotiated agreements in 2005 was more than 30 per cent, reflecting fierce competition between financial institutions for the custom of private households.

Euribor interest rates increased, particularly in the latter half of the year. The 12-month Euribor that is most commonly used as a reference rate for housing loans increased by 0.50 percentage points over the whole year, compared to an average increase of only 0.18 percentage points in the average interest on new housing loans from the banks. Most new housing loans continued to be linked to the Euribor interest rates, while demand for fixed-rate housing loans continued at a slightly lower level than in the preceding year. The growing loan periods for housing loans and the interest situation also generated demand for long-term fixed-interest housing loans of 10-20 years in duration.

More new homes were purchased than in the preceding year and the housing price increases of the previous year continued in 2005. The increase in the prices of residences in old apartment buildings was 9.0 per cent for the whole of Finland, 10.2 per cent in the Helsinki Metropolitan Area, and 7.9 per cent elsewhere in the country. There was a clear trend in the housing market towards owner-occupied housing. This also meant greater freedom of choice for tenants in the rented housing market. The rise of 2.1 per cent in rents in the privately rented housing sector over the year was clearly smaller than the increase in housing prices.

Total deposits from private households continued to increase at an annual rate of 0.9 per cent in Finland. The average interest rate of the deposit portfolio increased by less than the rise in Euribor interest rates from 0.94 per cent in January to 1.01 per cent in December. Deposits from private households in Finnish financial institutions did not cover the volume of housing loans and consumer credit, and so the financial institutions also financed their operations by such methods as issuing various debt instruments.

The Mortgage Society of Finland publishes a quarterly review of the state of the housing market. This review seeks to provide a simplified analysis of the housing market and its trends, together with current issues of interest to market participants. The review is based on a combination of important housing market factors, such as supply and demand for homes, interest rates and housing prices.

## The Mortgage Society of Finland Group

The Mortgage Society of Finland Group (here referred to as the Hypo Group) is Finland's only specialist for residential mortgage lending and residences. The Mortgage Society of Finland is domiciled and headquartered in Helsinki and serves the whole of Finland.

The consolidated financial statements of the Hypo Group incorporate the operations of the Mortgage Society of Finland, which is the parent organisation (hereinafter referred to as Hypo), its wholly-owned subsidiaries Suomen AsuntoHypoPankki Oy (hereinafter referred to as AsuntoHypoPankki) and Hypoteekkinotariaatti Oy (hereinafter referred to as Hypoteekkinotariaatti), and a 61.9 per cent holding in the real estate subsidiary Bostadsaktiebolaget Taos (hereinafter referred to as Taos). The regulations of the Finnish Financial Supervision Authority allow dissociation from the consolidated financial statements of the real estate subsidiaries As Oy Helsingin Yhdyskunnantie 56 and As Oy Vanhaväylä 17, and of holdings in other real estate companies.

The function of AsuntoHypoPankki is primarily to provide suitable deposit banking services to the members of the Mortgage Society of Finland. The operations of Hypoteekkinotariaatti comprise ownership and leasing of apartment dwellings. Taos owns and administers land holdings and buildings, and leases the business premises from which Hypo provides its customer services.

## Investments and funding

Besides traditional services, the Hypo Group continually seeks to create new, customer-oriented options for housing and home financing. Hypo's assets are mainly invested in lending and real estate. Funding is made at arms length terms and observes the terms of lending operations with respect to interest rates and other terms and conditions in order to hedge risks.

### *Lending*

The lending operations of the Hypo Group focus on issuing mortgage loans to households and on other closely associated financing services. The Group's loan portfolio increased by 9.2 per cent over the previous year, which was almost in line with targets. Home loans to households increased by 16.2 per cent, which was the average rate of growth in the housing loan market. A total of EUR 130.6 million was raised in new or renegotiated loans from the Group.

The Group's loan portfolio at the end of the year comprised the following main categories:

Loan portfolio MEUR	31.12.2005	31.12.2004	Change %	Change %
Home loans to households	267.5	230.2	37.3	16.2 %
Consumer credit and other loans to households	17.8	26.6	-8.8	-33.0 %
Total loans to households	285.3	256.8	28.5	11.1 %
Housing companies and other corporations	103.6	97.3	6.3	6.5 %
Interest subsidised loans	19.2	19.3	-0.1	-0.4 %
Total loans to housing companies and other corporations	122.8	116.6	6.2	5.3 %
Loans granted from government funds	0.8	1.1	-0.3	-28.1 %
<b>Total loans</b>	<b>408.9</b>	<b>374.4</b>	<b>34.4</b>	<b>9.2 %</b>

### *Real estate investments*

The Hypo Group utilizes its balance sheet in a wide variety of ways when offering products and services to its customers. Real estate investments are an established part of the Group's strategic product package provided to the customer and thereby form part of its active business operations. Real estate investments are located in the principal residential areas of the Helsinki Metropolitan Area and mainly comprise leased residential apartments and residential sites that are on long-term lease to housing companies and are intended for fractional redemption.

The Group's real estate investments increased by 21.7 per cent to EUR 8.6 million. Real estate investments that are recognised on balance sheet at cost and/or at appreciated value amounted to EUR 48.1 million (EUR 39.5 million). The book values of residential apartments were approximately 76 per cent (64 %) of their estimated fair values.

### *Other investments*

The Group's other outlays mainly comprised investments of the Mortgage Society of Finland in publicly traded shares and funds, together with short-term deposits at financial market. Publicly traded shares and fund holdings are long-term investments, the volume of which will be reduced over the next few years in line with the Group strategy. The Mortgage Society of Finland does not engage in active securities trading. The financial market deposits that ensure daily liquidity of the Hypo Group are largely made at various banks within the limits of the Group's investments and investment policy.

Following divestments by the Group, net investments in publicly traded shares and funds entered in bookkeeping at their fair value fell by EUR 0.2 million in 2005.

### *Funding*

The euro-denominated assets required for business operations are procured from the financial market by issuing bonds and certificates of deposit, and from other financiers by means of individual securities. Derivative agreements are employed in funding only for hedging purposes. Total Group funding amounted to EUR 399.1 million (360.9 million).

The domestic rating agency Suomen Asiakastieto Oy renewed the Hypo Group's long-term credit rating of A+ stable in October 2005. This A+ rating is the fifth highest in the credit rating scale and represents an upper intermediate level. The debt obligations issued by the Mortgage Society of Finland serve to cover such items as long-term underwriting reserves of insurance companies and pension funds and are risk-weighted in the low 20 per cent risk category in the capital adequacy calculations of credit institutions.

The new bonds of the Mortgage Society of Finland were issued under a EUR 200 million face value bond programme. The total value of bonds in circulation at the time of the financial statements was EUR 141.8 million (97.4 million). The Group's outstanding certificates of deposit issued under a EUR 100 million programme amounted to EUR 11.2 million (11.2 million).

The 1/2000 and 2/2000 bonds matured in November 2005. To refinance these and cover working capital requirements, a 1/2005 bond with a par value of EUR 100 million was issued in a total of three tranches. A total of EUR 1.7 million had been subscribed by the end of the subscription period for debenture loan 2/2004 on 14 April 2005. The EUR 11.5 million (10.3 million) deposit portfolio of AsuntoHypoPankki forms part of the Group's funding.

The Mortgage Society of Finland has hedged the outstanding interest rate and equity index risk of balance sheet items in the manner required by the risk management principles through derivatives contracts so that its bond interest liabilities are largely consistent with the interest liabilities of its loan portfolio. The nominal value of interest rate swaps was EUR 120.9 million (102.6 million).

## **Earnings and profitability of Group operations**

The Hypo Group is seeking steady growth in its loan portfolio and clientele at controlled levels of risk. Profitability and costs are managed by maintaining an organisation that promotes productivity and ensuring cost-effective operating methods. Operating income is used to maintain capital adequacy and to develop competitive products for the benefit of the customer. As a credit institution, the principal risks in the operations of the Mortgage Society of Finland are credit risks, interest rate risks, and risks associated with the availability and costs of refinancing.

Consolidated operating profit was EUR 2.7 million (EUR 3.7 million). Disregarding the non-recurrent increase of EUR 1.4 million in operating profit in 2004 that was included in administration costs, comparable operating profit improved by EUR 0.4 million.

The established operating format of the Group is well described by the total of interest rate margin and net income from real estate excluding capital gains, which increased by 10.8 per cent to EUR 4.9 million, even though the interest rate margin fell by 8.5 per cent to EUR 3.0 million notwithstanding growth in the loan portfolio and increased interest earnings.

Group dividend income was EUR 0.1 million (0.3 million). Net income from securities transactions comprised capital gains from listed shares amounting to EUR 0.8 million (0.6 million).

Fee and commission income increased by 43.3 per cent to reach a consolidated level of EUR 0.5 million (0.3 million).

Consolidated net income from real estate investments was EUR 2.9 million (2.3 million). This income includes rent revenues and capital gains amounting to EUR 1.0 million (1.2 million) on the divestment of certain residential apartments that were not integral to the real estate investment strategy. The net income target for real estate investments is 5 - 7 per cent. The net income target for real estate investments reckoned by book value was 4.7 per cent (4.9 %).

The Group's administration costs were EUR 3.8 million (2.5 million, including a non-recurrent positive item of EUR 1.4 million). Comparable administration costs fell by 3.2 per cent. Administration costs were reduced by a decision that was taken to join the same VAT group as the main supplier of computer hardware and systems to the Mortgage Society of Finland. This VAT decision resulted in a reduction of EUR 0.1 million in administration costs.

Depreciation on real estate, equipment and software licenses amounted to EUR 0.5 million (0.2 million). Depreciation increased because a decision was taken to bring software used by AsuntoHypoPankki within the scope of three-year depreciation.

Other operating costs remained unchanged at EUR 0.3 million.

The tax-deductible amount of the general loss appropriation previously made in bookkeeping increased due to growth in the loan portfolio, which reduced income taxes by EUR 0.5 million (0.1 million).

#### Group financial indicators and capital adequacy

The consolidated financial indicators for the past three years describing the progress of business operations and the financial situation of the Group are shown in comparable form. The effect of changes in the principles of calculation on equity capital is shown in note 29 to the financial statements.

Financial indicators 2001 – 2005 (MEUR)	2001	2002	2003	2004	2005
Turnover	19.2	18.1	20.1	17.2	18.5
Operating profit/loss before depreciations and taxes	2.7	2.5	4.1	3.7	2.7
Percent from turnover	14.2	13.9	20.3	21.7	14.5
Return on equity, % (ROE)	4.3	4.3	6.7	5.1	4.2
Return on assets, % (ROA)	0.6	0.6	0.8	0.6	0.5
Equity ratio, %	15.2	14.5	11.9	12.7	12.3
Capital adequacy ratio, %	24.6	22.9	20.9	19.7	18.7
Cost/Income ratio, %	53.5	61.3	51.0	45.5	64.0
Total assets	336.5	370.1	438.6	438.9	474.6

Under the capital adequacy provisions of the Credit Institutions Act (no. 1607 of 1993), the sum of equity capital and voluntary provisions (regulatory capital) must be no less than 8 per cent of risk-weighted receivables, assets and contingent liabilities. The capital adequacy ratio of the Group was 18.7 per cent (19.7 %) and was made up as follows:

Capital adequacy	Group	Group	Change, %	the Mortgage Society of Finland	the Mortgage Society of Finland	Change, %
MEUR	31.12.2005	31.12.2004		31.12.2005	31.12.2004	
Regulatory capital						
- tier 1 capital	48.2	45.6	5.7 %	48.9	46.4	5.3 %
- tier 2 capital	11.5	10.5	9.2 %	11.5	10.5	9.1 %
<b>Total regulatory capital</b>	<b>59.7</b>	<b>56.1</b>	<b>6.4 %</b>	<b>60.4</b>	<b>56.9</b>	<b>6.0 %</b>
<b>Risk-weighted receivables, assets and contingent</b>	<b>320.3</b>	<b>285.4</b>	<b>12.2 %</b>	<b>325.7</b>	<b>291.2</b>	<b>11.8 %</b>

## liabilities

Capital adequacy ratio, % (Tier 1)	15.1 %	16.0 %	-5.8 %	15.0 %	15.9 %	-5.8 %
<b>Capital adequacy ratio, %</b>	<b>18.7 %</b>	<b>19.7 %</b>	<b>-5.2 %</b>	<b>18.5 %</b>	<b>19.6 %</b>	<b>-5.2 %</b>

## Formulae for financial indicators

Turnover	interest income + income from equity investments + fee and commission income + net income from marketable securities + income from real estate investments
Return on equity, % (ROE)	$\frac{\text{operating profit} - \text{income taxes}}{\text{equity capital} + \text{accrual of provisions deducted with deferred tax liability (average at start and end of year)}} \times 100$
Return on assets % (ROA)	$\frac{\text{operating profit} - \text{income taxes}}{\text{total assets (average at start and end of year)}} \times 100$
Equity ratio, %	$\frac{\text{equity capital} + \text{voluntary provisions deducted with deferred tax liability}}{\text{total assets}} \times 100$
Capital adequacy ratio, %	$\frac{\text{equity capital} + \text{accrual of provisions deducted with deferred tax liability} + \text{subordinated debts} - \text{intangible assets}}{\text{total risk-weighted receivables, investments and contingent liabilities}} \times 100$
Cost/Income ratio	$\frac{\text{administration costs} + \text{depreciation and loss of value of tangible and intangible assets} + \text{other operating costs}}{\text{net interest income} + \text{income from equity investments} + \text{net fee and commission income} + \text{net income from available for sale investments} + \text{income from real estate investments}}$

## Significant events since the end of the financial year and outlook

### Significant events since the end of the financial year

No substantial changes have occurred in the financial situation of the Mortgage Society of Finland and its Group since the end of the 2005 financial year.

Neither the Mortgage Society of Finland nor its Group companies were parties to any administrative, legal, arbitration or other proceedings after the end of the financial year that would have a substantial impact on the financial situation of the Mortgage Society of Finland. The Mortgage Society of Finland is likewise unaware of any such pending or threatened procedures, legal proceedings or events.

### Outlook

The mortgage market outlook in 2006 continues to be favourable. The Finnish public has continued to be optimistic about the national economy and consumers have high expectations with respect to residential mortgages.

The slight increase in interest rates at the end of 2005 has not dampened the high level of market demand. It seems likely that interest rates will continue to rise. It would even be desirable for higher interest rates to cool down the overheating housing market a little, especially with respect to rising prices.

The Mortgage Society of Finland anticipates favourable growth in its operations. Sufficient attention has been paid throughout to risks and threats in the housing market. We also expect to achieve our target of steady growth in our loan portfolio and customer numbers in 2006 and we believe that the Group's overall performance will improve accordingly.

## Proposal of the Board of Directors for use of profits

Under article 22 of the articles of association of the Mortgage Society of Finland, no less than 80 per cent of the annual profit must be transferred to the operating or reserve fund if the ratio of equity capital to risk-weighted liabilities (the capital adequacy ratio, %) is less than 8 per cent, and no less than 70 per cent must be transferred if the said ratio is between 8 and 9 per cent. If the capital adequacy ratio is no less than 9 per cent, then at least 50 per cent of the annual profit must be transferred to the operating or reserve fund.

The proposal of the Board of Directors for use of the profits of the Mortgage Society of Finland is as follows:

### Profits

Profit for the year 2005	2,627,233.69
Retained earnings	43,065.54
Total profits	<u>2,670,299.23</u>

### Proposal for use of profit

Transfer to reserve fund	100,000.00
Transfer to operating fund	2,300,000.00
Reserved for charitable purposes	5,000.00
Remains as retained earnings	265,299.23
Total	<u>2,670,299.23</u>

## Risk management strategies and practices

The risk-bearing capacity of the Hypo Group is monitored by keeping track of the adequacy of Group assets in relation to operating risks. Maintaining a good rate of capital adequacy is part of the ongoing strategy of the Hypo Group. The Group's growth strategy is based on cautious risk taking and balanced development of business operations.

The risk management function seeks to ensure that all significant risks that could impede realisation of the strategy and objectives of the Mortgage Society of Finland are identified, assessed and reported. Risk management promotes smooth and stable operations of the Mortgage Society of Finland and prevents the occurrence of risks and losses that could substantially jeopardise the capital adequacy of the Society or cause any deterioration in its reputation. The risk management function of the Mortgage Society of Finland observes principles, directions and an authorisation system that are approved by the Board of Directors. Monitoring involves reporting of risks and anomalies. The risk management arrangements of the Mortgage Society of Finland allow for the Society's organisational structure and operating scope.

The scope of the risk management function includes credit risks, interest and financing risks, real estate and investment risks, operating risks and strategic risks. Group companies have neither trading book nor payment transfer services.

#### *Credit risks*

Credit risk management seeks to maintain an acceptably low level of income and capital adequacy effects of risks arising from customer liabilities. A credit risk arises when a counterpart, who is usually a borrower, is unable to meet its obligations. Realised credit risks take the form of non-performing credits or credit losses. The lending operations of the Mortgage Society of Finland mainly focus on home loans issued to private households and other financing services that are closely associated with home financing. Assumption of credit risks is limited to loans issued in the manner specified in the general terms of lending decided by the Supervisory Board in accordance with the articles of association of the Mortgage Society of Finland. Lending is thereby essentially based on the customer's creditworthiness, on adequate capacity to repay the loan and on securing collateral. A unanimous decision of the Board of Directors is required for unsecured loans made to any party except public sector entities and certain entities under public control that are referred to in the articles of association. The Board of Directors is advised on a regular basis of all credit decisions taken by the management group. The Board of Directors decides on loans of unusual size or with unusual collateral, and on loans to members of the Mortgage Society of Finland's organs and staff. The credit approval process pays specific attention to the adequacy of supporting documentation for a credit decision, to the separation of stages in the process and to the correctness of information.

The Mortgage Society of Finland has no customers with liabilities exceeding the limit of 25 per cent of regulatory capital imposed by the Credit Institutions Act. The EUR 31.7 million total of liabilities from customers exceeding the 10 per cent limit is 53.1 per cent of the Group's regulatory capital, where the maximum imposed by the Credit Institutions Act is 800 per cent.

Under the terms and conditions of a loan, a borrower must insure the property that serves as collateral for the loan. The Mortgage Society of Finland has collectively insured collateral properties against any failure to pay insurance premiums.

Unserviced credits are regularly monitored and collection procedures initiated at once when even the slightest risk of credit loss is suspected. The total sum in unscheduled receivables was EUR 2.0 million. The level of value losses and credit losses remained low.

#### *Interest rate risks*

Interest rate risks are the impact of interest rate fluctuations on earnings and capital adequacy. These risks are caused by differences in the reference rates of receivables and liabilities, and by differing rollover periods and maturity dates. Interest rate risks are managed by matching borrowing with lending by maintaining the correspondence between reference rates and rollover periods, having regard to the state of the financial market. Measured in terms of an annual interest rate rise of one percentage point, the group's credit risk was 3.0 per cent of net income from financial operations and 0.2 per cent of equity capital.

#### *Funding and liquidity risks*

Funding and liquidity risks are the risks associated with the short and long-term availability and cost of funding and liquidity caused by the differing maturities of receivables and liabilities. Funding risks also arise if receivables, liabilities or derivatives agreements are focused too heavily on individual counterparties. The Mortgage Society of Finland raises most of its long-term funding through promissory notes and bonds. A good level of short-term liquidity is achieved by maintaining short-term deposits and short term credit lines and by issuing certificates of deposit. .

The maturity of the Mortgage Society of Finland's funding is substantially longer than the average for operators in the sector. For the housing loan portfolio of loan period exceeding ten years, the drawn and undrawn funding of the Mortgage Society of Finland for the corresponding loan period was EUR 89.6 million (88.4 million), which is 21.9 per cent (24.3 %) of the loan portfolio. The financing position remained good and stable throughout 2005.

#### *Real estate and equity risks*

Real estate risks arise from losses in value, yield and damage pertaining to real estate assets. The real estate investments of the Mortgage Society of Finland are in the Helsinki Metropolitan Area and are mainly residential apartments. The book values of investment properties are conservatively assessed in relation to their current market values, meaning that any losses in value have no substantial impact on earnings. The maximum amount of credit and guarantees allowed for real estate and comparable property corporations under the Credit Institutions Act is 13 per cent of the balance sheet total. The book value of Group real estate investments and comparable credits was EUR 48.1 million or 10.4 per cent of the balance sheet total.

Equity risks arise through decreases in share prices or yield resulting in a negative earnings impact. The Mortgage Society of Finland is substantially reducing its future equity risks by divesting its equity investments. The EUR 6.6 million total book value of equity investments is 11.0 per cent of the Group's regulatory capital, where the maximum imposed by the Credit Institutions Act is 60 per cent.

#### *Operating risks*

Operating risks are losses caused by shortcomings in systems, processes and staff behaviour, other staff problems and external factors. Operating risk assessment allows for the likelihood of risks occurring and for their impact. Special attention is paid to assessing the risks involved in new products or services, establishing customer identification and recognition systems, improving data security and enhancing internal control by arranging proper training and by improving and expanding guidance.

The principal data systems have either been outsourced or purchased as software packages, and continuity plans have been prepared to deal with risks arising from malfunctions. Legal risk limitation incorporates the use of standardised banking sector agreements approved by public authorities.

#### *Strategic risks*

The business growth strategy of the Mortgage Society of Finland is based on conservative risk-taking that maintains a targeted level of risk. The selected strategies are dimensioned to remain proportional to the risk-bearing capacity of the Mortgage Society of Finland, to its technical and human resources, and to the competence of its staff. Strategic risks are managed by annually updating strategies and regularly monitoring the realisation of annual plans.

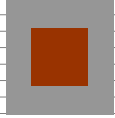
#### *Internal audit*

The internal auditing function performed a broad internal audit in accordance with the auditing plan and took part in development and training activities. An open-ended internal auditing contract concluded with Control Consulting CC Ltd Oy was terminated with effect as of 31 December 2005. A new open-ended contract for internal auditing services was concluded with Ernst & Young Oy.

## **Administration and control systems**

The operations of the Mortgage Society of Finland are regulated by general statutes governing credit institutions and by a special Act of Parliament governing mortgage societies. As the competent licensing authority the Financial Supervision Authority oversees the operations of the Mortgage Society of Finland. Even though the Mortgage Society of Finland is not a "listed company", it has a duty as an issuer of bonds to comply in many respects with the provisions governing such companies. Further details of the administration and control systems of the Mortgage Society of Finland are published as a separate Corporate Governance Statement, which is available from the Society and has been posted on its website at [www.hypo.fi](http://www.hypo.fi).

*The general meeting of the Mortgage Society of Finland, the Supervisory Board and the Board of Directors*  
At meetings of the Mortgage Society of Finland the members of the Society exercise supreme authority over the matters that are entrusted to the meeting. The ordinary general meeting of the Mortgage Society of Finland took place in Helsinki on 31 March 2005.



# HYPO



The day-to-day affairs of the Mortgage Society of Finland are managed by the Supervisory Board, the Board of Directors and the Managing Director. Election of the members of these executive organs were conducted for the first time under the revised articles of association of the Mortgage Society of Finland on the basis of preparatory work and a proposal submitted by the Mortgage Society of Finland nominations committee. All of the elections were unanimous and in accordance with the proposals of the nominations committee.

The members of the Supervisory Board retiring by rotation, Director Antti Aho, Managing Director Helena Jaatinen and professor Markku Koskela, were all re-elected for a new three-year term of office from 2005 to 2008. Professor Vesa Majamaa, a member of the Supervisory Board since 1996 who most recently served as Vice-Chairman, retired from the Supervisory Board. Managing Director Tauno Jalonen and Regional Manager Markus Heino LL.M. were elected to serve on the Supervisory Board for the next three-year term of office from 2005 to 2008. Managing Director Lauri Koivusalo LL.M. continued as Chairman of the Supervisory Board and professor Markku Koskela became the new Vice-Chairman.

Construction Counsellor Ben Grass LL.M. and Managing Director Ukko Laurila retired from the Board of Directors on 31 March 2005. They were replaced by Managing Director Teemu Lehtinen and Managing Director Olli Salakka, who were appointed to the Board of Directors by the Supervisory Board of the Mortgage Society of Finland.

From 1 April 2005 the members of the Board of Directors were investment manager Jari Eklund, Managing Director Teemu Lehtinen, professor Hannu Kuusela, professor Jarmo Leppiniemi, CEO Jukka Tammi, professor and Managing Director Pentti Vartia, Managing Director Olli Salakka and the statutory appointment of Mortgage Society of Finland Managing Director Matti Inha and his deputy, Deputy Managing Director Raimo Vaherno until 31 December 2005 and Ari Pauna as of 1 January 2006. The Board of Directors elected professor Jarmo Leppiniemi to serve as its Chairman and professor and Managing Director Pentti Vartia to serve as its Vice-Chairman. The Board of Directors met 13 times during the year under review with a participation rate of 99 per cent.

#### *Staff and pension liabilities*

There were an average 38 (37) employees during the year, with a permanent staff of 29 at the end of the financial year. The mandatory pension coverage of staff of the Mortgage Society of Finland is arranged through insurance with the Tapiola Mutual Pension Insurance Company. Further benefits are the responsibility of the Pension Foundation of the Mortgage Society of Finland, which has no liability deficit.

#### *Auditors*

The annual general meeting of 31 March 2005 elected the chartered accountants PricewaterhouseCoopers Oy to serve as auditing corporation, with Authorized Public Accountant Juha Wahlroos, MSc (econ.) as responsible auditor. Authorized Public Accountant Jukka Mynttinen, MSc (econ.) will serve as deputy responsible auditor.

Helsinki, 28 February 2006

Board of Directors

**CONSOLIDATED PROFIT AND LOSS ACCOUNT 1.1.2005-31.12.2005**

1 000 €	2005	2004
Interest income	13 541,4	13 101,8
Interest expense	-10 510,7	-9 789,2
<b>NET INTEREST INCOME</b>	<b>3 030,7</b>	<b>3 312,6</b>
Income from equity investments	142,5	307,8
Fee and commission income	473,3	330,2
Fee and commission expense	-9,4	-19,1
Net income from available for sale securities	735,1	564,3
Net income from real estate investments	2 937,0	2 310,6
Administration costs		
Staff costs		
Salaries and fees	-1 856,8	-1 711,1
Indirect staff costs		
Pension costs	-317,1	1 119,8
Other indirect staff costs	-104,3	-90,2
Other administration costs	-1 524,9	-1 849,4
Total administration costs	-3 803,2	-2 530,9
Depreciation, amortisation and write-downs of tangible and intangible assets	-527,4	-223,8
Other operating costs	-343,6	-341,7
Loan losses and write-downs of loans and receivables	46,6	32,7
<b>OPERATING PROFIT</b>	<b>2 681,5</b>	<b>3 742,8</b>
Income taxes	-277,0	-984,0
Profit from ordinary operations after taxes	2 404,5	2 758,8
<b>PROFIT FOR THE YEAR</b>	<b>2 404,5</b>	<b>2 758,8</b>

**CONSOLIDATED BALANCE SHEET**  
**31.12.2005**

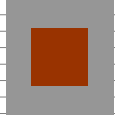
1 000 €	31.12.2005	31.12.2004
<b>ASSETS</b>		
Cash and cash equivalents	500,9	324,6
Loans and receivables to credit institutions		
Payable on demand	7 230,6	8 085,6
Other	0,0	2 000,0
	7 230,6	10 085,6
Loans and receivables to the public		
Other than payable on demand	408 934,6	374 404,5
Marketable securities		
From public sector entities	0,0	0,0
From others	0,0	5 287,1
	0,0	5 287,1
Shares and holdings	6 565,0	6 748,5
Intangible assets		
Other intangible assets	461,7	840,5
Tangible assets		
Investment property	46 961,2	36 550,6
Other real estate property	1 118,0	2 958,5
Other tangible assets	486,2	407,5
	48 565,4	39 916,6
Other assets	61,3	45,9
Prepaid expenses and accrued income	2 292,8	1 277,2
Deferred tax assets	0,7	0,0
<b>TOTAL ASSETS</b>	<b>474 613,0</b>	<b>438 930,4</b>

**CONSOLIDATED BALANCE SHEET**  
**31.12.2005**

1 000 €	31.12.2005	31.12.2004
<b>LIABILITIES</b>		
<b>LIABILITIES</b>		
Deposits by credit institutions		
Other than payable on demand	178 875,4	190 194,4
Deposits and borrowings from the public		
Deposits		
Payable on demand	4 367,9	3 717,4
Other	7 158,5	6 620,5
	11 526,4	10 337,9
Other borrowings		
Other than payable on demand	55 739,9	51 784,4
Debt securities		
Bonds	140 107,3	96 300,0
Other	11 184,7	11 193,5
	151 292,1	107 493,5
Other debts		
Other debts	5 262,2	12 502,4
Accrued expenses and prepaid income	5 094,3	3 581,0
Subordinated debts		
Other	1 700,0	1 050,0
Deferred tax liabilities	6 619,6	6 048,4
<b>EQUITY CAPITAL</b>		
Core capital	5 000,0	5 000,0
Revaluation fund	6 944,3	7 175,0
Other restricted funds		
Reserve fund	22 266,3	21 475,6
Unrestricted funds		
Revaluation fund		
For valuation at fair value	2 868,5	2 316,1
Other funds	9 000,0	6 600,0
Retained earnings	10 019,5	10 613,1
Profit for the year	2 404,5	2 758,8
	58 503,2	55 938,5
<b>TOTAL LIABILITIES</b>	<b>474 613,0</b>	<b>438 930,4</b>

**OFF BALANCE SHEET LIABILITIES**

1 000 €	31.12.2005	31.12.2004
Liabilities to third parties on behalf of customers		
Guarantees and pledges	5 810,0	50,0
Irrevocable liabilities issued on behalf of customers		
Repurchasing agreements for securities	1 952,0	534,2
Other	28 748,6	18 157,3
Interest rate swap agreements (nominal value)	120 880,0	102 580,0
<b>Total</b>	<b>157 390,6</b>	<b>121 321,5</b>



# HYPO



## AUDITOR'S REPORT

To the members of The Mortgage Society of Finland

We have audited the accounting records, the financial statements and the administration of The Mortgage Society of Finland for the period 1.1.-31.12.2005. The Board of Directors and the Managing Director have prepared the report of the Board of Directors and the financial statements, which include the consolidated and parent company balance sheets, income statements, cash flow statements and notes to the financial statements. Based on our audit we express an opinion on these financial statements and on administration of the parent company.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of administration is to examine whether the members of the Supervisory Board as well as Board of Directors and the Managing Director of the parent company have complied with the rules of the Act on Credit Institutions and the Act On Mortgage Societies.

In our opinion the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements, showing a profit of 2.627.233,69 euros, give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations as well as of the financial position. The financial statements with the consolidated financial statements can be adopted and the members of the Supervisory Board as well as the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the rules of the Society and with the Act On Mortgage Societies.

Helsinki 1 March 2006

**PricewaterhouseCoopers Oy**

Juha Wahlroos

Authorised Public Accountant