THE MORTGAGE
SOCIETY OF FINLAND

HYPO

ANNUAL REPORT 2012

Contents

2012

JANUARY
- Students from Helmi Business College begin their internships at Hypo
- Hypo Prime 1.50%
- Anne Hiltunen hired as mortgage loan expert at general bank

FEBRUARY
- Hypo issues a stock exchange release about its consolidated financial statements
- The Supervisory Board and its auditors convene for a meeting
- Hypo Housing Market Analysis Q1/2012 is published
- Hypo Credit Update event
- Hypo bond is issued
- Hypo and Pretax begin cooperation in financial administration
- Shares in the RS project Asunto Oy Helsingin Välimeribecome available for sale
- RS project Asunto Oy Vantaan Kirjosiipi is completed

MARCH
- Piia Valtokari, M.Sc. (Econ.) appointed Accounting Manager at Hypo
- The Annual General Meeting of the Mortgage Society of Finland (Hypo)
- The new Supervisory Board and Board of Directors hold their organisation meetings; Harri Hiltunen, Managing Director of Finnish Real Estate Federation and Vesa Vihriälä, Managing Director of the Research Institute of the Finnish Economy (ETLA), are appointed to the boards of directors of Hypo and AsuntoHypoPankki.
- Hypo exhibits at the Vero2012 trade fair for tax experts.
- Shares in the RS project Asunto Oy Espoon Kuukivi become available for sale
- Mortgage loan expert Pirjo Dahlblom retires after 22 years of service

APRIL
- Hypo Prime 1.30%
- The Board of Directors of Hypo's pension foundation is elected and holds its organisation meeting.
- Managing Director, Honorary Financial Counsellor Matti Inha is re-elected President of the Finnish Real Estate Federation
- Sami Aarnio, Master of Laws, appointed Sales Director at general bank
- RS project Asunto Oy Helsingin Viikinranta is completed

MAY
- Deployment of a new telephone banking system
- Shares in the RS project Asunto Oy Munkkivuoren Mäntyrinne become available for sale
- Shares in the RS project Asunto Oy Helsingin Studio become available for sale
- RS project Koy Espoon Kesäpäiväntarha is completed
- RS project As. Oy Espoon Adjutantti is completed
- RS project Asunto Oy Heikunankulma Espoo is completed

JUNE
- Hypo Housing Market Analysis Q2/2012 is published
- Shares in the RS project Asunto Oy Helsingin Kaanaanranta become available for sale
- Shares in the RS project Asunto Oy Helsingin Saukonkanava become available for sale
- Shares in the RS project Asunto Oy Espoon Rubiini become available for sale
- RS project Asunto Oy Tampereen Ratinan Kapteeni is completed
- RS project Asunto Oy Järvenpään Myllymestari is completed

What is Hypo?

The core of our operations consists of the 153-year-old Mortgage Society of Finland, which is the oldest national private credit institution in Finland, and the 11-year-old deposit bank Suomen AsuntoHypoPankki, of which the Society owns 100 percent. Together, these companies constitute the Mortgage Society of Finland Group, also known as the Hypo Group, which specialises in home financing. The Mortgage Society of Finland, also known as Hypo, is the parent company of the Group.

We employ approximately 30 experts in home financing, who serve customers in Hypo House at the corner of Yrjönkatu and Bulevardi in the heart of Helsinki. In addition, our customers have access to user-friendly, secure and up-to-date online and telephone banking services. However, we do not offer payment transaction services.

We aim to constantly complement our traditional home financing and housing products with new, alternative and customer-focused solutions. We implement reforms and take active part in discussion on the housing and mortgage loan market, and we aim to promote growth in housing wealth and reasonably priced housing in Finland. We serve our customers individually with the best mortgage loan expertise in Finland. We build and nurture our customer relationships over the long term, not by the quarter. A competitive mortgage loan decision does not require concentrating one's checking accounts, mutual fund shares and insurance with Hypo. Therefore, our customers avoid having to concentrate all of their finances and change their bank.

Our operations are based on maintaining a high capital adequacy ratio, Profitable growth and effective risk management strengthens Hypo's capital adequacy and enables the continuous development of customer service. Our customer promise: "Secure options for better living" guides all of our operations. Almost 25,000 customers, mainly living in growth centres, have already taken us up on our promise.

At the end of 2012, Hypo's balance sheet stood at more than EUR 900 million. We had a loan portfolio of more than EUR 700 million and a deposit portfolio of over EUR 300 million. Hypo's own funds were almost EUR 80 million. We had a capital adequacy ratio of over 16.0 percent calculated using the standard method, and non-performing receivables represented less than 0.16 percent of our loan portfolio.

Hypo's pension foundation began operations in 1898 and consists of two departments. The defined benefit Department A was established 58 years ago and has already closed operations. The defined contribution Department M open for all employees was established two years ago and is the first of its kind in Finland. The pension foundation covers approximately 50 people.

Hypo is a member of the Federation of Finnish Financial Services and a founding member of the Nordiska Realkredit Samrådet (federation of Nordic mortgage banks). In addition, Hypo is a member of the International Housing Finance Union and Mortgage Banker's Association.

All of Hypo's operations are supervised by the Finnish Financial Supervisory Authority.

JULY

- Shares in the RS project Asunto Oy Vantaan Wiineri become available for sale

AUGUST

- Hypo Prime 1.15%
- Ari Pauna, Bachelor of Laws, is appointed Managing Director of the Mortgage Society of Finland Group and Suomen AsuntoHypoPankki Oy as of 1 January 2013
- Hypo publishes its interim report
- Annual meeting ofthe Nordic Mortgage Council.

SEPTEMBER

- Hypo Prime 1.00%
- Hypo Housing Market Analysis Q3/2012 is published
- Hypo Credit Update event
- Hypo bond is issued
- Shares in the RS project Asunto Oy Helsingin Fajanssi become available for sale

OCTOBER

- Jouni Lehtinen, bank manager of Hypo's private banking operations, is elected Chairman of the Finnish Association of Lessors
- Suomen AsuntoHypoPankki Oy's 10th anniversary
- Hypo Bond IV event at Kinopalatsi
- Shares in the RS project Asunto Oy Vantaan Kopparheikki become available for sale

NOVEMBER

- Sanna Schoultz, M.Sc. (Econ.), appointed Sales Director at private banking
- Risto Marila and Tommi Häggström hired as mortgage loan experts at general banking
- Arttu Mönkkönen, M.Sc. (Econ.), appointed Development Manager at Hypo
- Hypo Prime 0.80%
- Shares in the RS project Asunto Oy Soukanniemen Kimallus become available for sale
- Shares in the RS project Asunto Oy Kievarinkulma Tuusula become available for sale
- RS project Asunto Oy Turun Menninkäinen is completed
- RS project Asunto Oy Helsingin Gneissi is completed

DECEMBER

- Elli Reunanen, LL.M., is appointed as Deputy Managing Director of the Mortgage Society of Finland and Suomen AsuntoHypoPankki Oy as of 1 January 2013
- Hypo Housing Market Analysis Q4/2012 is published
- Hypo commences Mastercard cooperation with Compass Card
- Shares in the RS project Asunto Oy Kirkkonummen Kaarisilta become available for sale
- Shares in the RS project Asunto Oy Kirkkonummen Asemanheikki become available for sale
- RS project Asunto Oy Espoon Kuukivi is completed
- RS project Asunto Oy Helsingin Auringonkehä is completed
- Matti Inha, honorary financial counsellor, retires from the position of Managing Director on 31 December 2012

Hypo is stronger than ever

> "The journey continues, and it is time to ask: "What will Hypo be in 2020, its 160th anniversary?"
>
> **Ari Pauna**
> Managing Director

I am writing my first Managing Director's review in a melancholic, yet confident mood. A new page is turned in the history of the Mortgage Society of Finland when Matti Inha, Honorary Financial Counsellor, retires after a banking career of over 40 years. The significance of his work can be seen in that after 152 years of operations, Hypo is now stronger than ever before in all indicators.

I WOULD LIKE TO EXTEND MY WARMEST THANKS TO MY PREDECESSOR AND LONG-TERM SUPERIOR!

Matti and I worked for almost two decades in the banking sector together, with the last 11 years at Hypo. I would not trade a single day. I believe that everyone at Hypo can share my emotions.

We began to reform Hypo in 2002. In figures, Hypo's balance sheet has tripled to EUR 912 million and the loan portfolio more than doubled to EUR 725 million. Hypo has EUR 308 million in deposits, 24,000 customers and 30 employees. Over a decade, Hypo's own funds have increased from EUR 60 million to almost EUR 80 million, and capital adequacy is at a very strong level of 17%.

Amidst an unforeseen chain of global financial crises, the work carried out under Matti Inha has no parallel. Strong and profitable growth is a masterful achievement under these conditions.

Part I of the new Hypo is now over. The journey continues, and it is time to ask: "What will Hypo be in 2020, its 160th anniversary?"

That is eight years from now, which is actually quite a suitable period for a credit institution specialised in mortgage loans accustomed to foreseeing the future over the loan period. What are the ingredients of the next recipe for success?

THE WELL-FUNCTIONING HOUSING MARKET IS PARTLY AN ILLUSION

Relatively speaking, Finns throughout the country seem to be using a similar portion of their disposable income on housing as before. However, it would be misleading to say that all is well in the housing market. The illusion hides the fact that the amount of debt-free housing assets of older generations is increasing at a steady rate while the amount of mortgage loans and other debt of young people is rapidly increasing.

One might say that this has always been the case, but why should we accept it? We should aim for a situation where housing, which satisfies a basic need, might take a proportionally high but continuously decreasing part of the disposable income of households – even if the quality of housing would improve a little. One should have money left for other things if the market is working correctly.

Finnish households have an estimated EUR 300 billion in housing wealth. Finns have a total of approximately EUR 100 billion in mortgage loans. Two thirds of Finnish households live in owner-occupied housing. About a million families have mortgage loans, while there are only 100,000 households with no debt.

The indebtedness of households has increased rapidly in the 2000s. In 2010, mortgage loans amounted to 1.77 times disposable income, translating into a housing debt-to-equity ratio of 177% and, taking all debt into account, 216%. Households of young people, those aged under 25, had the most debt, as their housing debt-to-equity ratio increased to 290% and overall debt-to-equity ratio to 323%.

The housing market is one of the main pillars of the national economy, nothing less yet nothing more. Functional regulation on housing and housing production, equilibrium between housing supply and demand, development of technology and a predictable financing market are the foundation of a well-working housing market. Currently, there are problems with all of these elements.

Regulation, which is well-meaning as such, is increasing. In the worst case, the supply will become distorted and the demand will decrease. The adoption of new technologies will also become slower, the price of financing will increase and its availability will decrease. Instead of a housing bubble, we should start talking about a regulation bubble. By no means do I imply that the civil servants are to blame. Civil servants aim to do their work as best they can with responsibility for their actions, and therefore we should turn our eyes in the direction of legislators.

The price of a non-functioning housing market is high, and it will be paid for by the taxpayers. The national economy feels bad if the market does not work. Consumption demand will come to a standstill with housing alone taking an ever-increasing share of net income. The government plays a key role in seeking solutions.

Most Finns want to live in a home they own, preferring it to rental housing. The housing market will reach an equilibrium if we are able to increase the professional production of homes of all types. We need more land for housing production, zoned faster and at a suitable price. Reasonably priced housing can be launched faster in the market by decreasing the regulations related to construction and restricting complaints for complaints' sake.

Where regulation creates growth opportunities, we will also see more players, genuine competition and transparent, comparable prices. Where regulation suffocates growth, there will only be a monopolistic market without transparent and comparable prices. We are currently only one step away from them.

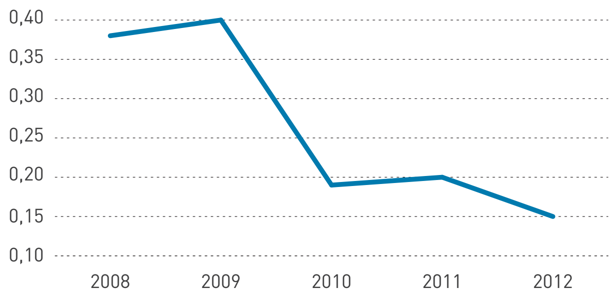
Finland is a small market, but we have almost all possible forms of housing and methods for financing at our disposal. Let us take good care of them in the future as well. Instead of mowing everything down, we should let all flowers grow and fertilise them equally.

THE FINANCIAL MARKET IS THE BEDROCK OF THE HOUSING MARKET

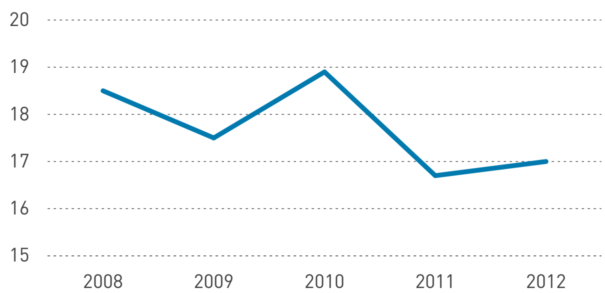
Without a well-working housing financing market, not a single home will be built or purchased. One often hears that Finnish banks are yielding good profits, are solvent and have their risks managed.

They have learned from the bank crisis of the great depression. That is true, but a lot remains to be done with regard to housing financing, as most of the euro era has been spent on exacerbating the weakness in the home financing market and increasing incompetence. Mortgage loans began to be a mere loss leader for banks, but fortunately the financial crisis put an end to this trend in Finland, too, before severe exaggerations took place. RS financing, mortgage loans and housing company loans have risen to a clearer position, and home financing is

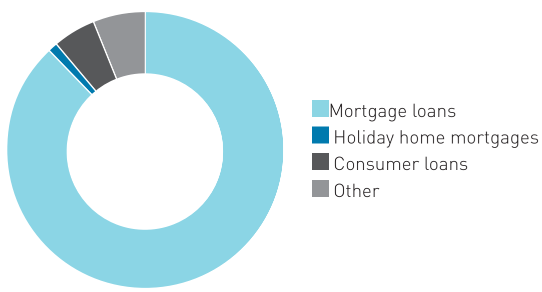
NON-PERFORMING LOANS, %



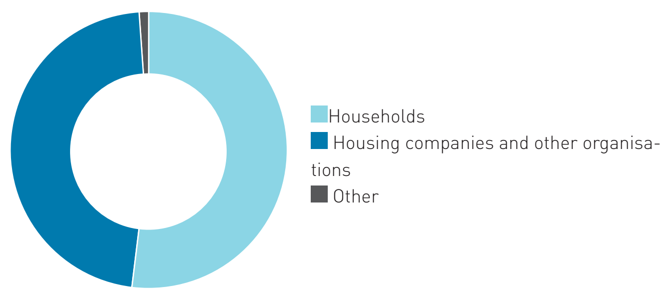
CAPITAL ADEQUACY, %



LOAN PORTFOLIO BY PURPOSE OF USE, %



STRUCTURE OF THE LOAN PORTFOLIO, %



rapidly becoming healthier. Customers seeking mortgage loans are offered more and better advice than before.

As the only market player specialising in housing and home financing, Hypo has been a trailblazer and forerunner in the sector in several ways. Our public statements and our own actions are in harmony. Our customer promise could be complemented: "Secure options for better living. Hypo. **Under all conditions – also the bad.**"

Special competence is often not appreciated until the conditions become particularly challenging. In bad times, only the good prosper. One can see that by taking a look at how well banks operating in the Helsinki region are doing. Hypo is clearly number one, perhaps for the very reason that we do not require our customers to concentrate all of their finances with us. Those who have strived to become financial department stores with the mass are not so well-off.

At Hypo, we will continue to focus on promoting growth in housing wealth and reasonably priced housing in Finland. In the major growth centres in particular, our special products and services considerably ease access to owner-occupied housing. We also offer rental housing and partial ownership housing, which are often the first steps in the path of owner-occupied housing.

At the other end of the housing path, we offer our customers reverse mortgages and transactions. With them, one can increase the quality of life and keep life safe by making it possible to utilise debt-free housing wealth in a controlled way. "From cradle to retirement" describes Hypo's operations.

A home is for life. Not the other way around.

HYPO'S BONDS AND REVERSE HOUSING PRODUCTS

For Hypo, tightening banking regulations are no problem. We already operate largely as required by the Basel III framework. We develop products that are increasingly suited for home financing. We operate profitably, manage risks, and are in compliance with the Act on Mortgage Societies. This provides security for Hypo's customers, funders and all partners over the loan period.

The aim of Hypo's general banking is to increase the amount of common mortgage loans, consumer credits, environmental loans and cooperation loans of households in such a way that they account for a significant share of the group's loan portfolio.

The most significant reform in general banking this year is the start of Hypo bond sales. During spring 2013, AsuntoHypoPankki will begin selling the Mortgage Society of Finland bonds to households. Another significant reform in general banking is the adoption of MasterCard programmes alongside Visa card programmes before summer 2013.

We believe that with these two key reforms and a determined increase in mortgage loan operations, the general banking sector will succeed in considerably increasing our customer portfolio and awareness among Finnish households, especially in the Helsinki metropolitan area and the Uusimaa region, and in the future, also in the largest Finnish growth centres.

Hypo's Deputy Managing Director Elli Reunanen is responsible for the general banking sector, which serves households and focuses on ordinary mortgage loans, deposits, Hypo bonds and charge cards. In addition to Reunanen and her deputy, **Sales Director Sami Aarnio**, the general banking sector employs 10 home financing managers with licensed real estate broker diplomas (LKV).

Headed by Bank Manager Jouni Lehtinen, the private banking sector focuses on our special products, serving housing companies, RS operators, senior customers and housing and residential plot investors. Our aim is profitable growth in special products with determination while managing the risks.

We believe that serving housing companies' need for renovation loans will increasingly require tailored forms of housing company financing. In our view, reverse mortgage loans and transactions will be established as a permanent part of the Finnish mortgage loan market. We also believe that an increasing number of Finnish households will be interested in investing in housing, and they will acquire apartments to rent either by themselves or via a small company owned by them for tax-related reasons.

The private banking sector is also responsible for managing the Group's housing and plot investments and plot trustee services for residential plot investors. The Group's own funds are invested in a diversified manner in individual and liquid shares in housing companies in growth centres and built-up residential plots. In addition, the private bank collects a significant part of the Group's deposit funding by offering deposit and Hypo bonds, particularly to small and medium-sized companies and organisations.

In addition to Jouni Lehtinen and his deputy, **Sales Director Sanna Schoultz**, the private banking sector employs **property lawyer Juho Pajari** and nine other home financing managers with licensed real estate broker diplomas (LKV) and property specialist, **LVV Marja Niemelä**, who has already been employed at Hypo under five managing directors.

SECURED AND STABLE FUNDING

Growing business operations and refinancing needs require financial transactions amounting to hundreds of millions of euros annually. Bonds pursuant to the Act on Mortgage Societies lay the foundation of our funding, and they are secured through Hypo's balance sheet.

Focusing exclusively on secured lending secures the position of Hypo's funders, customers, partners and employees and enables long-term operations. On top of this bedrock, we flexibly utilise bank deposit programmes, deposit funding, Hypo bonds, direct promissory note agreements and credit limits as well as funding solutions related to bilateral cooperation agreements. Furthermore, since 2009 we have had access to central bank funding if needed.

In all, we can say that the diverse and functional sources of funding built over the last 10 years already correspond with the requirements of the future Basel III framework in many respects.

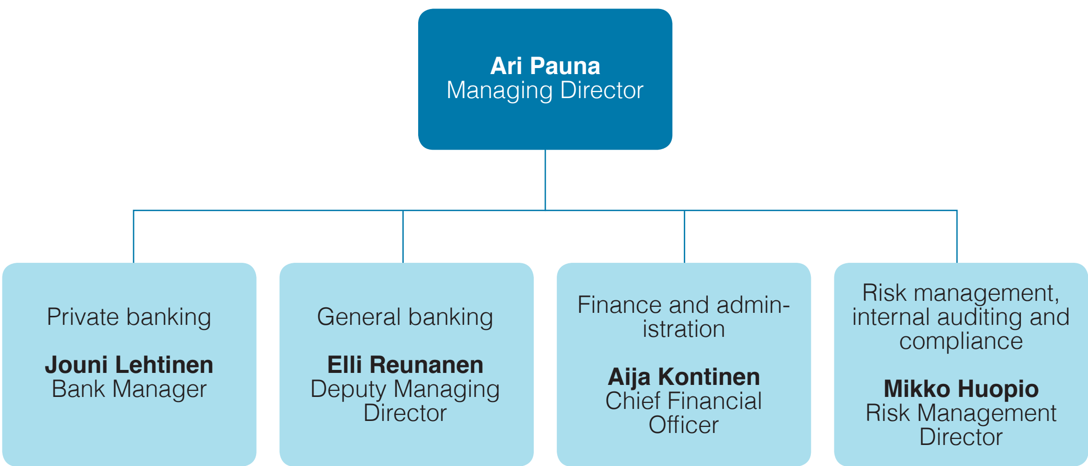
Business growth during the financial crisis has required maintaining very strong liquidity, which results in a burden on net interest income. This is, however, a sort of an insurance premium for rainy days by nature. In respect of this, 2013 does not seem to differ materially from previous years. We will continue to maintain a clearly stronger liquidity compared to the normal situation.

The Group's Chief Financial Officer Aija Kontinen is responsible for finances and administration, focusing on improving profitability and solvency and the cost-efficiency of processes.

Ever-increasing and deepening regulations require both external and internal accounting as well as reporting to be determined and cost-efficient to be able to meet all requirements in time and with the correct content at costs that are reasonable considering the scale of business operations.

When the business requirements become more complicated and electronic services become more commonplace, this will require Hypo to operate in an up-to-date and reliable way, even though we are not a settlement bank. We will continue to focus on purchasing only the required services from distinguished and well-known operators in the sector. We are prepared for any changes taking place in the service provider field so that the best mortgage loan service in Finland offered by the Group can continue uninterrupted and undisturbed under all conditions.

ORGANISATION OF THE MORTGAGE SOCIETY OF FINLAND AND SUOMEN ASUNTOHYPOPANKKI OY



FACTOR	UNSECURED BOND ISSUED BY A BANK (FIN)	HYPO BOND (FIN)	COVERED BOND ISSUED BY A MORTGAGE BANK (FIN)
Age of instrument	More than 160 years	152 years	12 years
Statutory	No	Yes (served as a model for covered bonds)	Yes
Supervision	Financial Supervisory Authority	Financial Supervisory Authority	Financial Supervisory Authority
Creditor's position in case of bankruptcy	Below holders of securities	Practically similar to that of holders of securities through Hypo's balance sheet	Holder of security
Limitations and risk level	Normal	Operations are limited but allow for multiple sources of profit/low risk level	Operations are very limited/low risk level
Corporate governance	Meets the requirements for listed companies	Upgraded in 2004/meets the requirements for listed companies	Meets the requirements for listed companies
Form of organisation/continuity of ownership	Usually a limited company/can be taken over	Own/cannot be taken over in practice --> continuity	Usually a limited company/can be taken over
Collateral for lending/loan-to-value ratio	No limit	Always required/max. 70 percent/less than 60 percent in practice	Always required/max. 60–70 percent
Geographical distribution of loan portfolio	Finland	Helsinki Metropolitan Area/ Uusimaa region	Finland
Transparency of reporting	Complicated	Highly transparent	Transparent, but connected to the parent company
IFRS/IRBA (method with lower capital requirement)	Yes/Usually yes	Yes/No (only the standard method is used = higher capital requirement)	Yes/Usually yes

"The information and conclusions in the table are general statements and opinions on the compared instruments and their issuers. These statements and opinions may include simplifications, as may the information in the table on which they are based. More detailed conclusions about the differences between the various instruments and issuers may only be made by evaluating and comparing the specific terms and conditions related to single issuances of instruments as well as the legislation pertaining to the instruments and their issuers."

In addition to Aija Kontinen and her deputy, **Accounting Manager Piia Valtokari**, finances and administration employ seven other experts from various fields.

THE GROUP GROWS, RISK MANAGEMENT BECOMES MORE FOCUSED

The Group's Chief Risk Officer, Mikko Huopio, is independently responsible for the Group's risk management, internal audit and compliance, focusing on the management of determined growth.

Huopio's area of responsibility covers the Mortgage Society of Finland Group, its parent companies and subsidiaries, Suomen AsuntoHypoPankki Oy: and Bostadsaktiebolaget Taos. In addition, his area of responsibility includes all of our functions outsourced to external service providers and naturally also the operations of Hypo's pension foundation. Huopio reports to the Managing Director and additionally directly to the Boards of Directors of the Mortgage Society of Finland and Suomen AsuntoHypoPankki Oy as well as the auditors of the Supervisory Board of the Mortgage Society of Finland.

FOR BETTER LIVING. PART II.

The year 2012 will go down in Hypo's history not only as the final year in Matti Inha's term as Managing Director, but also as a great year in terms of figures.

Hypo has almost 25,000 customers. The loan portfolio increased to EUR 725 million and capital adequacy ratio amounted to 17%, with last year's operating profit standing at EUR 5.2 million. This is a good start for a new leg of the journey towards the Mortgage Society of Finland's 160th anniversary on 24 October 2020.

During Matti Inha's era, Hypo's operations nearly tripled in 10 years. We who are continuing the work aim to reach the same kind of growth.

I would like to extend my thanks to our employees for their vigorous and committed work in 2012. I believe that we can achieve our goals by continuing our work with passion also in the coming years.

Secure options for better living. Hypo. Part II.

Helsinki, 1 February 2013

Ari Pauna
Managing Director

Serving customers of all banks

Safe deposits and best home financing expert service from our general and private banking sectors

Secure options for better living.

Take part in Hypo's invitation-only events! Events related to housing and home financing for people in different life stages in the Snellman hall at HYPO House:

- Evening for first-time homebuyers
- Secure options for better living. (for those about to move to a new home)
- Detached house maintenance
- Housing investor evening
- Senior citizens' evening (reverse mortgage loan)
- Renovation in housing companies (building managers)
- Renovation in housing companies (board chairmen and members)
- Prosper wisely

Our website offers good tips for funding your home and housing investments and applying for a loan using electronic authentication. Our website features up-to-date deposit offers, allows you to apply for a loan management account and gives you a refresher on the benefits of Hypo Visa and Master Card holders. You can also try our highly popular and versatile loan calculators!

Our quarterly published nationwide Housing Market Analysis is always reported widely in the media. The analysis contains our insights into the situation in the housing market of growth centres and is available to our partners by separate agreement. In addition to partner portals, the analysis is available on our website at www.hypo.fi. You can also subscribe to receive it in your e-mail a while before it is officially published. All you need to do is send e-mail to hypo@hypo.fi.

Hypo's online banking service offers customers a secure and encrypted channel for monitoring their loans, deposits and Visa purchases. You can log in with the user ID you have received from your current bank, fill out the contract at www.hypo.fi and become one of our online banking customers. Your user ID and password list will be mailed to your home address.

You can also get personal service via Hypo's telephone service – as you need it, from the best experts in Finland.

Please visit www.hypo.fi for expert information and services related to home financing, deposits and credit cards

and www.hypopankki.fi for easy online banking!

General banking begins sales of a new investment product to retail customers

The most significant reform for the general banking sector in 2013 is the launch of Hypo bonds. Sales of bonds to retail customers will commence in the spring.

PRODUCTS

HYPO HOME LOAN is a mortgage loan for buying a first home or a new home, always tailored according to the customer's needs and solvency. Customers are not required to transfer their checking accounts to Hypo.

HYPO ENVIRONMENTAL LOAN is intended for funding renovation and maintenance projects that increase energy efficiency or environmental friendliness. Environmental Loan is suitable for renovating owner-occupied homes, investment apartments or holiday homes.

ASP LOAN and the related **ASP ACCOUNT** are excellent traditional solutions for home savers. ASP savers/buyers are given a home saving bonus and hedge against increasing interest rates.

HYPO HOME-SECURED is a flexible way to finance the purchase of a car, a boat or a summer cottage, to name just a few examples.

All Hypo loans are granted against housing or residential property collateral. Possible additional collateral for mortgage loans includes a state guarantee, in certain situations the Hypo Guarantee offered by us in cooperation with our partners, or other housing or residential property collateral (given by parents, for example).

HYPO STUDENT LOAN is a state-guaranteed study loan. This loan is available to our member customers as well as their children and grandchildren on special terms.

> Our aim is to increase the amount of mortgage loans, consumer credits, environmental loans and cooperation loans of households in such a way that they account for a significant share of the Group's loan portfolio.

Elli Reunanen
Bank Manager, general banking

HOUSING COLLATERAL CUSTODIAL SERVICE is a service we offer to our member customers free of charge. This solution ensures the safety of collateral documents and also enables quick and flexible decisions on additional loans.

DEPOSIT ACCOUNTS – HYPO'S COMPETITIVE BASIC BANKING SERVICES

Hypo offers fixed-term deposits at competitive interest rates. A deposit account at Hypo is a safe and profitable option for saving.

GOOD OLD HYPO DEPOSIT is tailored to each customer's individual needs. This long-term deposit can be made for as long as ten years. Good Old Hypo Deposit is a safe option for long-term saving!

HYPO CLASSIC MIXED DEPOSIT is a safe, rewarding and worthwhile alternative to investing in funds.

HYPO AVISTA is the most flexible deposit account on the market with an attractive interest rate. The account and its use are free of charge. Hypo Avista offers an attractive interest rate, and the savings can be used at any time without limits. Available for private individuals as well as housing companies.

PS.HYPO RETIREMENT SAVINGS SERVICES are principal-protected and tax-deductible retirement savings products. There are no fees, and the savings are placed in Hypo PS deposit accounts and fixed-term deposit accounts, which are covered by the Deposit Guarantee Fund.

HYPO LOAN MANAGEMENT ACCOUNT is intended for our loan customers. Offering a better-than-usual interest rate on the money reserved for loan payments, this product helps our customers save on loan expenses.

HYPO ASP ACCOUNT is a traditional savings account for young first-time homebuyers. We pay a very competitive additional interest rate after homebuyers have reached their savings goal and found their dream home.

HYPO BABY is a unique long-term home savings product for parents and family members of children. The assets can only be withdrawn after the child has turned 18.

HYPO TEENAGER is an excellent gift for future homeowners aged 12–17. The account holder can convert Hypo Teenager to an ASP account at the age of 18.

BONDS – NOW ALSO FOR PRIVATE CUSTOMERS

HYPO BOND is Hypo's new savings and investment product. It is suited for anyone looking for a secure and stable investment.

CARDS – HYPO'S GROWING CARD FAMILY WITH CONTINUOUSLY INCREASING BENEFITS

HYPO MASTER CARD has no annual fee and is the Master Card with the lowest interest rate on the market.

HYPO MASTER CARD CO-BRANDING allows our good partners to offer a fully customised card to their customers and employees.

HYPO VISA CLASSIC has no annual fee, and it is the Visa Classic charge card with the lowest interest rate on the market.

HYPO VISA CO-BRANDING allows our good partners to offer a fully customised Visa card to their customers and employees.

Private banking grows profitably

> Housing wealth can be utilised in several ways: reverse mortgage loan and reverse purchase – for meeting the everyday needs of a senior citizen as an investment apartment to accrue own housing pension

Jouni Lehtinen
Bank Manager, private banking

The aim of the private banking sector is to grow profitably while managing risks. Renovations in housing companies also require tailored forms of housing company financing, and reverse mortgage loans and reverse purchases will be established as part of the Finnish mortgage loan market.

SPECIAL SOLUTIONS FOR HOME FINANCING AND DEPOSITS

HYPO REVERSE, a reverse mortgage, is a popular and controlled way of making funds available for the everyday needs of customers on the verge of retirement or during retirement.

HOUSING INVESTMENTS are low-risk, long-term investments. We offer diverse financing solutions for housing investors.

HOUSING COMPANY LOAN WITH LOW CAPITAL CHARGES. Hypo offers housing companies the widest selection of financing options on the market, based on apartment owners' individual needs.

HYPO CREDIT FACILITY is a financing solution tailored to the needs of housing companies. Hypo Credit Facility is ideal for financing major renovation projects, for example. It can be converted into a long-term loan after the project is completed and the housing company is better aware of its total loan requirements.

HYPO BONDS AND LONG-TERM DEPOSITS for a year and longer periods are a secure addition to an investment portfolio. Hypo Bonds are bond investments with a higher yield than short-term deposits. Hypo Bonds can be liquidated without losing the accrued yield.

HYPO'S RENTAL APARTMENTS AND INNOVATIVE IDEAS FOR FINANCING NEW DEVELOPMENTS

Hypo has over a hundred rental apartments in good locations around the Helsinki Metropolitan Area. Hypo's rental apartments are an excellent solution in different life situations.

A HYPO IN-BETWEEN APARTMENT is an excellent way to avoid the two-home trap for customers in the process of buying or building a new home.

HYPO KEY is a personalised housing solution for key employees of our cooperation partners.

CHANGING HOMES is a concept developed by Hypo and its construction partners for customers who have bought a home in a new development and want to avoid the two-home trap.

HYPO SITE is a solution that enables housing companies to allocate owner-specific plot costs over a long period of time. The owners can decide whether they want to purchase their share of a plot all at once or in monthly instalments. The concept is available in our partners' new residential developments in major growth centres in Finland.

OUR RS BANKING SERVICES are available to our partners. Visit our website for more information on our RS projects.

Finance and administration

funding is one of the key tasks in finance and administration

> The profitability and capital adequacy of the Hypo Group, a specialist in home financing, can best be maintained by serving the customer base in an efficient and competent way and ensuring the cost efficiency of internal processes on a continuous basis.

Aija Kontinen
Chief Financial Officer

Finance and administration takes care of the Group's profitable funding and asset management as well as external and internal accounting and reporting. The department's main tasks also involve data and office technology and distribution channel processes.

CUSTOMER SERVICE, GUARANTEE OF CONTINUITY OF CUSTOM

Our experienced telephone service and contract amendment team of banking professionals take care of customers' service requests through the contact channels (telephone service, Internet, online bank and e-mail) efficiently and with expertise. Customers' enquiries are typically related to amendments to loan management and auxiliary services. These include opening a loan management account and online banking service, making custodial agreements on loan collateral and diverse requests for certificates. We keep contact with customers, even closely if necessary, in particular to prevent financial difficulties and take care of credit control with a personal touch.

FINANCIAL INFORMATION

Financial information on the Mortgage Society of Finland every six months, in connection with the interim report on 30 June and financial statements and management report on 31 December. In addition to the semi-annual releases, our investors and partners have access to the annual report every year, both as a traditional printed product and in electronic language versions.

Our financial administration professionals continuously monitor regulatory and legislative amendments in the financial and banking sectors and implement the required reforms of financial information and reporting to the authorities. In addition, process development tasks resulting from the diversification of and growth business operations strengthen our employees' competence and its continuous maintenance.

The finance and administration department maintains and ensures with our IT supplier Samlink that the bank's data systems and the banking service channels and equipment for customers are reliable and confidential.

The Mortgage Society of Finland's finance and administration personnel implements financial administration and official reporting services to the Group's two credit institutions, departments A and M of Hypo's pension foundation and, as part of a trustee assignment, to two plot funds. Financial administration services include payment traffic duties, salary and pension calculation, customer ledger, general ledger accounting and tax-related duties, among others. We support the work of the Group's management by providing financial monitoring information required for business control and take part in financial planning and solvency management processes.

We ensure that the Group's solvency is invested securely in accordance with the set criteria. Arranging the Group's funding from partners and the capital market are also among our key tasks.

CUSTOMISED HYPO SOLUTIONS FOR INVESTORS

HYPO'S CERTIFICATES OF DEPOSIT AND BOND PROGRAMMES are highly popular among fixed-income investors, who appreciate the transparency of Hypo's balance sheet. The key elements in Hypo's funding are a high capital adequacy ratio and a strong liquidity position, which are valued by investors, and a property-secured credit portfolio, which is typical of mortgage banks.

HYPO'S CERTIFICATES OF DEPOSIT are available to investors with an investment need of at least EUR 100,000 for not more than a year. The issue of Hypo's bank deposit programme of EUR 200 million is organised by Nordea Bank, Pohjola Bank and Danske Bank as well as the Finnish branches of Skandinaviska Enskilda Banken and Swedbank.

HYPO BONDS are based on a 400-million-euro bond programme organised by Danske Bank. The programme consists of separate investor-oriented issues for institutional investors and private individuals.

Risk management ensures controlled growth

It is the task of risk management to ensure that risks are taken with due consideration and within the agreed limits. Risk management also aims at profitable growth – while managing the risks.

Taking risks is an essential part of banking. Similarly to other banks, the range of diverse risks is extensive in Hypo's operations. One of the key risks is credit risk, i.e. uncertainty of whether the debtor will repay the loan as agreed. Market risk and the risk of a decrease in housing prices are also major risks quantitatively. In addition, there are risks related to ensuring Hypo's solvency, which have required more and more attention with tightening banking regulations. Since banking is about cooperation between people and information systems, various operational risks are also everyday issues in risk management.

PART OF INTERNAL CONTROL

Risk management is part of the Hypo Group's internal control. The other areas of internal control are compliance and internal auditing. At Hypo, the Chief Risk Officer is responsible for these three areas. The Chief Risk Officer does not make business decisions; he is independent and autonomous in his work. This ensures that in internal control, attention can be paid to all of the necessary issues that require measures by the management.

Practical risk management work surveys, measures and evaluates the risks related to Hypo's operations and develops various methods for managing identified or foreseen risks. The implementation of the methods in use, and also the framework for risk-taking and decisions on taking risk in individual cases, is always carried out by the person responsible for the customer account or business, either alone or with another person, depending on each case.

The best risk management is when the personnel have internalised risk management as a normal and unavoidable part of the business operations of the Hypo Group. This is also the main objective of risk management at Hypo.

The best risk management is when Hypo's personnel has internalised risk management as a normal and unavoidable part of the business operations of the Hypo Group.

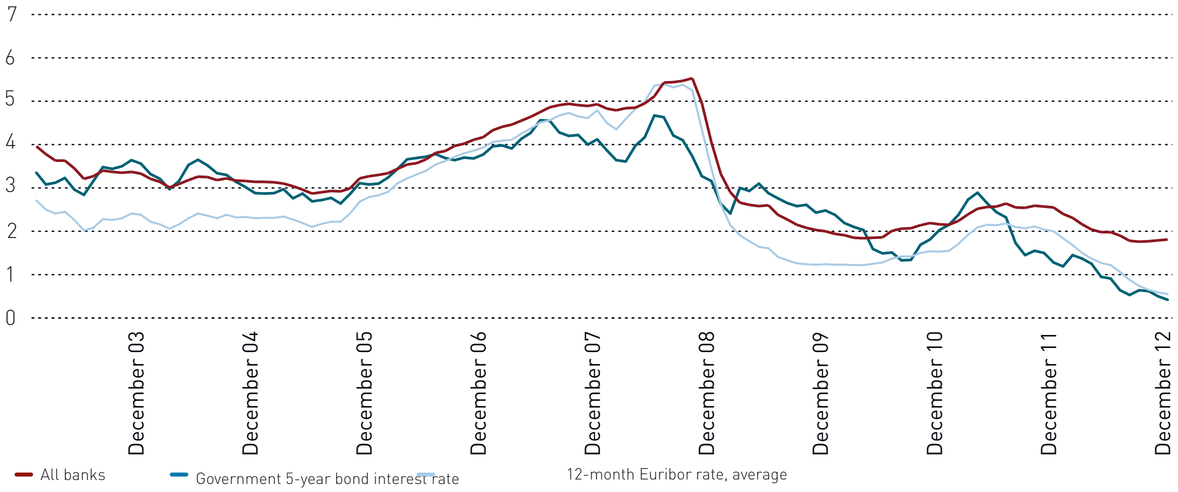
Mikko Huopio
Risk Management Director

Key figures 2012

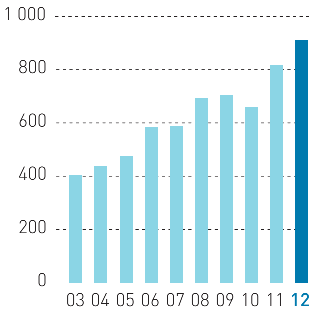
FINANCIAL KEY FIGURES FOR 2011–2012

EUR million	2012	2011
Turnover	28.3	26.8
Operating profit/profit before appropriations and taxes	5.2	4.0
% of turnover	18.4	14.9
Return on equity (ROE), %	5.2	4.5
Return on assets (ROA), %	0.5	0.5
Equity ratio, %	8.8	9.2
Capital adequacy, %	17.0	16.7
Own funds	79.2	75.0
Minimum requirement for own funds	37.2	36.0
Cost-to-income ratio, %	55.0	61.9
Average number of personnel	28.0	29.0
Salaries and remuneration	2.0	2.1
Balance sheet total	912.2	818.0

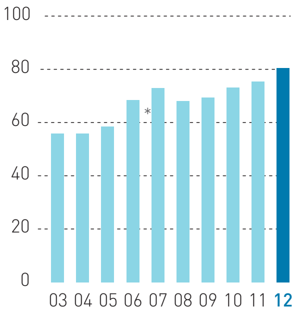
NEW MORTGAGE LOANS FROM BANKS FOR HOUSEHOLDS, AVERAGE INTEREST RATE 2002–2012, %



BALANCE SHEET TOTAL, EUR MILLION

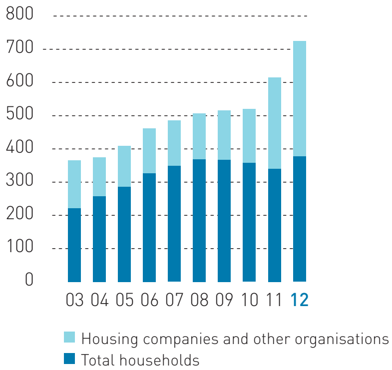


EQUITY, EUR MILLION



Since 2006, shareholders' equity is presented in accordance with IFRS accounting standards.

STRUCTURE OF THE LOAN PORTFOLIO, EUR MILLION



Annual management report

THE MORTGAGE SOCIETY OF FINLAND GROUP

The Mortgage Society of Finland Group (hereafter "the Hypo Group" or "the Group") is the only expert organisation specialising in home financing and housing in Finland. The Mortgage Society of Finland (hereafter "Hypo"), the parent company of the Group, has its domicile and administrative headquarters in Helsinki, and it operates throughout Finland. Hypo, a mutual company governed by its member customers, is an authorised credit institution as specified in Chapter 3 of the Act on Credit Institutions (121/2007), operating in retail banking.

The Hypo Group's consolidated financial statements cover Hypo (the parent company), Suomen AsuntoHypoPankki (hereafter "the Bank"), a subsidiary owned entirely by the parent company, and the real estate subsidiary Bostadsaktiebolaget Taos (hereafter "Taos"), of which the parent company owns 59.4 percent. AsuntoHypoPankki is a deposit bank that offers its customers secure deposit products, trustee services, credit cards and services for buying shares in housing companies during the construction stage within the Finnish RS system, which protects consumers under the Housing Transactions Act (843/1994). The Bank is covered by the Deposit Guarantee Fund. Taos owns and manages plots and properties and rents out office premises. Hypo's customer service facilities are located in premises owned and managed by Taos. The Hypo Group's business operations constitute a single segment: retail banking.

The Mortgage Society of Finland and Suomen AsuntoHypoPankki Oy operate under the supervision of the Financial Supervisory Authority (FSA).

GROUP STRATEGY AND GOALS

The Hypo Group aims to constantly complement its traditional home financing and housing products with new, alternative and customer-focused solutions. The Group aims at steady and profitable growth in its loan portfolio and customer relationships, while carefully managing risks. Profits will be used to maintain a high capital adequacy ratio and to develop competitive products for the benefit of customers. In accordance with the Group's strategy, the Board of Directors sets the Hypo Group business goals, which are confirmed, entered onto scorecards and monitored annually.

OPERATING ENVIRONMENT

During the 152nd anniversary of the Mortgage Society of Finland, both housing prices and rents increased. Euribor interest rates decreased throughout the year.

During 2012, the prices of old flats increased by 3.7 percent across the country (5.2 percent in the capital region and 2.4 percent elsewhere in Finland). Rents for privately financed rental flats increased by 3.1 percent during the year. The 12-month Euribor rate, which is the most common reference rate for mortgage loans, decreased by 1.41 percentage points compared to the end of the previous year. (Source: Prices of dwellings 25 January 2013 and Rents of Dwellings, 8 February 2013, Statistics Finland. Financial markets statistical review 2.2013, Bank of Finland)

More than 80 percent of new mortgage loans were tied to Euribor rates. The annual growth of the mortgage loan portfolio of households amounted to 5.6% (6.6% in 2011). (Source: Financial markets statistical review 2.2013, Bank of Finland. Loans and deposits monthly statistics 31 January 2013, Bank of Finland.)

The annual change in the household deposit portfolio in Finland (December 2011–December 2012) in Finland was -0.3 percent (6.2% in January–December 2011). The average interest rate of the deposit portfolio stood at 0.72 percent at the end of December 2012 (1.05% at the end of 2011). The Hypo Prime interest rate, which is the reference rate for Hypo's sight deposits, was decreased five times in 2012, from 1.75 percent to 0.80 percent.

Hypo continued to publish the Hypo Housing Market Analysis, a quarterly report. This valued and widely recognised analysis provides concise information on the housing market as well as market changes and other topical issues for those operating in the housing market. The analysis is based on a combination of key factors, such as supply and demand, interest rates and house prices.

USE AND ACQUISITION OF ASSETS

Most of Hypo's assets are invested in lending. Some of its assets are invested in liquidity investments, homes and residential plots. Hypo's funding is market-based and complies with the conditions set for neutralising its risk exposure in lending operations in terms of interest rates and other factors.

Lending

Hypo has a completely property-secured loan portfolio, which is typical of mortgage banks. The average loan-to-value (LTV) rate of Hypo's loan portfolio was 51.0 percent on (57.8% on 31 December 2011). The total amount of non-performing receivables, which describes the quality of the loan portfolio, remained low at EUR 1.1 million (1.2 million), representing only 0.16 percent of the loan portfolio.

At the end of the year, Hypo's loan portfolio was EUR 725.0 million (615.0 million). Compared to the end of 2011, the amount of loans that were issued during the financial year but remained undrawn at the end of the year increased by EUR 2.8 million. The Group's loan portfolio is distributed across loans with housing collateral throughout Finland. In these loans, the debtor is usually a household or a housing company or a corresponding housing corporation. However, the majority of the lending and collateral is directed to growth centres and particularly the Helsinki Metropolitan Area.

LIQUIDITY

The Hypo Group continued to maintain a strong liquidity position in 2011. At the end of the year, cash and cash equivalents in the cash flow statement, combined with binding credit facilities, totalled EUR 141.9 million (145.5 million More than 50 percent of cash and cash equivalents were invested in funds with at least an AA rating, distributed widely across various counterparties, and

At the end of 2012, the Hypo Group's loan portfolio was composed as follows:

CONCENTRATION OF LENDING

	2012	%	2011	%
Lending by category				
Households	373,468.9	51.5%	340,637.8	55.4%
Housing companies	255,356.3	35.2%	188,743.8	30.7%
Private companies (housing investors)	90,410.0	12.5%	79,811.5	13.0%
Other	5,811.0	0.8%	5,798.2	0.9%
Total	725,046.2	100.0%	614,991.3	100.0%
Lending by purpose of use				
Permanent dwelling	683,255.8	94.2%	574,302.1	93.4%
Consumer loan	33,827.6	4.7%	32,353.2	5.3%
Holiday home	7,962.8	1.1%	8,336.0	1.4%
Total	725,046.2	100.0%	614,991.3	100.0%
Lending by province				
Uusimaa	585,999.3	80.8%	500,274.6	81.3%
Rest of Finland	139,046.8	19.2%	114,716.7	18.7%
Total	725,046.2	100.0%	614,991.3	100.0%

in debt securities that are tradeable on the secondary market. Of the total liquidity, EUR 101.0 million was available for unlimited use in liquidity management.

In addition to cash, cash equivalents and binding credit facilities, Hypo has domestic programmes for issuing bonds and certificates of deposit.

Other receivables

Homes and residential plots owned and rented out by Hypo enable the Group to offer its customers a more comprehensive selection of housing products and services. Hypo's properties are located in growth centres, mainly in the Helsinki Metropolitan Area, distributed across key residential areas. These properties mostly consist of flats that have been rented out as well as residential plots that have been rented for the long term to housing companies, which will purchase them gradually. The Group's housing and residential plot holdings decreased as the result of sales to EUR 54.6 million (65.0 million At the end of the financial year, the fair value of the investment properties was EUR 11.9 million (15.6 million) higher than their book value. Property investments constituted 6.1 percent (8.0) of the balance sheet total, which is clearly less than the 13 percent maximum stated in the Act on Credit Institutions.

The additional pension cover for Hypo's employees, which is classified as a defined benefit plan, has been arranged through Department A of Hypo's pension foundation, which was closed in 1991. The surplus from the assets and obligations of the pension foundation, which totalled EUR 7.1 million (7.7 million), has been entered into the Group's other assets and into equity after deferred tax liabilities.

Derivative contracts

Interest rate swaps and currency swaps made for the purpose of hedging balance sheet items against the related risks are recognised at fair value, and their offset entries are recognised in the fair value reserve included in equity (hedging against the interest rate risk) or through profit or loss (hedging against the currency risk), depending on the hedge accounting model. The fair values of embedded derivatives related to share-index and currency-based bonds, as well as those of the equivalent option contracts, have been recognised through profit or loss, and their offset entries have been included in the derivatives on the balance sheet. The balance sheet value of receivables from derivatives was EUR 0.1 million (0.4 million) million and that of liabilities from receivables was EUR 1.5 million (5.5 million

Deposits and other funding

The key elements in the Group's funding are a high capital adequacy ratio and a strong liquidity position, which are valued by investors, and a property-secured credit portfolio, which is typical of mortgage banks. The Group's financing positions remained stable, and the proportion of deposit funding was increased from 2010. The deposit portfolio grew by 35% to EUR 308.6 million (228.3 million), including deposits made by financial institutions. Deposits constituted 38.1 percent of total funding (31.7).

Hypo's 400-million-euro bond programme was updated on 28 May 2012 and supplemented on twice to maintain issuance readiness. During the financial year, Hypo carried out two bond issues with a total nominal capital of EUR 85 million. These were used to refinance maturing bonds and other funding contracts. The issued bonds and certificates of deposit amounted to EUR 298.9 million at the end of 2012 (275.2 million), representing 32.8 percent (38.4) of all funding.

The Hypo Group's acquisition of assets totalled EUR 810.4 million (719.3 million)

CHANGES IN EQUITY

The Hypo Group's equity stood at EUR 80.5 million at the end of 2012 (75.5 million The changes in equity are presented in more detail in the financial statements for 2012 under "Statement of changes in equity between 1 January and

The balance sheet of the parent company includes, in accordance with Section 46 of the Business Income Tax Act (360/1968), a general credit loss provision of EUR 18.0 million after deferred tax liabilities (15.1 million). In the consolidated financial statements, this provision is included in non-restricted equity under "Retained earnings".

THE HYPO GROUP'S RESULT, PROFITABILITY AND CAPITAL ADEQUACY RATIO

The Hypo Group's operating profit was EUR 5.2 million in the financial year 2012 (4.0 million in 2011).

Impairment, including returns of impairment, totalled EUR -0.03 million (impairment gain EUR 0.2 million

Known as a financially sound Finnish credit institution and deposit bank operator, the Group had more than 24,000 customers on 31 December 2012.

Senior management uses a performance indicator to describe and monitor the Hypo Group's operations. This indicator considers net interest income, net profit from available-for-sale financial assets and net profits from investment properties (excluding capital gains), which totalled EUR 6.3 million in 2011 (5.2 million The positive development of net interest income continued.

Fee income totalled EUR 2.3 million (2.0 million), consisting of fees related to lending, trustee services and Visa cards.

Net profits from investment properties (housing units and residential plots) amounted to EUR 6.2 million (6.2 million) This included EUR 3.0 million of capital gains (2.9 million).

Administrative costs totalled EUR 5.8 million (5.7 million Salaries and indirect employee costs decreased by EUR 0.1 million compared to the previous year, constituting 53.1 percent of total administrative costs (56.0%). The Hypo Group's pension expenses decreased by a net amount of EUR 0.2 million (0.2 million) because of an item based on the IAS 19 standard (Employee Benefits) and a transfer made to Department M of the pension foundation. Other administrative costs totalled EUR 2.7 million (2.5 million

Depreciation amounted to EUR 0.2 million (0.2 million), consisting mainly of items related to the deposit system. Other operating expenses totalled EUR 0.4 million (0.3 million

The Hypo Group's cost-to-income ratio was 55.3 percent (61.9).

The Group's profit for the financial period was EUR 4.1 million (3.4 million The Group's comprehensive income totalled EUR 5.0 million (2.3 million). In addition to the profit for the period, it includes the changes in the fair value reserve included in the equity. These changes were caused by unrealised changes in the value of interest rate swaps and available-for-sale financial assets.

KEY EVENTS SINCE THE END OF THE FINANCIAL YEAR AND AN ESTIMATE OF PROBABLE FUTURE DEVELOPMENTS

Key events since the end of the financial year

The financial position of Hypo or the Hypo Group has not changed significantly since the end of the 2012 financial year.

Since the end of the financial period, neither Hypo nor the Group's companies have been involved in administrative or legal proceedings, arbitration or other events that would have had a significant effect on Hypo's financial position. Furthermore, Hypo is not aware of such proceedings or events being under consideration or being otherwise threatened.

An estimate of probable future developments

The general economic situation has calmed down slightly, but in the housing market, 2013 begins in a rather uncertain atmosphere. However, we believe that Hypo, a specialist in home financing, is still well positioned to also grow profitably in 2013 while managing risks. We estimate that our result for the first half of 2013 will be similar to that for the first half of 2012.

BOARD'S PROPOSAL CONCERNING THE DISPOSAL OF PROFITS

According to section 21 of the Mortgage Society of Finland's rules, at least 80 percent of annual profits must be transferred to a contingency fund or a reserve fund if the ratio between equity and risk-adjusted commitments (capital adequacy ratio) is less than eight percent. If the capital adequacy ratio is at least eight percent but less than nine percent, at least 70 percent of annual profits must be transferred to a contingency or reserve fund. If the ratio is at least nine percent, at least 50 percent of annual profits must be transferred to a contingency or reserve fund.

The Board proposes that EUR 954.75 of Hypo's result for 2012, which was EUR 1,909.49, be transferred to the reserve fund and the rest remain unused.

KEY INDICATORS 2008–2012

The Group	IFRS 2008	IFRS 2009	IFRS 2010	IFRS 2011	**IFRS 2012**
Turnover, EUR million	33.4	30.8	23.1	26.8	**28.3**
Operating profit/profit before appropriations and taxes, EUR million	1.5	3.0	2.2	4.0	**5.2**
% of turnover	4.4	9.8	9.7	14.9	**18.4**
Return on equity (ROE), %	1.4	3.1	2.3	4.5	**5.2**
Return on assets (ROA), %	0.2	0.3	0.2	0.4	**0.5**
Equity ratio, %	9.8	9.9	11.1	9.2	**8.8**
Capital adequacy, %	18.5	17.5	18.9	16.7	**17.0**
Own funds, EUR million	67.5	69.5	71.6	75.0	**79.2**
Minimum requirement for own funds, EUR million	29.3	31.4	30.3	36.0	**37.2**
Cost-to-income ratio, %	75.6	60.4	71.0	61.9	**55.3**
Average number of personnel	28	24	27	29	**30**
Salaries and remuneration, EUR million	1.6	1.7	1.5	2.1	**2.0**
Balance sheet total, EUR million	692.6	703.4	660.8	818.0	**912.2**

The capital adequacy information is in accordance with the Basel II calculation.

DEFINITIONS OF KEY INDICATORS

Turnover	interest income + income from equity investments + fee income + net income from available-for-sale financial assets + net income from currency operations and securities trading + income from investment properties + other operating income	
Return on equity (ROE), %	operating profit – income taxes / shareholders' equity + accumulated appropriations less deferred tax liabilities (average total at the beginning and end of the year)	x 100
Return on assets (ROA), %	operating profit – income taxes / average balance sheet total (average total at the beginning and end of the year)	x 100
Equity ratio, %	shareholders' equity + accumulated appropriations less deferred tax liabilities / balance sheet total	x 100
Capital adequacy, %	own funds / minimum requirement for own funds	x 8
Cost-to-income ratio, %	administrative expenses + depreciation and impairment losses on tangible and intangible assets + other operating expenses / net interest income + income from equity investments + net fee income + net income from available-for-sale financial assets + net income from currency operations and securities trading + net income from investment properties + other operating income	x 100

CAPITAL ADEQUACY AND RISK MANAGEMENT

The Group manages risks in accordance with confirmed principles and practices which cover all of its operations.

The special characteristics of the Group's business operations affect these principles and their implementation. The Group's key business areas are home-secured lending, deposits from the public and the provision of trustee services as part of selected services. The Group does not offer payment transaction services. The aim is to expand the service portfolio to select investment services during 2013.

The goals and methods of capital adequacy and risk management as well as information on risk positions are presented in the notes to the consolidated financial statements. The notes also include information on the requirements set for the minimum amount, quality and surplus of the Group's own fund. Each year, the Group publishes the key information required for the analysis of its capital adequacy and risk management as part of its audited financial statements and the related annual report. Information on capital adequacy and the requirement set for the minimum amount of assets is also included in interim reports.

The Group estimates that its surplus of assets is at an excellent level, in terms of both quantity and quality, and sufficient to also cover operations falling outside the minimum requirements set for credit institution operations and the risks related to the operating environment.

GOVERNANCE AND SUPERVISION SYSTEMS

Hypo's operations are governed by general laws and regulations on credit institutions as well as the Act on Mortgage Societies. As the licensing authority, the Financial Supervisory Authority monitors the operations of Hypo and the Group. Hypo is not a listed company, but it issues bonds that are traded publicly. For this reason, it must comply with many of the regulations on listed companies. With certain exemptions, Hypo adheres to the Securities Market Association's Finnish Corporate Governance Code. In conjunction with this annual report, statements on the administration and governance systems of the Mortgage Society of Finland, as well as the internal auditing and risk management systems related to financial reporting, have been published on the society's website at www.hypo.fi/Hypo.

PERSONNEL, INCENTIVES, COMPETENCE DEVELOPMENT AND PENSION LIABILITIES

The average number of permanent employees at the Hypo Group was 27 during the financial year (25). At the end of the financial year, permanent employees totalled 30 (25). These figures do not include the Managing Director and his deputy. The average number of temporary employees was 1 during the financial year (3). At the end of the financial year, temporary employees totalled 0 (3). All employees were full-time employees.

Seven new employees were hired during the financial period, and the Group continued to cooperate with Helmi Business College by offering internships to students pursuing a diploma in business and administration.

Of the Group's personnel, about 85 percent work in direct customer service and about 15 percent in administration. The average age of employees is 46.1 years. At the end of the year, the youngest employee was 26 years of age and the oldest was 63. The employees have worked an average of 10.5 years for the Hypo Group. Of all employees, 62.5 percent are women and 37.5 percent are men. Two of the six members of the Management Group are women. Of the Group's employees, 34 percent have a higher education degree and 66 percent have graduated from a university of applied sciences (polytechnic) or have completed upper secondary education. Of the women employed by the Hypo Group, 20 percent have a higher education degree and 80 percent have graduated from a university of applied sciences (polytechnic) or have completed upper secondary education. For the men, the proportions are 58 and 42 percent, respectively.

All permanent employees are included in the Group's incentive and commitment plan. The incentive plan considers the success of the company and business area as well as personal performance. The plan enables employees to earn a discretionary reward that, at a maximum, can equal 16 weeks' pay. The Board of Directors decides on rewards for employees and middle management on the proposal of the Managing Director. Decisions about rewards for the Managing Director and his deputy are made by Hypo's Compensation Committee on the proposal of the Board of Directors. For reasons of caution, rewards are paid after a delay – this procedure was adopted in 2004. Special considerations have also included the content of the Ministry of Finance Decree, particularly as it applies to senior management. Established in late 2010, the defined contribution Department M of Hypo's pension foundation introduced a completely new way of improving pension security that benefits both employees and the company. Specified shares of the rewards for clerical employees, middle management and senior management are paid as insurance premiums to Department M of Hypo's pension foundation in accordance with its rules. This solution did not increase the maximum amount of incentives that can be earned through the plan or the cost incurred by the employee. Instead, it divides standard incentives into two elements: those paid in cash and those paid through insurance premiums. The solution invigorated Hypo's pension foundation, which had closed its Department A in 1991. With the establishment of Department M, Hypo's entire personnel and the members of its administrative bodies are covered by the pension foundation.

Competence, management and workplace development are integral to the Hypo Group's business strategy. During the financial year, each employee attended at least one personal performance and development discussion. In this context, it should be noted that the Group is a small organisation where senior management and each employee's closest supervisors continually take part in daily management.

Increasing competence throughout the organisation with determination has laid a solid foundation for being able to continue product-oriented specialisation in the organisation of work. This way, it has been possible to ensure that each Hypo employee's best competence is utilised in work with customers. All customer service employees have completed their licensed real estate broker diplomas (LKV), and all of the new employees hired during the financial year are also preparing to take the next possible LKV test.

Regardless of the type of employment, all employees are covered by statutory occupational health care and a wide selection of additional services offered by Mehiläinen Occupational Health Care. In addition, regardless of position or type of employment, all employees have access to sport vouchers and holiday homes.

Statutory pension insurance for Hypo's personnel has been set up with Tapiola Mutual Pension Insurance Company. Additional benefits are managed by Department A of Hypo's pension foundation, which has a closed sphere of operation and no uncovered liabilities. The additional benefits cover a total of 7 employees. Through Department M, the pension foundation covers a total of 51 people.

Helsinki, 28 February 2013

Board of Directors

CONSOLIDATED INCOME STATEMENT 1 JANUARY 2012–31 DECEMBER 2012, IFRS

EUR 1,000	Note	2012	2011
Interest income	1	**18,937.0**	17,507.9
Interest expenses	1	**–15,793.8**	–15,749.9
NET INTEREST INCOME		**3,143.2**	1,758.1
Income from equity investments			
From other companies		**65.5**	0.0
Fee income		**2,266.9**	2,041.4
Fee expenses	3	**–19.5**	–10.0
Net income from currency operations and securities trading			
Net income from currency operations	4	**1.1**	1.1
Net income from available-for-sale financial assets	5	**16.4**	4.0
Net income from investment properties	6	**6,123.5**	6,276.5
Other operating income	7	**40.2**	38.2
Administrative expenses			
Personnel expenses			
Salaries and remuneration		**–2,587.1**	–2,703.1
Indirect personnel expenses			
Pension expenses		**–384.8**	–408.3
Other indirect personnel expenses		**125.7**	–86.7
Other administrative expenses		**–2,734.3**	–2,514.6
Total administrative expenses		**–5,831.8**	–5,712.8
Depreciation and impairment losses on			
tangible and intangible assets	9	**–207.9**	–231.5
Other operating expenses	8	**–359.6**	–313.8
Impairment losses on loans and other commitments	10	**–29.7**	154.8
OPERATING PROFIT		**5,208.4**	4,005.9
Income taxes	11	**–1,126.0**	–645.7
PROFIT FROM OPERATIONS AFTER TAXES		**4,082.4**	3,360.3
PROFIT FOR THE PERIOD		**4,082.4**	3,360.3

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT 1 JANUARY 2012–31 DECEMBER 2012, IFRS

EUR	Note	2012	2011
Profit for the period		**4,082.4**	3,360.3
Other comprehensive income			
Change in fair value reserve			
Hedging of cash flows		**999.1**	–1,319.9
Financial assets available for sale		**164.2**	–6.6
		1,163.3	–1,326.5
Changes in the corporate tax rate			
Retained earnings			266.0
Effect of change in holding of Bostads Ab Taos		**–237.7**	
Total other comprehensive income		**925.6**	–1,060.5
COMPREHENSIVE INCOME FOR THE PERIOD		**5,008.0**	2,299.8

CONSOLIDATED BALANCE SHEET 31 DECEMBER 2012, IFRS

	Note	2012	2011
ASSETS			
Liquid assets	13,14,32	**0.0**	24.1
Debt securities eligible for refinancing with central banks			
Other	14, 15, 30, 31, 32	**106,385.1**	84,164.8
Receivables from credit institutions			
Repayable on demand	14, 15, 30, 31, 32	**7,689.4**	6,457.9
Other	14, 15, 30, 31, 32	**3,019.0**	4,677.5
		10,708.4	11,135.4
Receivables from the public and public entities			
Other than those repayable on demand	16, 30, 31, 32	**725,046.2**	614,991.3
Debt securities			
From public entities	17, 30, 31, 32		1,999.1
From others	17, 30, 31, 32	**1,300.0**	24,697.8
		1,300.0	26,696.9
Shares and holdings	18, 31, 32	**113.4**	112.8
Derivative contracts	19, 31, 32	**90.5**	414.8
Intangible assets			
Other long-term expenditure	20,22	**338.6**	476.8
Tangible assets			
Investment properties and shares and holdings in investment properties	21,22	**54,616.9**	64,964.6
Other properties and shares and holdings in real estate corporations		**834.2**	869.0
Other tangible assets	21,22	**256.4**	277.7
		55,707.5	66,111.3
Other assets	23	**8,562.7**	8,440.5
Deferred income and advances paid	24	**2,768.3**	3,842.9
Deferred tax receivables	25	**1,210.3**	1,544.5
TOTAL ASSETS		**912,231.0**	817,956.1
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities to credit institutions			
To central banks		**40,000.0**	40,000.0
To credit institutions			
Repayable on demand		**19,034.2**	8,686.6
Other than those repayable on demand	30, 31, 32	**128,255.5**	130,502.3
		187,289.7	179,188.9
Liabilities to the public and public entities			
Deposits			
Repayable on demand	30, 31, 32	**148,547.6**	109,986.4
Other than those repayable on demand	30, 31, 32	**119,980.0**	88,657.5
		268,527.6	198,644.0
Other liabilities			
Other than those repayable on demand	30, 31, 32	**54,989.1**	65,323.0
		323,516.7	263,967.0
Debt securities issued to the public			
Bonds	25, 30, 31, 32	**198,087.9**	202,798.7
Other	25, 30, 31, 32	**100,782.7**	72,375.1
		298,870.7	275,173.8
Derivative contracts	31, 32	**1,533.9**	5,452.7
Other liabilities			
Other liabilities	27	**5,725.7**	4,061.6
Deferred expenses and advances received	28	**4,953.6**	5,333.1
Subordinated liabilities			
Other	29, 30, 31, 32	**680.0**	1,020.0
Deferred tax liabilities	25	**9,118.5**	8,224.8
EQUITY			
Basic capital	34, 46	**5,000.0**	5,000.0
Other restricted reserves			
Reserve fund	46	**22,789.4**	22,789.8
Fair value reserve			
From cash flow hedging	46	**−3,664.1**	−4,663.2
From valuation at fair value	46	**214.6**	50.4
Unrestricted reserves			
Other reserves	46	**22,923.5**	22,923.5
Retained earnings	46	**29,196.3**	26,073.3
Profit for the period	46	**4,082.4**	3,360.3
		80,542.1	75,534.1
TOTAL LIABILITIES AND EQUITY		**912,231.0**	817,956.1

CHANGE IN EQUITY 1 JANUARY 2012 – 31 DECEMBER 2012

EUR 1,000	Basiccapital	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
Equity 1 Jan 2011	5,000.0	22,689.8	–3,286.3	21,173.5	27,657.3	73,234.4
Profit for the period					3,360.3	3,360.3
Other comprehensive income						
The impact of the change in the tax rate on deferred taxes on items included in retained earnings					266.0	266.0
Distribution of profits		100.0		1,750.0	–1,850.0	0.0
Hedging of cash flow						
Amount recognised in equity			–5,174.0			–5,174.0
Amount transferred to the income statement			3,515.5			3,515.5
Change in deferred taxes			338.6			338.6
Financial assets available for sale						
Change in fair value			–6.3			–6.3
Amount transferred to the income statement			–4.0			–4.0
Change in deferred taxes			3.7			3.7
Total other comprehensive income	0.0	100.0	–1,326.5	1,750.0	–1,584.0	–1,060.5
Equity 31 Dec 2011	**5,000.0**	**22,789.8**	**–4,612.8**	**22,923.5**	**29,433.6**	**75,534.1**

EUR 1,000	Basic capital	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
Equity 1 Jan 2012	5,000.0	22,789.8	–4,612.8	22,923.5	29,433.6	75,534.1
Profit for the period					4,082.4	4,082.4
Other comprehensive income						
Effect of change in holding of Bostads Ab Taos		–0.4			–176.4	–176.9
The impact of the change in the tax rate on deferred taxes on items included in retained earnings					–60.9	–60.9
Distribution of profits						0.0
Hedging of cash flow						
Amount recognised in equity			–518.5			–518.5
Amount transferred to the income statement			1,841.8			1,841.8
Change in deferred taxes			–324.2			–324.2
Financial assets available for sale						
Change in fair value			233.9			233.9
Amount transferred to the income statement			–16.4			–16.4
Change in deferred taxes			–53.3			–53.3
Total other comprehensive income	0.0	–0.4	1,163.3	0.0	–237.3	925.6
Equity 31 Dec 2012	**5,000.0**	**22,789.4**	**–3,449.5**	**22,923.5**	**33,278.7**	**80,542.1**

CONSOLIDATED CASH FLOW STATEMENT 1 JANUARY 2012 – 31 DECEMBER 2012

EUR 1,000	2012	2011
Cash flow from operating activities		
Interest received	19,922.8	15,967.5
Interest paid	–16,195.2	–14,285.8
Fee income	2,251.5	2,105.9
Fee expenses	–19.5	–10.0
Net income from currency operations	1.1	1.1
Net income from available-for-sale financial assets	16.4	4.0
Net income from investment properties	6,346.1	6,322.5
Other operating income	40.2	38.2
Administrative expenses	–6,635.6	–3,262.2
Other operating expenses	–447.9	–355.0
Credit and guarantee losses	–29.7	154.8
Income taxes	–1,115.5	–1,945.5
Total net cash flow from operating activities	4,134.7	4,735.4
Operating assets increase (-) / decrease (+)		
Receivables from customers (lending)	–108,776.2	–94,074.5
Investment properties	12,144.5	–5,173.8
Operating assets increase (-) / decrease (+) total	–96,631.7	–99,248.3
Operating liabilities increase (+) / decrease (-)		
Liabilities to the public and public sector organisations (deposits)	69,883.6	68,122.7
Operating liabilities increase (+) / decrease (-) total	69,883.6	68,122.7
NET CASH FLOWS ACCRUED FROM OPERATING ACTIVITIES	–22,613.4	–26,390.2
Cash flows from investments		
Change in fixed assets	–13.6	11.7
Equity investments increase (-) / decrease (+)	–0.6	0.0
Dividends received	65.5	0.0
NET CASH FLOWS ACCRUED FROM INVESTMENTS	51.2	11.7
Cash flows from financing		
Bank loans, new withdrawals	160,302.1	154,335.7
Bank loans, repayments	–152,201.3	–74,177.0
Other liabilities increase (+) / decrease (-)	–10,252.0	–13,484.0
Bonds, new issues	91,497.3	64,390.5
Bonds, repayments	–98,479.3	–78,568.6
Certificates of deposit, new issues	194,016.5	139,159.9
Certificates of deposit, repayments	–165,608.9	–105,721.1
Subordinated liabilities, repayments	–340.0	–340.0
NET CASH FLOWS ACCRUED FROM FINANCING	18,934.5	85,595.4
NET CHANGE IN CASH AND CASH EQUIVALENTS	–3,627.7	59,216.9
Cash and cash equivalents at the beginning of the period	122,021.2	62,804.3
Cash and cash equivalents at the end of the period	118,393.5	122,021.2
CHANGE IN CASH AND CASH EQUIVALENTS	–3,627.7	59,216.9

ACCOUNTING POLICIES

GENERAL INFORMATION

The Mortgage Society of Finland (hereafter "Hypo") is an independent credit institution specialising in home financing and housing, with its debtors as its members. The specific purpose of Hypo is to grant long-term loans, from assets largely acquired through long-term loans, to individuals and communities mainly for housing purposes. These loans are usually granted against a mortgage or other security. Its subsidiary, Suomen AsuntoHypoPankki (hereafter "the Bank"), operates in deposit banking, offering its customers deposit accounts, Visa cards and trustee services related to retail banking. Its operations are monitored by the Financial Supervisory Authority.

The Hypo Group's financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) and SIC and IFRIC interpretations. The international financial reporting standards refer to standards and the related interpretations that have been approved in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards.

The consolidated financial statements include the Hypo Group's and the parent company's income statements, balance sheet and notes as well as the Group's comprehensive income, cash flow statement and a statement on changes in equity. In addition, the financial statements include an annual report.

The information related to capital adequacy has been prepared and presented in accordance with FIN-FSA standard 4.5. Part of the information is included in the annual report and part in the notes to the consolidated financial statements.

NEW STANDARDS AND INTERPRETATIONS

No IFRS standards or SIC or IFRIC interpretations adopted or amended in 2012 concerned the accounting principles used in preparing these financial statements. The amendments to IAS 19 Employee Benefits will have a decreasing effect (approximately EUR 1.0 million) on pension assets in the financial statements 2013.

The new IFRS Financial instruments and amendments related to hedge accounting under preparations will probably have effects on future financial statements.

THE GROUP

The Hypo Group's consolidated financial statements cover Hypo as well as the Bank, of which the Group owns 100 percent, and Bostadsaktiebolaget Taos (hereinafter "Taos"), of which the Group owns 59.4 percent. The financial statements of AsuntoHypoPankki and Taos have been consolidated using the acquisition cost method, eliminating mutual business transactions included in the individual financial statements.

The housing company Asunto Oy Vanhaväylä 17 (of which the Group owns 80.4 percent) as well as housing companies that are affiliate companies have been accounted for in the same manner as other property investments and included in tangible assets. These companies have a minor effect on the Group's result and financial position. The accounting principles applied to property investments are explained later in this document.

FINANCIAL INSTRUMENTS

Financial assets

Receivables from credit institutions, the public and public-sector entities are classified under "Loans and other receivables", recognised originally at fair value and later at the amortised acquisition cost. At least once every six months, the company evaluates whether there is objective proof that the value of a single receivable or a group of receivables has decreased. If the receivable amount, which is based on an estimate of future cash flows, is evaluated to be lower than the book value, the receivable will be recognised as an impairment loss. Impairment losses on receivables as well as any returns of recognised impairment losses are presented under "Impairment losses on credits and other commitments".

Debt securities as well as equity and fund investments (excluding shares in subsidiaries) are classified under "Financial assets available for sale" and recognised at fair value. Unrealised changes in fair value have been recognised, after adjustment for deferred tax liabilities, in the fair value reserve included in equity. Valuation differences recognised in the fair value reserve in conjunction with sales are recognised in the income statement. Equity instruments for which no market price is quoted and the fair value of which cannot be reliably determined are recognised at acquisition cost. At least once every six months, the company evaluates whether there is objective proof that the value of an investment has decreased. If the value of the investment has decreased below the acquisition cost and the impairment is significant or long-term in nature, the investment will be recognised as an impairment loss through profit or loss. Dividend income based on equity instruments is recognised once the dividend has become vested.

The purchases and sales of notes, bonds and shares are recognised on the transaction date.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the cash flow statement consist of cash assets, receivables from credit institutions, debt securities, as well as fixed-income fund investments included in "Shares and holdings".

Financial liabilities

The Group's liabilities are classified under "Other liabilities", recognised originally at fair value and later at the amortised acquisition cost. If the principal paid or received for a liability is more or less than the nominal value of the liability, the liability is recognised at the amount received. The difference between the nominal value and the amount originally recognised on the balance sheet is recorded as amortisation by using the effective interest method over the term of the loan. It will be recognised as either an expense or a deduction from an expense and recorded as an increase or decrease in the book value of the liability. Correspondingly, transaction costs related to the issuance of a liability are recorded as amortisation by using the effective interest method over the term of the liability.

Bonds issued by Hypo that are tied to the performance of certain share indices or currencies in terms of return to investors include what are known as embedded derivatives (share index and currency options). Correspondingly, Hypo has protected its position with separate derivative contracts. As a whole, this arrangement is equivalent to standard floating-rate or fixed-rate liabilities. These embedded derivatives related to liabilities and the corresponding separate option contracts are recognised at market value through profit or loss. On the balance sheet, they are recognised in "Assets and liabilities" under "Derivative contracts".

Liabilities in foreign currencies are converted into euros at the currency rate on the balance sheet date. Liabilities are recognised in, or removed from, the balance sheet on the settlement date.

Financial derivatives

Hedge accounting is applied to derivative contracts other than those described above. The purpose of hedge accounting is to allocate the profit impact of the cash flows related to hedging objects and hedging instruments to the same accounting period.

The hedging instruments are interest rate swaps that are used to change the variable cash flows related to the hedging object to fixed-rate cash flows or ones with longer maturities. Interest payments against floating-rate liabilities are determined as hedging objects. The cash flow hedging account model is applied to these hedging relationships.

Currency and interest rate swaps are also used as hedging instruments, for converting cash flows related to the hedged foreign currency liability from floating-rate cash flows into fixed-rate ones or ones with longer maturities, and for eliminating the currency risk related to the foreign currency liability. The cash flow hedge accounting model is applied to these hedging relationships as they concern interest rate risks. The fair value hedge accounting model is applied to these hedging relationships as they concern currency risks.

The effectiveness of the hedging is verified in two stages. At the commencement of the hedge and during the hedge, the hedging is assumed to be sufficiently effective on the day it is set up and thereafter if the principals, due dates, repricing dates, interest periods and reference rates of the contracts related to the hedged liability or group of similar liabilities and the hedging instrument or a group of similar hedging instruments are identical or very similar. In subsequent verifications, which are carried out at least twice a year, the effectiveness of individual hedging instruments or a group of them and the related hedged liabilities or a similar group is verified to be between 80 and 125 percent. The ineffective part of the profit or loss related to an individual hedging instrument or a group of them is recognised through profit or loss. If the hedging proves to be inefficient because of changed conditions, for example, the related hedge accounting is discontinued.

Derivative contracts are recognised at fair value. The fair values are recognised in "Receivables and liabilities" on the balance sheet, and the offset entries are recognised, after adjustment for deferred taxes, in the fair value reserve included in equity. The unrealised changes in their fair value are included in the comprehensive income statement. Changes in fair value that result from currency rates related to currency and interest swaps are recognised through profit or loss. Currency rate differences between hedged foreign currency liabilities and the related hedging derivatives offset one another on the balance sheet, because foreign currency liabilities are fully hedged against currency risks.

Interest income and interest expenses related to interest derivatives are recognised at their net amounts in income expenses, and deferred interest is included in deferred income and liabilities.

Accounting principles applied to determining the fair value of financial instruments

The fair values of derivative contracts, most of which consist of traditional interest rate swaps, as well as fixed-rate liabilities and receivables, are calculated by discounting future cash flows to the present by using market rates. A margin based on the counterparty's credit risk has been added to the market rates (Euribor and swap rates). When valuing currency and interest rate swaps, currency rates at the time of valuation have also been considered. Widely adopted option valuation models have been applied to the market valuation of option contracts. The input data (for example, the values and volatilities of share indices and currencies) are based on market values. In practice, the market values are received from bank counterparties.

The book value of floating-rate and short-term (maturity less than one year) balance sheet items is considered to be equal to their fair value.

INTANGIBLE ASSETS

The costs recognised in "Intangible assets" consist of IT projects and start-up costs related to Visa partnerships. On the balance sheet, intangible assets are recognised at acquisition cost less accrued depreciation and any impairment losses. The useful life of assets is limited, seven years at the most. Depreciation begins when the asset is ready for use, and the depreciation is calculated as straight-line deprecation. In the income statement, depreciation is recognised under "Amortisation and impairment on tangible and intangible assets."

TANGIBLE ASSETS

Property investments

On the balance sheet, property investments are divided into investment properties and other properties. Investment properties mainly consist of land areas intended to be used as residential plots as well as shares in housing companies and investments in shares in housing companies under construction. Other properties and shares and stakes in real estate companies refer to the part of the property that is used by the Group.

New developments related to cooperation projects are recognised as income after completion in accordance with IFRIC 15.

Investment properties and other properties are recognised in accordance with the acquisition cost model. In the consolidated financial statements, shares in housing companies are combined line by line according to the proportional share. Buildings are recorded using straight-line depreciation over a period of 25 years. Land areas are not recorded using depreciation.

Earlier FAS financial statements have included revaluations related to some property investments. At the time of transition to IFRS, the values included in the FAS financial statements were used as the default acquisition cost of properties in accordance with IFRS 1.17 and 1.18.

The need for impairment on property investments is evaluated at least once a year. If an asset item is recognised on the balance sheet at a value higher than the recoverable amount, an impairment loss is recorded.

Rental income from investment properties, maintenance charges and other expenses as well as depreciation and capital gains are recognised in "Net profits from investment properties". Costs and depreciation related to properties in the Hypo Group's own use are recognised in "Other operating expenses".

Hypo has long-term leases with housing companies on residential plots. Once a year, the housing company has the opportunity to purchase plot shares if the shareholders so choose. The purchase price is the acquisition price adjusted for the increase in the cost of living index.

A small share of the home purchases are based on the Hypo Partial Ownership concept. In practice, this means that Hypo and its customer (private individual) jointly own the home, and the customer pays rent on the share owned by Hypo. As a rule, the partial ownership agreement enables customers to purchase the entire home or sell their share to Hypo within four years. The purchase price is usually the original acquisition price less compensation based on wear and tear. The notes to the consolidated financial statements present a sum that describes the amount Hypo would need to use to purchase the partially owned homes if each owner decided to sell his or her share to Hypo. If the agreement is regarded as a loss-making contract – in other words, if it is likely that Hypo will have to purchase the shares, resulting in a loss – a provision will be made in accordance with IAS 37.

The fair values of property investments are included in the notes to the consolidated financial statements. The fair values of housing units have mainly been calculated based on Statistics Finland's statistics on the prices of dwellings in the fourth quarter of 2011, in which dwellings are divided into categories based on type and location. The fair values of flats purchased a year or less than a year ago are assumed to be equal to their acquisition prices. The fair value of a plot is its acquisition cost adjusted for the increase in the cost of living, which equals the plot's purchase price.

Other tangible assets

Other tangible assets include machines, equipment and works of art. These are recognised according to the acquisition cost model. Machines and equipment are recorded systematically as costs during the useful life of the asset, applying the reducing balance method of depreciation. The depreciation percentage is either 25 or 10. Works of art are not amortised systematically.

VOLUNTARY PENSION BENEFITS

Statutory pension insurance for Hypo's personnel has been set up with a pension insurance company. Additional pension cover for Hypo's employees, which is classified as a defined benefit plan, is arranged from department A of Hypo's pension foundation. In the consolidated financial statements, the assets of Department A of the pension foundation are recognised at fair value. Its obligations are recognised at present value based on calculation assumptions made at the time of assessment. At the time of transition to IFRS (1 January 2006), all accumulated actuarial gains and losses were recognised on the balance sheet in accordance with IFRS 1.20. The difference between assets and obligations at the time of transition was recognised (after adjustment for deferred tax liabilities) in "Other assets" and in "Retained earnings". After that, the effects of the pension foundation that are based on actuarial calculations are recorded by adjusting the item "Pension expenses" in the income statement and, correspondingly, "Other assets" on the balance sheet. Any surplus returned by the pension foundation to the parent company will not affect the Hypo Group's overall result, but it will improve the Group's capital adequacy ratio.

A new department (Department M) was established in the pension foundation at the end of 2010. This offered employees the opportunity of using rewards for improving pension security. Department M is regarded as a defined contribution system. Transfers from Department A of the pension foundation to Department M affect the Group's pension expenses, depending on the insurance-technical result of the pension foundation.

TAXES

Taxes in the financial year

Taxes in the financial year include tax expenses based on taxable income in the financial period and adjustments for previous years' taxes. In addition, taxes include deferred taxes, which are recognised through profit or loss.

Deferred tax receivables and liabilities

The credit loss provision included in the parent company's FAS financial statements, the surplus from the pension foundation, the fair value reserve based on the valuation of available-for-sale investments and interest rate swaps as well as the revaluation reserves based on revaluations related to properties are recognised at values adjusted for deferred taxes on the consolidated balance sheet. The offset entries are recognised in deferred tax receivables and liabilities.

RECOGNITION PRINCIPLES

As a rule, fee income is earned when a service or a specific measure has been performed. Such income is recorded as non-recurring income. Entry fees are also recognised in fee income. Substantial fee income and expenses that are regarded as an integral part of the effective interest rate for a financial instrument are allocated as net interest income or expenses as part of the instrument's effective interest rate.

SEGMENT REPORTING

After a comprehensive examination, the Board of Directors has decided that Hypo has only one segment: retail banking. The Board is the Chief Operating Decision Maker (CODM) at Hypo.

NOTES TO THE CONSOLIDATED INCOME STATEMENT 1 JANUARY – 31 DECEMBER 2012

EUR 1,000 (unless otherwise indicated)

1 BREAKDOWN OF INTEREST INCOME AND EXPENSES BY BALANCE SHEET ITEM

	2012	2011
Receivables valued at allocated acquisition cost		
Receivables from credit institutions	31.8	147.1
Receivables from the public and public entities	16,889.8	15,806.2
Total	16,921.6	15,953.3
Debt securities	1,956.3	1,520.4
Other interest income	59.2	34.2
Total interest income	18,937.0	17,507.9
Liabilities valued at allocated acquisition cost		
Liabilities to credit institutions	–2,838.8	–2,758.1
Liabilities to the public and public entities	–5,102.5	–4,263.0
Debt securities issued to the public	–5,987.7	–5,189.4
Subordinated liabilities	–22.6	–23.8
Total	–13,951.5	–12,234.4
Derivative contracts	–1,841.8	–3,515.5
Other interest expenses	–0.5	0.0
Total interest expenses	–15,793.8	–15,749.9

2 INCOME FROM EQUITY INVESTMENTS

	2012	2011
From available-for-sale financial assets	65.5	0.0

3 FEE INCOME AND EXPENSES

	2012	2011
From lending and deposits	917,5	883.0
From legal assignments	142.2	82.3
From residential property trustee service	641.5	506.6
From other operations	565.9	569.5
Total fee income	2,266.9	2,041.4
Other fee expenses	–19.5	–10.0
Total fee expenses	–19.5	–10.0

4 NET INCOME FROM CURRENCY OPERATIONS AND SECURITIES TRADING

	2012	2011
Net income from currency operations	1.1	1.1

5 NET INCOME FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2012	2011
Capital gains from debt securities	16.4	4.0

6 NET INCOME FROM INVESTMENT PROPERTIES

	2012	2011
Rental income	3,770.0	4,170.7
Capital gains (losses)	2,973.7	2,864.3
Other income	302.3	207.1
Maintenance charges and other maintenance costs paid		
From investment properties that have accrued rental income during the period	–820.2	–803.9
From investment properties that did not accrue rental income during the period	–12.5	0.0
Other expenses	–38.9	–91.3
Depreciation according to plan	–50.9	–70.4
Total	6,123.5	6,276.5

7 OTHER OPERATING INCOME

	2012	2011
Other income	40.2	38.2

8 OTHER OPERATING EXPENSES

	2012	2011
Rental expenses	–58.7	–36.9
Expenses from properties in own use	–38.9	–40.6
Other expenses	–262.0	–236.3
Total	–359.6	–313.8

9 DEPRECIATION AND IMPAIRMENT LOSSES ON TANGIBLE AND INTANGIBLE ASSETS

	2012	2011
Depreciation according to plan	–207.9	–231.5

10 IMPAIRMENT LOSSES ON LOANS AND OTHER COMMITMENTS AND OTHER FINANCIAL ASSETS

	2012	2011
On receivables from the public and public entities		
Agreement-specific impairment losses	–67.2	–40.9
Deductions	37.5	195.7
Total	–29.7	154.8

11 INCOME TAXES

	2012	2011
Breakdown of taxes in the income statement		
Change in deferred taxes	–789.6	–292.4
Taxes from previous periods	2.4	–2.3
Taxes in the income statement	–1,126.0	–645.7

Reconciliation of taxes		
Profit before taxes	5,208.4	4,005.9
Tax-free income	–436.5	–402.7
Non-deductible expenses	27.2	21.9
Recognition of previously unrecorded tax losses	–12.3	0.0
Total	4,786.8	3,625.1
Taxes calculated using the tax rate of 24.5%	–1,172.8	–942.5
Taxes from previous periods	2.4	–2.3
Other items	44.4	299.2
Taxes in the income statement	–1,126.0	–645.7

12 INFORMATION ON PRODUCT GROUPS AND GEOGRAPHICAL MARKET AREAS

The Mortgage Society of Finland Group has only one segment, retail banking. By product group, the Group's main income is made up of lending and deposits and other housing products and services. Lending and deposits, including other housing products and services, are considered to constitute one business area due to the special characteristics of the customers and products of the Mortgage Society of Finland (partial ownership, reverse mortgages, residential property trustee service). Residential property trustee service covers, among other things, legal and administrative assignments related to the sale and rental of plots. The Group's operating area is Finland. Other operations mainly consist of marketing and sales operations for Visa charge cards issued and granted by Nets Oy cooperative and services provided to a company outside the Group.

2012	Total income	Operating profit	Total assets	Total liabilities	Personnel
Lending and deposits and other housing products and services	10,992.1	4,992.1	912,122.5	831,688.8	30
Other operations	664.7	216.3	108.5		0
	11,656.8	5,208.4	912,231.0	831,688.8	30

2011	Total income	Operating profit	Total assets	Total liabilities	Personnel
Lending and deposits and other housing products and services	9,544.9	3,807.2	817,776.3	742,368.3	29
Other operations	574.3	198.7	179.8	53.7	0
	10,119.2	4,005.9	817,956.1	742,422.0	29

13 LIQUID ASSETS

	2012	2011
Cash		24.1

14 CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT

	2012 balance sheet value	2011 balance sheet value
Liquid assets		24.1
Debt securities eligible for refinancing with central banks	106,385.1	84,164.8
Receivables from credit institutions	10,708.4	11,135.4
Debt securities	1,300.0	26,696.9
	118,393.5	122,021.2

15 RECEIVABLES FROM CREDIT INSTITUTIONS (LOANS AND OTHER RECEIVABLES)

	2012			2011		
	Repayable on demand	Other than those repayable on demand	Total	Repayable on demand	Other than those repayable on demand	Total
From the central bank		3,019.0	3,019.0		4,677.5	4,677.5
From domestic credit institutions	7,449.4		7,449.4	6,409.7		6,409.7
From foreign credit institutions	239.9		239.9	48.2		48.2
Total	7,689.4	3,019.0	10,708.4	6,457.9	4,677.5	11,135.4

Receivables repayable on demand from credit institutions consist of balances of bank accounts and deposits with a maturity of no more than one banking day. Receivables other than those repayable on demand from credit institutions are fixed-term deposits with a remaining maturity of no more than three months.

The receivable from the central bank is a minimum reserve deposit based on the reserve base, with a variable interest rate. There are restrictions for its use as part of liquidity.

16 RECEIVABLES FROM THE PUBLIC AND PUBLIC ENTITIES (LOANS AND OTHER RECEIVABLES)

	2012	2011
Companies and housing corporations	340,680.3	268,555.3
Households	378,604.9	340,637.8
Non-profit organisations serving households	2,328.5	2,962.2
Foreign countries	3,432.5	2,836.0
Total	725,046.2	614,991.3
Subordinated receivables	725.8	743.6

Receivables from the public and public entities consist of long-term lending to various counterparties.

	2012	2011
Impairment losses on receivables recognised during the period		
Impairment losses at the beginning of the year	295.7	446.8
Receivable-specific impairment losses recognised during the period	67.2	40.9
Receivable-specific impairment losses reversed during the period	–29.1	–192.0
Impairment losses at the end of the year	333.8	295.7

No group-specific impairment losses have been recognised.

17 DEBT SECURITIES (FINANCIAL ASSETS AVAILABLE FOR SALE)

	2012			2011		
	Publicly quoted	Other	Total	Publicly quoted	Other	Total
Issued by public entities						
Available for sale						
Municipal papers			0.0		1,999.1	1,999.1
Those issued by other than public entities						
Available for sale						
Certificates of deposit			0.0		4,978.8	4,978.8
Commercial papers			0.0		11,710.8	11,710.8
Bonds	107,685.1		107,685.1	92,173.0		92,173.0
Total debt securities	107,685.1		107,685.1	92,173.0	18,688.7	110,861.7
Receivables eligible for refinancing with central banks			106,385.1			84,164.8

Debt securities are investments in various credit counterparties with a remaining maturity of three months to four years.

18 SHARES AND HOLDINGS (FINANCIAL ASSETS AVAILABLE FOR SALE)

	2012			2011		
	Publicly quoted	Other	Total	Publicly quoted	Other	Total
Shares and holdings, available for sale		113.4	113.4		112.8	112.8
Of which at acquisition cost		113.4	113.4		112.8	112.8
Of which in credit institutions		108.5	108.5		108.5	108.5

19 DERIVATIVE CONTRACTS

	2012 Assets	2012 Book value Liabilities	2011 Assets	2011 Book value Liabilities
Hedging derivatives				
Interest rate swaps, cash flow hedge accounting model, fair value		–1,966.3		3,899.4
Interest rate and currency swaps, fair value hedge accounting model, fair value		3,409.7		1,138.5
Interest rate swaps, index-tied, fair value	90.5		414.8	
Embedded derivatives of bonds (object of hedging), fair value		90.5		414.8
	90.5	1,533.9	414.8	5,452.7
Interest rate and currency swaps, interest carried forward		1,072.0	17.2	1,117.0
Total	90.5	2,606.0	431.9	6,569.7

2012				
Remaining maturity	Less than one year	1–5 years	5–10 years	Total
Nominal values of the underlying instruments	46,566.7	117,850.0	5,000.0	1,089.2
Fair value, assets	90.5			3,128.4
Fair value, liabilities	284.6	153.3	1,005.5	1,443.6

2011				
Remaining maturity	Less than one year	1–5 years	5–10 years	Total
Nominal values of the underlying instruments	34,980.0	148,179.0	15,000.0	1,443.4
Fair value, assets	0.2	414.6	0.0	414.8
Fair value, liabilities	155.4	2,969.1	2,328.2	5,452.7

20 INTANGIBLE ASSETS

	2012	2011
IT programmes and projects	338.6	475.3
Other intangible assets		1.6
	338.6	476.8
Amount of agreement-based commitments concerning acquisition of intangible assets	448.4	34.3

21 TANGIBLE ASSETS

	2012	2011
Investment properties and investment property shares, balance sheet value		
Land and water areas	28,286.1	33,303.9
Buildings	579.5	639.6
Shares and holdings in real estate corporations	25,751.3	31,021.1
Total balance sheet value	**54,616.9**	**64,964.6**
Total fair value of investment properties	66,583.6	78,564.0
of which share based on assessments of a qualified third-party valuer	6,596.8	7,694.2
Non-cancellable plot lease agreements		
Rental receivables within one year	1,312.0	1,548.4

Rental income is only calculated for one year ahead, as the future redemptions of the plot holdings of housing companies are not yet known.

	2012	2011
Agreement-based obligations of investment properties		
Potential redemptions of partially owned housing units and those to be completed	1,318.2	2,141.5
Liabilities related to construction	2,181.9	2,181.9
Total	**3,500.2**	**4,323.4**

Agreement-based obligations of investment properties are included in off-balance sheet commitments presented in note 38.

Liabilities related to construction consist of potential construction and defect liabilities.

	2012	2011
Other properties and shares in real estate corporations, balance sheet value		
In own use		
Land and water areas	734.1	758.6
Buildings	100.1	110.5
Total balance sheet value	**834.2**	**869.0**
Total fair value of other properties	**2,888.9**	**2,893.3**
Obligations related to sites under construction		
Unpaid purchase prices of sites under construction	52.6	0.0

22 CHANGES IN INTANGIBLE AND TANGIBLE ASSETS DURING THE FINANCIAL PERIOD

	Intangible assets	Investment properties and investment property shares	Other properties and shares in properties	Other tangible assets	Total tangible
Acquisition cost 1 January 2012	**1,126.5**	**65,417.1**	**912.8**	**2,063.0**	**68,393.0**
Increases, new acquisitions		4,309.2		52.5	4,361.7
Deductions		–14,606.0	–34.8	–41.7	–14,682.5
Acquisition cost 31 December 2012	**1,126.5**	**55,120.3**	**878.0**	**2,073.8**	**58,072.2**
Accumulated depreciation and impairment losses 1 January 2012	649.7	452.5	43.8	1,785.4	2,281.7
Accumulated depreciation on deductions and transfers				–31.7	–31.7
Depreciation for the period	138.2	50.9		63.8	114.7
Impairment losses for the period					
Accumulated depreciation and impairment losses 31 December 2011	**787.9**	**503.5**	**43.8**	**1,817.4**	**2,364.7**
Revaluation reserve 1 January 2012					
Adjustments to the revaluation reserve for the period					
Book value 31 December 2012	**338.6**	**54,616.9**	**834.2**	**256.4**	**55,707.5**
Acquisition cost 1 January 2011	**1,138.2**	**61,637.3**	**912.8**	**2,063.0**	**64,613.1**
Increases, new acquisitions		10,302.3			10,302.3
Deductions	–11.7	–6,522.5			–6,522.5
Acquisition cost 31 December 2011	**1,126.5**	**65,417.1**	**912.8**	**2,063.0**	68,393.0
Accumulated depreciation and impairment losses 1 January 2011	480.2	382.1	37.6	1,729.6	2,149.3
Depreciation for the period	169.5	70.4	6.2	55.8	**132.4**
Impairment losses for the period					
Accumulated depreciation and impairment losses 31 December 2011	**649.7**	**452.5**	**43.8**	**1,785.4**	2,281.7
Revaluation reserve 1 January 2011					
Adjustments to the revaluation reserve for the period					
Book value 31 December 2011	**476.8**	**64,964.6**	**869.0**	**277.7**	**66,111.3**

23 OTHER ASSETS

	2012	2011
Defined benefit pension plans/excess margin of the Pension Foundation	**7,141.7**	7,655.2
Other receivables	**1,421.0**	785.2
Total	**8,562.7**	8,440.5

More detailed information on defined benefit pension plans is presented in note 35.

24 DEFERRED INCOME AND ADVANCES PAID

	2012	2011
Interest receivables	**1,936.5**	2,922.2
Tax receivable based on taxes for the period	**758.3**	825.0
Other deferred income	**73.6**	95.7
Total	**2,768.3**	3,842.9

25 DEFERRED TAX RECEIVABLES AND LIABILITIES

	Tax receivable 2012		**Tax liability 2012**		
	Included in the financial statements of separate companies	**Total Group**	**Included in the financial statements of separate companies**	**Based on consolidation**	**Total Group**
Deferred tax on the pension foundation's surplus				**1,749.7**	**1,749.7**
Deferred tax on the old revaluation reserve for property investments			**1,461.6**	**–34.9**	**1,426.7**
Deferred tax on the fair value reserve	**1,210.3**	**1,210.3**	**90.9**		**90.9**
Deferred tax on credit loss provisions			**5,851.2**		**5,851.2**
Total	**1,210.3**	**1,210.3**	**7,403.7**	**1,714.8**	**9,118.5**

	Tax receivable 2011		Tax liability 2011		
	Included in the financial statements of separate companies	Total Group	Included in the financial statements of separate companies	Based on consolidation	Total Group
Deferred tax on the pension foundation's surplus				1,875.5	1,875.5
Deferred tax on the revaluation reserve for property investments			1,470.0	–55.4	1,414.6
Deferred tax on the fair value reserve	1,544.5	1,544.5	47.6		47.6
Deferred tax on credit loss provisions			4,887.0		4,887.0
Total	1,544.5	1,544.5	6,404.6	1,820.1	8224.8

26 DEBT SECURITIES ISSUED TO THE PUBLIC

	2012		2011	
	Book value	**Nominal value**	Book value	Nominal value
Other than those repayable on demand				
Bonds	**198,087.9**	**198,590.0**	202,798.7	202,870.0
Certificates of deposit and commercial papers	**100,782.7**	**101,300.0**	72,375.1	73,300.0
Total	**298,870.7**	**299,890.0**	275,173.8	276,170.0

The bonds are unsecured debt obligations issued by the Mortgage Society of Finland with a maximum maturity of five years and mainly with a variable interest rate.

The certificates of deposit are unsecured debt obligations issued by the Mortgage Society of Finland with a maximum maturity of one year.

27 OTHER LIABILITIES

	2012	2011
Other liabilities	5,725.7	4,061.6

28 DEFERRED EXPENSES AND ADVANCES RECEIVED

	2012	2011
Interest liabilities	4,079.7	4,446.4
Advance payments received	85.1	59.1
Tax liability based on taxes for the period	0.0	56.3
Other deferred expenses	788.8	771.3
Total	4,953.6	5,333.1

29 SUBORDINATED LIABILITIES

	2012		2011	
	Balance sheet value	Nominal value	Balance sheet value	Nominal value
Other	680.0	680.0	1,020.0	1,020.0

This is a debenture loan 2/2004

issued by the Mortgage Society of Finland. The loan is denominated in euros, and its interest rate is 12-month Euribor + 0.20%.

The loan will be repaid in five equal annual instalments starting from 27 December 2010, and its premature repayment is subject

to permission by the Financial Supervisory Authority. In capital adequacy calculations, the liability is recognised in full in lower Tier II assets.

30 MATURITY DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES

2012	< 3 months	3–12 months	1–5 years	5–10 years	>10 years	Total
Receivables from credit institutions	10,708.4					10,708.4
Receivables from the public and public entities	9,767.0	40,531.0	207,153.5	184,419.8	283,174.8	725,046.2
Debt securities	29,091.5	39,363.0	39,230.6			107,685.1
Total	49,566.9	79,894.0	246,384.1	184,419.8	283,174.8	843,439.6
Liabilities to credit institutions	21,134.2	23,266.7	140,222.2	2,666.7		187,289.7
Liabilities to the public and public entities	165,809.4	83 423,2	51,116.1	23,168.0		323,516.7
Debt securities issued to the public	57,164.5	130,917.1	110,789.1			298,870.7
Subordinated liabilities			680.0			680.0
Total	244,108.1	237,607.0	302,807.4	25,834.6	0.0	810,357.0

2011	< 3 months	3–12 months	1–5 years	5–10 years	>10 years	Total
Receivables from credit institutions	11,135.4					11,135.4
Receivables from the public and public entities	23,945.1	32,165.0	165,070.0	149,225.6	244,585.6	614,991.3
Debt securities	10,417.8	33,780.9	66,663.0			110,861.7
Total	45,498.2	65,945.9	231,733.0	149,225.6	244,585.6	736,988.3
Liabilities to credit institutions	50,798.7	23,351.7	96,105.2	8,933.3		179,188.9
Liabilities to the public and public entities	126,474.7	58,651.6	63,288.2	15,476.3	76.2	263,967.0
Debt securities issued to the public	18,550.2	126,733.7	129,890.0			275,173.8
Subordinated liabilities			1,020.0			1,020.0
Total	195,823.5	208,736.9	290,303.4	24,409.6	76.2	719,349.7

31 BREAKDOWN OF BALANCE SHEET ITEMS TO THOSE DENOMINATED IN DOMESTIC AND FOREIGN CURRENCIES

	2012			2011		
	Domestic currency	Foreign currency	Total	Domestic currency	Foreign currency	Total
Receivables from credit institutions	10,708.4		10,708.4	11,135.4		11,135.4
Receivables from the public and public entities	725,046.2		725,046.2	614,991.3		614,991.3
Debt securities	107,685.1		107,685.1	110,861.7		110,861.7
Derivative contracts	90.5		90.5	414.8		414.8
Other assets	68,700.9		68,700.9	80,553.0		80,553.0
Total	912,231.0	0.0	912,231.0	817,956.1	0.0	817,956.1
Liabilities to credit institutions	113,926.3	73,363.4	187,289.7	108,113.7	71,075.2	179,188.9
Liabilities to the public and public entities	323,516.7		323,516.7	263,967.0		263,967.0
Debt securities issued to the public	298,870.7		298,870.7	275,173.8		275,173.8
Derivative contracts and liabilities held for trading	-1,875.8	3,409.7	1,533.9	4,314.2	1,138.5	5,452.7
Other liabilities	20,477.9		20,477.9	18,639.5		18,639.5
Equity	80 542.1		80,542.1	75,534.1		75,534.1
Total	835,457.9	76,773.1	912,231.0	745,742.4	72,213.7	817,956.1

The currencies and nominal amounts of currency and interest rate swaps correspond to those of foreign currency liabilities, which means that the Group is hedged against the currency risk.

32 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

	Classification	Fair value determination principle	2012 Book value	2012 Fair value	2011 Book value	2011 Fair value
Liquid assets	Loans and other receivables		**0.0**	**0.0**	24.1	24.1
Receivables from credit institutions	Loans and other receivables	B	**10,708.4**	**10,708.4**	11,135.4	11,135.4
Receivables from the public and public entities	Loans and other receivables	B	**725,046.2**	**729,771.5**	614,991.3	619,828.0
Debt securities	Financial assets available for sale	B	**1,300.0**	**1,300.0**	110,861.7	110,861.7
Shares and holdings	Financial assets available for sale	A	**113.4**	**113.4**	112.8	112.8
Derivative contracts		B	**90.5**	**90.5**	414.8	414.8
Total			**737,258.5**	**741,983.8**	737,540.1	742,376.8
Liabilities to credit institutions	Other liabilities	B	**187,289.7**	**187,289.7**	179,188.9	179,188.9
Liabilities to the public and public entities	Other liabilities	B	**323,516.7**	**323,480.1**	263,967.0	264,051.0
Debt securities issued to the public	Other liabilities	B	**298,870.7**	**298,870.7**	275,173.8	275,173.8
Derivative contracts		B	**1,533.9**	**1,533.9**	5,452.7	5,452.7
Subordinated liabilities	Other liabilities	B	**680.0**	**680.0**	1,020.0	1,020.0
Total			**811,891.0**	**811,854.4**	724,802.4	724,886.4

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

Liabilities to financial institutions mainly consist of unsecured long-term promissory note loans with variable interest rates with various counterparties.

Liabilities to the public and public entities consist of deposits from the public and long-term financing contracts with certain counterparties.

Fair value determination principles:

A: Quoted price on an active market

B: Verifiable price, other than quoted

C: Unverifiable market price

33 NON-ELIMINATED ITEMS INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS WHERE THE COUNTERPARTY IS A SUBSIDIARY OR ASSOCIATED COMPANY OF THE GROUP

	2012	2011
Balance sheet		
Receivables from the public and public entities		
Other than those repayable on demand	**3,968.2**	451.3
Tangible assets		
Investment properties and investment property shares	**6,585.6**	10,756.0
Income statement items		
Interest income	**7.3**	14.3
Net income/maintenance charges from investment properties	**-209.2**	-175.8

34 BASIC CAPITAL

The basic capital of the parent company of the Mortgage Society of Finland Group is EUR 5 million in accordance with its rules.

The Board of Directors of the Mortgage Society of Finland decides on the amount, interest rate and repayment and other terms and conditions of additional capital made up of funds raised externally.

35 PENSION OBLIGATIONS

The statutory pension security of employees is arranged through pension insurance, and it is recognised as a defined contribution plan in accordance with IFRS accounting practice.

Voluntary supplementary pension security is arranged through Department A of the pension foundation and recognised as a defined benefit pension plan. The wealth of Department A exceeds the amount of its liabilities.

Department M, a new department of the pension foundation, was established at the end of 2010. This offered the opportunity of using insurance premiums for improving employees' pension security.

Department M is recognised as a defined contribution pension plan.

	2012	2011
Defined benefit pension plans in the income statement		
Expenses based on work performance	**50.4**	82.5
Interest expenses	**280.6**	271.3
Expected return on plan assets	**–576.6**	–618.4
Transfer to Department M	**183.3**	195.0
Pension expenses (+)/income (-)	**–62.2**	–69.6
Defined benefit pension plans on the balance sheet		
Present value of funded obligations	**6,986.6**	6,204.6
Fair value of plan assets	**–13,604.6**	–13,107.7
Surplus (-)/deficit (+)	**–6,618.0**	–6,903.2
Payments from the plan (return of surplus)	**500.0**	0.0
Unrecognised actuarial profits and losses	**–1,028.0**	–752.1
Net liability (+)/receivable (-)	**–7,146.0**	–7,655.2

	2012	2011
Change in the net liability/receivable recognised on the balance sheet		
Net liability (+)/receivable (-) 1 January	–7,655.2	–7,674.5
Pension expenses (+)/income (-)	–62.2	–69.6
Management expenses paid by the pension foundation to the parent company	71.4	88.9
Payments from the plan (return of surplus)	500.0	0.0
Net liability (+)/receivable (-) 31 December	–7,146.0	–7,655.2

The Group's own financial instruments included in plan assets		
Deposits in Suomen AsuntoHypoPankki	414.5	772.1

Most significant actuarial assumptions, %		
Discount rate, %	3.25	4.6
Expected returns on assets	3.25	4.5
Future pay rise assumption	3.0	3.5
Inflation	2.0	2.0

NOTES CONCERNING THE GROUP'S COLLATERAL AND CONTINGENT LIABILITIES

36 COLLATERAL PLEDGED

	Type of collateral	2012	2011
Collateral pledged for own liabilities			
Liabilities to the central bank	Debt securities	40,946.7	40,240.1

37 LEASING AND OTHER RENTAL LIABILITIES

	2012	2011
Minimum rents paid on the basis of leasing and other rental agreements		
Within one year	26.8	11.6
Within more than a year and at most within five years	107.2	0.0
Total	134.0	11.6

38 OFF-BALANCE SHEET COMMITMENTS

	2012	2011
Irrevocable commitments given on behalf of a customer		
Guarantees and other liabilities	2,181.9	2,181.9
Granted but unclaimed loans	88,173.7	85,405.1
Potential redemptions of partially owned housing units	1,318.2	2,141.5
Total	91,673.9	89,728.6

NOTES CONCERNING THE AUDITOR'S FEE

39 AUDITOR'S FEES

	2012	2011
Fees paid to the auditor for the audit	42.6	58.2
For other services	6.9	6.2
Total	49.6	64.4

NOTES CONCERNING THE GROUP'S PERSONNEL AND INSIDERS

40 NUMBER OF PERSONNEL

	2012		2011	
	Average number	At the end of the period	Average number	At the end of the period
Permanent full-time personnel	27	30	26	26
Managing director and deputy managing director	2	2	2	2
Temporary personnel	1	1	3	3
Total	30	33	31	31

41 SALARIES AND REMUNERATION PAID TO MANAGEMENT

	2012	2011
Total salaries paid to the managing director and deputy managing director	509.0	500.9

In the case of termination, the managing director is paid ten months' salary and the deputy managing director is paid six months' salary. The managing director is entitled to a full pension at the age of 60; the pension liability is fully covered. Members of the Board of Directors are entitled to the basic pension security pursuant to the Employees Pensions Act. The managing director and the deputy managing director are included in the guidance and incentive plan of the Mortgage Society of Finland, in which the managing director has the possibility of earning 20 weeks' salary at the maximum and the deputy managing director has the possibility of earning 17 weeks' salary at the maximum. The total salaries do not include remunerations, because no remunerations were paid to the managing director and the deputy managing director's remuneration was paid in full as an insurance premium worth ten weeks' salary to Department M of the Mortgage Society of Finland's pension foundation in accordance with the new guidance and incentive plan. In the case of the managing director and the deputy managing director, the insurance premiums paid can be cancelled unilaterally within the three years following the financial period by the decision of the Mortgage Society of Finland's Board of Directors.

Board of Directors	2012	2011
Annual remuneration of the chairman	11.5	12.6
Annual remuneration of the vice chairman	9.8	10.7
Attendance allowances	28.4	25.1
Other members, annual remuneration	39.4	42.9
Total	89.0	91.4

Supervisory Board	2012	2011
Annual remuneration of the chairman	4.3	5.2
Annual remuneration of the vice chairman	2.2	2.6
Other members, annual remuneration	22.6	28.3
Attendance allowances/Auditors	3.1	3.0
Total	32.2	39.1

Information on the salaries and remuneration paid to individual members as well as the type of remuneration is available in the salary and remuneration statement for 2012, which is published in Finnish on the Mortgage Society of Finland's website at www.hypo.fi/hypo/johtaminen ja hallinnointi.

42 LOANS GRANTED TO MANAGEMENT AND OTHER INSIDERS

	2012	2011	Change
Managing director and deputy managing director	399.8	400.4	-0.7
Board of Directors	688.8	765.8	-77.0
Supervisory Board	3,239.4	3,121.5	117.9
Total	4,328.0	4,287.8	40.2

43 DEPOSITS BY MANAGEMENT AND OTHER INSIDERS

	2012	2011	Change
Managing director, deputy managing director, Board of Directors and Supervisory Board	934.3	257.3	677.0
The Mortgage Society of Finland's pension foundation	683.0	903.7	–220.7
Total	1,617.3	1,161.0	456.3

The loans granted to management are subject to favourable terms and conditions applicable to personnel, and the deposits made by management are provided on market terms.

44 LOANS GRANTED TO SUBSIDIARIES AND ASSOCIATED COMPANIES

	2012	2011
Bostadsaktiebolaget Taos	1,396.0	1,517.5
As Oy Vanhaväylä 17	491.9	554.8
As Oy Kulosaaren Puistotie 40	3.6	13.2

The loans have been granted on market terms.

NOTES CONCERNING THE GROUP'S SHAREHOLDINGS

45 INFORMATION ON SUBSIDIARIES AND ASSOCIATED COMPANIES

2012	Domicile	Holding, %	Share-holders' equity	Profit for the period	Assets	Liabilities	Income
Subsidiaries							
Suomen Asuntohypopankki Oy	Helsinki	100.0					
Bostadsaktiebolaget Taos	Helsinki	59.4					
Subsidiaries that are not included in the consolidated financial statements							
As Oy Vanhaväylä 17	Helsinki	80.4	980.7	–181.0	1,552.6	571.9	49.9
Associated companies							
As Oy Eiran Helmi	Helsinki	42.7	2,363.6	0.0	2,362.7	3.1	89.6
As Oy Kulosaaren Puistotie 40	Helsinki	37.9	450.9	–0.1	865.8	414.9	82.1
As Oy Mäkipellontie 4	Helsinki	30.0	160.1	–2.3	163.5	2.4	39.2
As Oy Hyvinkään Munckinkatu 30	Hyvinkää	25.0	569.8	–1.0	573.9	3.6	8.7

Profit for the period and shareholders' equity are indicated in accordance with the most recently adopted financial statements of the company.

The Articles of Association of Bostadsaktiebolaget Taos includes a provision that a shareholder may have 20% of the votes at the maximum.

2011	Domicile	Holding, %	Share-holders' equity	Profit for the period	Assets	Liabilities	Income
Subsidiaries							
Suomen Asuntohypopankki Oy	Helsinki	100.0					
Bostadsaktiebolaget Taos	Helsinki	61.9					
Subsidiaries that are not included in the consolidated financial statements							
As Oy Eiran Helmi	Helsinki	100.0	2,362.7	0.0	2,362.7	0.0	167.4
As Oy Vanhaväylä 17	Helsinki	80.4	869.2	16.2	1,519.5	650.3	26,4
Associated companies							
As Oy Kulosaaren Puistotie 40	Helsinki	39.8	367.2	–0.3	874.2	480.1	79.8
As Oy Mäkipellontie 4	Helsinki	30.0	162.5	4.1	164.8	2.4	29.2
As Oy Hyvinkään Munckinkatu 30	Hyvinkää	25.0	570.9	–3.5	574.5	3.6	7.9

NOTES CONCERNING CONTROLLED ENTITIES OF THE GROUP

The Mortgage Society of Finland prepares the consolidated financial statements. A copy of the consolidated financial statements is available from the Mortgage Society of Finland at Yrjönkatu 9 A, FI-00120 Helsinki, Finland, or by telephone on +358 (0)9 228 361 or by e-mail at hypo@hypo.fi.

NOTES CONCERNING THE CAPITAL ADEQUACY OF THE GROUP AND RISK MANAGEMENT

RISK TOLERANCE

The Mortgage Society of Finland Group (hereafter "the Hypo Group" or "the Group") must be risk tolerant in relation to its business operations and the operating environment. Risk tolerance depends on profitability and the quality and quantity of capital, as well as qualitative factors, which include reliable governance, effective internal control and efficient capital adequacy management.

RELIABLE GOVERNANCE

Reliable governance means organising the Group's processes in a manner that ensures management based on healthy and cautious business principles, with clear responsibilities and reporting lines. The governance of the Group is centralised in the parent company, the Mortgage Society of Finland (hereinafter "Hypo"), and it also covers the subsidiary Suomen AsuntoHypoPankki (hereinafter "the Bank"). More information on corporate governance within the Group is available in the notes to the consolidated financial statements and in Finnish on the Hypo website at www.hypo.fi/Johtaminen ja hallinnointi.

CAPITAL ADEQUACY MANAGEMENT

The main purpose of capital adequacy management is to ensure that the quantity, quality and allocation of the Group's own funds sufficiently and continually cover all relevant risks related to the Group's operations.

In 2009, the Financial Supervisory Authority exempted Hypo from applying the requirements pertaining to capital adequacy management procedures separately to the Bank as an independent company. For this reason, the procedures pertaining to capital adequacy and risk management at the Bank have been integrated into capital adequacy management within the Group. In the internal capital adequacy assessment process (ICAAP), the Group's own funds are allocated at the group level, considering both Hypo's and the Bank's business operations.

46 OWN FUNDS AND CAPITAL ADEQUACY

	2012	2011
Equity	80,542.1	75,534.1
Adjustments made to Tier I assets		
The impact of IFRS standards (IAS 19)	–5,392.0	–5,779.7
Intangible assets	–338.6	–476.8
Adjustments made to Tier II assets		
Fair value reserve, from hedging of cash flows	3,664.1	4,663.2
Subordinated liabilities	680.0	1,020.0
Own funds according to capital adequacy calculation	79,155.7	74,960.8
of which Tier I funds		
Basic capital	5,000.0	5,000.0
Reserve fund	22,789.4	22,789.8
Contingency fund	22,923.5	22,923.5
Retained earnings	29,196.3	26,073.3
Old revaluation reserve (FAS)	–4,457.0	–4,606.7
The impact of IFRS standards (IAS 19)	–5,392.0	–5,779.7
Profit for the period	4,082.4	3,360.3
Intangible assets	–339.6	–476.8
Total Tier I funds	73,804.1	69,283.7
of which Tier II funds		
Old revaluation reserve (FAS)	4,457.0	4,606.7
Fair value reserve, financial assets available for sale	214.6	50.4
Subordinated liabilities	680.0	1,020.0
Total Tier II funds	5,351.6	5,677.1
Minimum requirement for own funds		
To cover the credit and counterparty risk	35,627.0	34,609.0
To cover the operational risk	1,622.0	1,402.0
Total minimum requirement of own funds	37 249.0	36,011.0
Surplus of own funds	41,905.7	38,949.8
Risk-weighted receivables and commitments	445,341.0	432,610.0
Capital adequacy, %, Tier I funds	15.9	15.4
Capital adequacy, %	17.0	16.7

The purpose of capital adequacy management within the Group is to maintain sufficient profitability. Profitability accrues assets in the form of annual profit, and these assets are used for the development of competitive business operations.

Of the Group's own funds, Tier 1 assets are defined internally as items included in the Group's risk tolerance, and an internal minimum goal and a monitoring limit have been set for their amount in relation to risk-weighted receivables. In addition, a long-term objective has been set for the total capital adequacy of the Group.

The Group applies the Basel II capital adequacy framework in the calculation of capital needs for credit and operational risks. The minimum amount of the Group's own funds for the credit risk is calculated using the standard method. The minimum amount of the Group's own funds allocated to the operational risk is calculated using the basic method.

The Group assesses its risk exposure and maintains risk buffers, not only for the minimum requirements for its own funds, but also for risk areas beyond these requirements. The most significant of these areas are market risk and the risk of decreasing prices.

The Group's own funds and their division into Tier I and Tier II items, as well as information on the minimum requirement for the Group's own funds, are presented in the table below. Capital adequacy stood at 17.0 percent on 31 December 2012, and the capital adequacy calculated from Tier I assets was 15.9 percent (16.7% and 15.4% a year earlier, respectively).

The Group estimates that the surplus of its own funds is at an excellent level and also covers the operational risks and operating environment risks outside the minimum requirement.

47 MAXIMUM AMOUNT OF THE CREDIT AND COUNTERPARTY RISK

	2012 Book value	2012 Book value On average during the period	2011 Book value	2011 Book value On average during the period
Lending				
Not fallen due	**652,414.0**	**622,697.1**	592,980.2	525,990.0
Overdue by 1-3 months	**71,545.6**	**46,177.6**	20,809.5	40,630.2
Non-performing, overdue by more than 3 months	**1,086.6**	**1,144.1**	1,201.5	1,099.7
Total lending	**725,046.2**	**670,018.7**	614,991.3	567,720.0
Other				
Receivables from credit institutions				
Not fallen due	**10,708.4**	**10,921.9**	11,135.4	18,678.9
Debt securities				
Not fallen due	**107,685.1**	**109,273.4**	110,861.7	73,707.1
Shares and holdings	**113.4**	**113.1**	112.8	112.8
Derivative contracts				
Not fallen due	**90.5**	**252.7**	414.8	520.9
Guarantee receivables and other off-balance sheet receivables	**0.0**	**2,848.1**	5,696.2	8,440.5
Total other	**118,597.4**	**123,409.2**	128,220.9	101,460.1
Non-performing receivables/total lending, %	**0.15**		0.20	

Impaired receivables with zero balance sheet value total EUR 333,840.17 (295,732.32). Information on recognition of impairment losses related to lending is presented in note 16 and the accounting policies.

Breakdown of collateral in accordance with the capital adequacy calculation of lending

	2012	2011
State, municipality or financial collateral, risk weight 0%	**5.0%**	4.0%
Deposit collateral, risk weight 20%	**0.6%**	1.6%
Housing collateral, risk weight 35%	**70.9%**	70.0%
Housing collateral, risk weight 50%	**0.6%**	1.0%
Housing collateral, risk weight 75%	**4.8%**	5.0%
Receivable, the collateral of which has not been taken into account in the capital adequacy calculation or the risk weight of which is 100%	**18.3%**	18.4%
	100.0%	100.0%

Other investments consist of distributed liquidity investments in creditworthy credit institutions or company counterparties. The Board of Directors confirms the counterparty limits.

The derivative contracts have mainly been concluded in compliance with the general terms and conditions of the Finnish Bankers' Association for derivative contracts, and they are executed so that the contract-specific cash flows of the same due date with the same counterparty may be paid net.

Capital is allocated and the sufficiency of risk buffers is tested regularly at the Group level by conducting proactive reviews of the sufficiency of its own funds through stress tests. In this review, the goals for asset management and deposit funding in accordance with the Group's growth strategy are considered, as are certain potential changes in the operating environment. The sufficiency of the Group's own funds in relation to growth objectives is also proactively taken into account in the business strategy and the planning and supervision of business operations.

Each year, the Group publishes the key information required for the analysis of its capital adequacy and risk management as part of its audited financial statements and the related annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

Risk management and internal control refer to risk management and other controls carried out to implement financial and other auditing within business operations, as well as measures related to risk management, compliance with regulations and internal auditing that are independent of business operations.

Business process controls

The operational management and personnel of Hypo are responsible for the practical implementation of risk management and internal control in accordance with performance targets, risk-taking authorisations and guidelines confirmed by senior management. The boards of directors of the Group's companies actively participate in business operations, carrying out internal control on their part.

Risk-taking is an integral part of credit institution operations. The goal of risk management within the Group is to maintain healthy business operations by making risks related to these operations visible, acknowledging these risks and preventing significant risks and the ensuing losses. In addition, risk management aims to ensure that all significant risks that may hinder the realisation of the Group's strategic goals are identified, studied, measured and assessed regularly and that sufficient risk buffers are maintained.

Risk management, compliance operations and internal auditing

The Chief Risk Officer of Hypo is responsible for the organisation and development of risk management and for the related reporting in all areas of business operations. The Chief Risk Officer also serves as the responsible person for compliance operations and an internal auditor for the Group. Internal audits are carried out in accordance with an auditing plan. Compliance operations include regular reporting by the Chief Risk Officer on future changes to regulations. The Chief Risk Officer reports his observations to the operational and senior management of the Group companies with risk reviews based on a risk management framework adjusted for the Group.

The following is an overview of the key risks affecting the Group's business operations and the management of these risks.

48 CONCENTRATION OF LENDING

	2012	%	2011	%
Lending by category				
Households	**373,468.9**	**51.5%**	340,637.8	55.4%
Housing companies	**255,356.3**	**35.2%**	188,743.8	30.7%
Private companies (housing investors)	**90,410.0**	**12.5%**	79,811.5	13.0%
Other	**5,811.0**	**0.8%**	5,798.2	0.9%
Total	**725,046.2**	**100.0%**	614,991.3	100.0%
Lending by purpose of use				
Permanent dwelling	**683,255.8**	**94.2%**	574,302.1	93.4%
Consumer loan	**33,827.6**	**4.7%**	32,353.2	5.3%
Holiday home	**7,962.8**	**1.1%**	8,336.0	1.4%
Total	**725,046.2**	**100.0%**	614,991.3	100.0%
Lending by province				
Uusimaa	**585,999.3**	**80.8%**	500,274.6	81.3%
Rest of Finland	**139,046.8**	**19.2%**	114,716.7	18.7%
Total	**725,046.2**	**100.0%**	614,991.3	100.0%

CREDIT RISK

Credit risks arise when the counterparties, usually the debtors, are not able to discharge their obligations and the collateral for the credit is not sufficient to cover the creditor's receivables. The counterparty risk is processed as part of the credit risk. When realised, the credit risk is ultimately seen as impairment losses.

The credit risk is the key risk among the business risks of the Hypo Group.

Lending

The Group's key business area is lending that focuses on loans granted to households and housing companies against housing or residential property collateral. Loans are not granted without collateral. Lending is based on the customer's creditworthiness, collateral and sufficient ability to manage the loan. In addition, the project to be financed must be justified as a whole. Any deviations from the normal credit criteria for lending are evaluated in accordance with operating processes with separate instructions.

As a rule, shares in housing companies or mortgages registered for a residential property are required as collateral for loans. Generally, depending on the type of housing collateral, 50–70 percent of the fair value of the site is accepted as collateral. This value is estimated independently by Hypo. As a rule, fair value refers to the price received in a voluntary sale between parties that are independent of the object of the sale. Almost all of Hypo's personnel working in lending are certified estate agents, one purpose of which is to reinforce Hypo's ability to assess the fair value of collateral. With regard to residential property collateral, the debtor is required to arrange insurance cover for the site. In case of potential neglect of insurance premiums, the Hypo Group maintains a special insurance policy to secure its collateral position related to lending. In lending by Hypo, the collateral must be located in Finland.

The credit decisions related to lending are based on a credit decision analysis conducted before making a decision, in compliance with the guidelines and regulations of the authorities and the Hypo Group's guidelines as ratified by senior management. The personnel's awareness of the existing instructions and their practical application is ensured through training, competence tests and internal controls. In addition, the Group makes use of intensive participation of management in daily lending activities, risk management analyses of the quality of the loan portfolio, and regular internal auditing of the loan and collateral process.

The Group's loan portfolio is distributed across loans with housing collateral throughout Finland. In these loans, the debtor is usually a household or a housing company or a corresponding housing corporation. However, the majority of the lending and collateral is directed to growth centres and particularly the Helsinki metropolitan area. The Group does not operate in sparsely populated areas or locations with net emigration. Risk concentrations caused by individual counterparties or counterparties operating in the same sector are monitored continuously.

The liability limits of large customer entities are kept at a lower level than the maximum limit prescribed by the credit institution legislation. Of the acceptable techniques to decrease the credit risk, guarantees and financial collateral are used as necessary in the risk management of large customer entities.

The credit risk is continuously measured using both factors anticipating credit risks and factors describing the quality and distribution of the loan portfolio.

At the end of the financial period, the weighted average of the loan-to-value (LTV) ratios of the loans in Hypo's lending portfolio was 51.0 percent (57.9 percent in 2010). LTV ratios indicate the relationship of loan balances to the most recently recorded fair values of the collateral of the loans. The average was calculated using the Group's own calculation model. The calculation of LTV ratios only takes the real collateral into account, which here refers to mortgages against mortgage deeds to properties or lease rights, buildings, shares in housing companies and similar corporations as well as rights of residence. Other loan collateral, such as guarantees, has not been taken into account.

Liquidity deposits and derivatives

Those credit institutions and companies for which senior management has confirmed a counterparty limit are accepted as counterparties for the short-term investments and derivative receivables of the Group companies. The maximum amounts of the limits are kept lower than those prescribed by the credit institution legislation.

Other credit risk counterparties

Of other counterparties, the credit information of lessees is checked, as is other information that is essential in evaluating lessees in compliance with legislation. As a rule, at the construction stage, residential plots are only leased to housing companies owned by well-known listed construction companies. The fulfilment of the obligations of lessees is also secured by rent collateral arrangements.

In the Bank's Visa card operations, the credit risk lies solely with a third-party card payment service provider.

Insofar as Group companies engage in business with a new counterparty in key services, the counterparty's credit information and background are checked as allowed by law.

Impact of the credit risk on capital adequacy

The capital adequacy requirement for the credit risk is calculated using the standard method in accordance with the regulations of the Financial Supervisory Authority. The minimum amount of its own funds for the credit risk in accordance with the standard method has also been considered sufficient in the Group's internal capital adequacy assessment procedure.

The total amount of non-performing receivables related to lending – that is, receivables overdue for more than 90 days – decreased slightly when compared to the previous year. At the end of 2012, non-performing receivables stood at EUR 1.156 million (EUR 1.202 million), which represents 0.159 percent of the loan portfolio (0.2%). The number of temporary renegotiations of loans carried out due to financial difficulties by the debtor in 2012 was considered to be at a normal level compared with previous years.

Recognised impairment losses exceeded returns, with the net amount of recognitions standing at EUR 0.03 million (returns of EUR -0.04 million of impairment losses The effective use of controls, the efficient monitoring of the credit risk and the low amount of credit losses reflect the moderate risk level in relation to the loan portfolio.

Considering the risk management methods explained above and the low amount of realised credit risks, the minimum capital calculated for the credit risk using the standard method is more than sufficient to cover the capital need for the credit risk.

OPERATIONAL RISKS

Operational risks refer to losses caused by disturbances, errors or deficiencies in information systems, operating processes or the operations of the personnel, or changes in external factors. Operational risks also include contractual and other legal risks, continuity planning and preparedness for exceptional circumstances.

Operational risks related to the Group's business operations are identified, studied, measured and assessed by means of continuous monitoring and standardised event reports on which the corrective measures are also based. In business, the operational are assessed by supervisors, the management team and operational management. The Hypo Group has also confirmed principles of operational risk management which describe the control responsibilities for these risks and assign them to members of the management team on a personal level.

Personal, information technology and single-office risks are emphasised among operational risks. Due to the single-office operating model, operational risks typical of remote communication are emphasised in the business processes. These are related to, for example, identification of the customer, the establishment of a customer relationship and information security. Other key risks in business processes are related to identity and access management and the prevention of crime in parts of the processes based on information systems as well as manual work.

For the purpose of operational risk management, the key information systems have been outsourced to recognised companies or acquired as software packages. The key information systems have also been duplicated, and they are mainly located outside the Group's facilities. The Group has prepared for risks related to information system malfunctions through service agreements and continuity planning. It strives to ensure the awareness and expertise of the whole personnel in operating processes and their critical stages in various areas – such as information security, customer identification and internal control – by increasing instructions and maintaining them continuously and through regular training. In information systems essential to business processes, the Group pays special attention to the management of access rights and controls by means of identity and access management as well as internal control. It also uses a third-party auditing service in assessing the level of information security.

The entire personnel of the Group are employed by Hypo, the parent company. Personnel risks are managed through diversified job descriptions that are confirmed annually, balanced personal scorecards based on the goals of the company, regular training for all personnel groups, substitute arrangements adapted to the scope of Hypo's operations, the personnel incentive and commitment system and investments in well-being at work. The operational guidelines for the main business area were upgraded and modernised in 2012. In addition, Hypo pays attention to the management of personal risks by distributing expertise and responsibility to a number of persons in the organisation, where possible.

Single-office risks are managed through office-specific fire, water and burglary protection. The Group also maintains up-to-date insurance coverage in case of various business disturbances, such as office facilities being rendered unusable. The Group also uses a third-party auditing service in assessing the physical safety of its locations.

Legal risks related to new product and service concepts are managed by using agreements with standard terms and conditions as far as possible and, as necessary, the expertise of well-known operators in the field. New products and services are assessed in advance in terms of operational risks. In the planning of business processes, special attention is also paid to operational risks related to remote communication.

In the Hypo Group, the capital adequacy requirement for operational risks is calculated using the basic method approved by the Financial Supervisory Authority. The Group's own funds allocated to operational risks in the basic method have been established as sufficient in the Group's internal capital adequacy assessment procedure.

LIQUIDITY RISKS

The Group's liquidity risks comprise various financing risks related the whole of its operations – that is, its financial balance sheet, including off-balance sheet items. These risks are identified, measured and assessed by reviewing the mutual structure and distribution of the interest-bearing items on the balance sheet.

The long-term or structural financing risk on the balance sheet

The long-term financing risk, also known as structural financing risk, on the balance sheet refers to the uncertainty that is related to the financing of long-term lending and results from funding on market terms. If realised, the risk endangers the continuity of growth-orientated lending as well as the Group's financing position. The Group's funding and its management of the structural financing risk are based on ensuring the continuity of lending over the long term. The existing limits for arranging long-term funding and securing the financing position are kept at a sufficient level in relation to the Group's business goals and the uncertainty caused by the operating environment. The share of deposit funding out of the total funding is increased in accordance with the Group's strategy. Hypo, the parent company of the Group, also has permission to act as a counterparty to central bank financing. Implemented debt issuances as well as used and unused credit facilities are regularly reported to senior management.

The share of deposit and other funding implemented over the long term of the total funding was 52 percent (62%) on 31 December 2012.

Short-term liquidity risk

The short-term liquidity risk refers to a quantitative and temporal imbalance of the Group's short-term cash flow. If realised, the risk means that the Group will not be able to meet its payment obligations. The risk is managed by maintaining sufficient liquidity in relation to the payment obligations and uncertainty factors related to the operating environment and by distributing the liquidity investments in liquid instruments in accordance with the counterparty limits.

When assessing the amount of liquidity that is sufficient in terms of managing the liquidity risk, a potential bank run on sight deposits is taken into account, in which case the share exceeding the deposit guarantee limit of deposits repayable on demand would be withdrawn over a short period of time. In addition to the maintenance of liquidity investments, liquidity is secured by binding limits concluded with various counterparties.

The Group's senior management monitors the sufficiency of liquidity as part of the Group's scorecard objectives by means of income statements and the balance sheet.

Short-term liquidity, which includes cash and cash equivalents as well as checking account and other binding liquidity limits, totalled EUR 141.9 million on the review date 31 December 3012. (EUR 145.5 million).

Short-term liquidity covered payment obligations related to debt and deposit agreements for 1.2 months following the balance sheet date (2.5 months). In addition to short-term liquidity, the payment obligations related to funding and the growth goals for lending are covered through binding credit facilities in long-term financing or through funding credit facilities based on certificate of deposit and bond programmes.

The Group's payment obligations related to debt and deposit agreements valid on the balance sheet date, including net cash flows from derivative contracts, were as follows:

Refinancing risk

The refinancing risk – that is, the maturity imbalance between receivables and liabilities – on the balance sheet causes the risk of an increase in the refinancing costs. This imbalance is managed by concluding funding agreements that are as long-term as possible, considering the goals set for funding. When loans are granted, the maturity of the receivables is longer than the average maturity of funding. The impact of the deposit portfolio on the average maturity and average interest rate of funding is monitored regularly.

The repayments of certain funding agreements are linked to changes in the corresponding portion of the lending portfolio, in which case no maturity imbalance arises with regard to the balance sheet items in question. Premature repayment of loans in relation to the original repayment plans of mortgage loan customers causes the imbalance between receivables and liabilities on the balance sheet to be slighter in reality than when the loans were granted. The average maturity of funding is monitored at the group level, and it is regularly reported to senior management.

The average maturity based on debt agreements was slightly over 2 years on 31 December 2012 (2.5 years).

Liquidity risks have been assessed in the Group's internal capital adequacy assessment procedure, and an amount of the Group's own funds considered sufficient in the internal analysis has been allocated to them as a risk outside the minimum requirements.

49 LIQUIDITY RISK

Cash flows of financial liabilities and derivatives in 2012	< 3 months	3–12 months	1–5 years	5–10 years	>10 years	Total
Liabilities to credit institutions	21,134.0	23,267.0	140,222.0	2,667.0	0.0	187,290.0
Liabilities to the public and public entities	165,809.0	83,423.0	51,116.0	23,168.0	0.0	323,517.0
Debt securities issued to the public	57,164.0	130,917.0	110,789.0	0.0	0.0	298,871.0
Derivative contracts	67.0	1,495.0	3,840.0	106.0	0.0	5,508.0
Subordinated liabilities	0.0	0.0	680.0	0.0	0.0	680.0
Total liabilities	244,175.0	239,102.0	306,647.0	25,941.0	0.0	815,865.0

Cash flows of financial liabilities and derivatives in 2011	< 3 months	3–12 months	1–5 years	5–10 years	>10 years	Total
Liabilities to credit institutions	51,866.7	26,555.6	113,192.6	8,933.3	0.0	200,548.2
Liabilities to the public and public entities	128,047.9	63,371.3	88,460.1	15,476.3	76.2	295,431.9
Debt securities issued to the public	20,729.0	132,161.0	157,428.6	0.0	0.0	310,318.5
Derivative contracts	-372.3	1,109.0	2,885.7	0.0	0.0	3,622.5
Subordinated liabilities	0.0	24.3	1,117.3	0,0	0,0	1,141.6
Total liabilities	200,271.3	223,221.2	363,084.3	24,409.6	76.2	811,062.7

MARKET RISKS

Market risks refer to the possibility of loss that results from the fluctuation of market prices and has an effect on the Group's result (operating profit, comprehensive income).

A change in the market value of interest-bearing agreements related to the Group's business operations may result from a change in the general interest rate level, a change in the credit risk related to the counterparty, limited supply of an instrument on the market (lack of liquidity) or a combination of these. The Group aims to maintain the changes in the market value of balance sheet items measured at market value – that is, debt securities and interest derivatives – as well as the net interest risk of interest-bearing receivables and liability items at such levels that they do not endanger the achievement of profitability and capital adequacy goals. Senior management monitors the impact of market valuations on the Group's operations and key indicators, such as comprehensive income and fair value reserve, and regularly assesses the management and realisation of market risks. The Group does not have a trading inventory.

Price risk, or change in the market value of liquidity investments and derivatives

Items on the balance sheet other than interest-bearing receivables related to lending are by nature intended to maintain liquidity and are thus short-term. Unfavourable changes in market value during the holding period of debt securities decrease the related recoverable cash flows. The risk of market value fluctuations related to debt securities is managed by only making liquidity investments in an amount that sufficiently secures the Group's liquidity. The investments are mainly made with variable interest rates and distributed among different counterparties, in accordance with the counterparty limits issued by senior management.

Derivative contracts are only used in funding for hedging purposes; in other words, the market risks directed to the Group's banking book are not increased by concluding derivative contracts. Unfavourable market value changes in interest derivatives are seen during the maturity as a decrease in Hypo's own funds (the fair value reserve) and comprehensive profit, until the result from the hedging instruments or the interest derivatives is recognised as income simultaneously with the result from the hedged items.

Interest rate risk

Interest rate risk refers to an unfavourable change in the annual net interest income (income risk) and the current value of interest-sensitive balance sheet items (financial risk) caused by variation in the amounts, reference rates and interest rate fixing dates of interest-bearing receivables and liabilities.

The income risk is measured by, for example, calculating the impact of a one-way interest rate change of two percentage points in the Group's net interest income over one year. The objective of income risk management is to maintain – through natural hedging – such amounts of, and reference rates and repricing dates for, receivable and liability items on the financial balance sheet that the effects of fluctuations in market interest rates on the Group's net interest income are as slight and temporary as possible. In order to manage the interest rate risk, the Group's interest rate position is kept as neutral as possible in relation to lending, in accordance with the market risk strategy approved by the Board of Directors, considering front-heavy funding. The reference rates of interest-bearing receivables are determined in accordance with reference rates generally used in mortgage loans. funding operations are based on market terms. Depending on the arrangement, the reference rate used is either the six-month or twelve-month Euribor or a fixed rate, in which case the reference rates and repricing dates of the receivables portfolio on the balance sheet are considered. The most common reference rate for deposits is Hypo Prime, which is adjusted to changes in the general interest rate level based on the Hypo Group's decisions. After natural hedging, the remaining interest risk is managed through derivative contracts concluded for hedging purposes in order to achieve a neutral interest rate position over an anticipated period of time.

The financial risk is measured by calculating the impact of a one-way change of two (2) percentage points in interest rates on the current value of interest-sensitive balance sheet items – that is, the financial value of the Hypo Group. The negative effect on the financial value of the Hypo Group of the discounted net cash flows from the interest-sensitive receivable and liability items on the balance sheet must not exceed a maximum limit of 20 percent when proportioned to the Group's own funds.

Currency risk

Currency risks refer to the possibility of loss that results from the fluctuation of currency rates and affects the Group's result. The Hypo Group operates in euros or its operations are converted into euros by agreement. It does not engage in foreign exchange trading on its own account. In funding in foreign currencies, the currency risk is managed by concluding currency swaps with contractually approved counterparties at the time of agreement.

Of the market risks, a sufficient amount of the Group's own funds have been allocated to price risks and income risks on the basis of internal analysis in the Group's capital adequacy assessment procedure.

RISKS RELATED TO THE OWNERSHIP OF HOUSING UNITS AND RESIDENTIAL PLOTS

The Hypo Group's residential plots and shares in housing companies are exposed to impairment, return and damage risks as well as risks related to the concentration of ownership.

The statutory maximum for the Hypo Group's property holdings and comparable loans and guarantees granted to real estate corporations is 13 percent of the balance sheet total. This limit forms the basis for the management of the risks related to the Group's housing and residential plot holdings. Through internal monitoring limits, the internal maximum amount of real estate holdings is kept lower than the absolute statutory limit.

The total amount of the real estate holdings on the consolidated balance sheet was 6.1% (8.0%) of the balance sheet total on 31 December 2012.

50 INFORMATION ON INTEREST RATE RISK

Repricing time in 2012 (EUR million)	< 3 months	3–12 months	1–5 years	5–10 years	>10 years	Total
With variable interest rates						
Receivables	479.9	445.1				925.1
Liabilities	502.9	378.1				881.0
Net	-23.0	67,0	0.0	0.0	0.0	44.1
With fixed interest rates						
Receivables	8.3	21.9	73.3	8.7	1.5	113.7
Liabilities	20.9	43.3	61.0	7.7		132.8
Net	-12.6	-21.4	12.4	1.1	1.5	-19.1
Other						
Receivables		14.9				14.9
Liabilities		14.9				14.9
Net	0.0	0.0	0.0	0.0	0.0	0.0

In the table describing interest rate risk, derivative contracts are shown at euro-denominated nominal value, other receivables and liabilities at balance sheet values. In each group describing interest tying, derivative contracts are also shown, combined with either the receivable or the liability group. Liabilities with variable interest rates include items that are by nature repayable on demand, and they are assumed to be repriced within than three months. The item "Other" presents financial instruments including linked derivatives.

Sensitivity analysis

If market interest rates would have increased by 2% (decreased by 2%) on the balance sheet date, the Group's net interest income would increase by EUR 0.4 million (decrease by EUR 0.4 million) over a period of 12 months. The change in net interest income would mainly be caused by the repricing of variable interest rate receivables at higher (lower) interest rates than on the balance sheet date. A decrease in the market interest rates of two percentage points on the balance sheet date would increase the negative value of the fair value reserve by EUR 0.3 million. The financial value of the Mortgage Society of Finland would decrease by EUR 0.4 million due to a rise of 2% in interest rates.

Repricing time in 2011 (EUR million)	< 3 months	3–12 months	1–5 years	5–10 years	>10 years	Total
With variable interest rates						
Receivables	499.7	334.2				833.8
Liabilities	480.9	350.6				831.6
Net	18.7	-16.5	0.0	0.0	0.0	2.2
With fixed interest rates						
Receivables	11.8	26.7	109.8	7.6		155.9
Liabilities	6.4	39.9	89.3	15.2		150.7
Net	5.5	-13.2	20.5	-7.6	0.0	5.1
Other						
Receivables		37.9				37.9
Liabilities		37.9				37.9
Net	0.0	0.0	0.0	0.0	0.0	0.0

In the table describing interest rate risk, derivative contracts are shown in euros at nominal value, other receivables and liabilities at balance sheet values. Derivative contracts are also shown in each interest rate group, combined with either the receivable or the liability group. Liabilities with variable interest rates include items that are by nature repayable on demand, and they are assumed to be repriced within three months. The item "Other" presents financial instruments including embedded derivatives.

Sensitivity analysis

If market interest rates would have increased by 2% (decreased by 2%) on the balance sheet date, the Group's net interest income would increase by EUR 1.7 million (decrease by EUR 1.7 million) over a period of 12 months. The change in net interest income would mainly be caused by the repricing of variable interest rate receivables at higher (lower) interest rates than on the balance sheet date. A decrease in the market interest rates of two percentage points on the balance sheet date would increase the negative value of the fair value reserve by EUR 1.2 million. The financial value of the Mortgage Society of Finland would decrease by EUR 0.3 million due to a rise of 2% in interest rates.

Risk of a decrease in housing prices

The risk of a decrease in housing prices is realised if the fair values of residential plots or shares in housing companies permanently decrease below the acquisition prices. The risk may also be realised when a site is sold. In order to manage the risk of a decrease in housing prices, the Group makes long-term investments.

The Group's housing and residential plot holdings consist of leased-out sites. The majority of the sites are distributed across Finland's largest growth centres, mainly in the Helsinki Metropolitan Area. Sites located abroad are not acquired. The value of the housing units and residential plots on the balance sheet corresponds to the actual value of the investments or the value that will at least be obtained for them when sold. In residential plot holdings, the risk of a decrease in prices has been eliminated by agreements.

The Group makes use of its balance sheet by offering diverse housing solutions for its customers, which is why the turnover rate of housing and residential plot holdings is relatively high. Sales and acquisitions of sites are always adjusted to the prevailing market situation. The Group strives to avoid selling at a loss. Loss-making sales are very rare in the Group, even over the long term. The annual total of capital gains may vary, because the object and time of the transaction are usually determined by the customer. In addition, the chosen accounting method, in which the objects are valued at the acquisition cost or market value, if lower, has resulted in the fair values of certain assets being significantly higher than their book values.

The book values of the housing units and residential plots, excluding premises in the Group's own use, were about 82 percent of the estimated fair value on 31 December 2012 (83 percent on 31 December 2011). No impairment losses related to holdings were recognised during the financial period.

Return risk and damage risk

Return risks refer to decreases in the returns on holdings. The return risk is realised if the occupancy rate of the sites decreases or the level of returns generally decreases in the lease market. The lease agreements of the housing units owned by the Group address the timing of rent adjustments, the lessor's right to adjust the rent, and the tying of rent levels to indices. The plot rents are adjusted annually on the basis of the cost-of-living index, with an increase in the index affecting the rents, but not vice versa.

The return risk is also managed by keeping the holdings in good general condition and by selecting holdings in areas that are attractive in terms of leasing – that is, mainly in good locations in growth centres. Damage risks are covered by requiring sufficient insurance coverage for the sites and rent collateral from the lessees.

The occupancy rate was 89.9 percent on 31 December 2012 (91.2 percent on 31 December 2011).

The net return goal for housing and residential plot investments varies between five and seven percent, depending on the site. The net return on housing and residential plot investments calculated using book values was 5.3 percent in 2012 (5.4% in 2011). In housing units, the average monthly rent per square metre was EUR 18.58 (17.73).

Concentration risk

The Hypo Group's housing and residential plot investments are distributed across a number of sites in growth centres. There are very few concentrations of holdings at individual sites. In business operations related to housing units and residential plots, it is ensured that there are a large number of counterparties. As a rule, when plots are leased out for the construction period, only well-established, listed and recognised companies are accepted as counterparties.

The Group's own funds have been allocated to the price risk related to housing units in the Group's internal capital adequacy assessment process.

STRATEGIC RISK

Strategic risks are identified, assessed regularly and documented as part of senior management's strategy work and the risk management monitoring and reporting system. The nature of risks related to cyclical and other changes in the operating environment, as well as those affecting deposit funding, is such that they are realised as a result of significant changes in the macroeconomy and cause requirements for change in the Group's business operations. Risks related to the competition situation are mainly caused by decisions made by competitors. Changes in credit institutions' regulation and supervision environment create a regulation risk that affects resourcing in the Group over the short term. This risk is managed as part of strategic risks. Any decreases in the visibility and recognisability of the Group are also regarded as strategic risks.

Unfavourable changes in the operating environment – such as strong cyclical changes in the economy and the ensuing transfer of customers' funds from deposits to other asset classes – cause a risk that the Group will not achieve its business goals. Crises in the capital market have unfavourable effects on the pricing of deposits.

The competition situation is expected to become tougher and tougher. However, the Group aims to maintain its good competitive position in the market with its special products and its strategy of focusing on home financing.

Regulation risks refer to changes in the regulation and supervision environment of credit institution operations, changes that may be implemented over a short period of time. The rapid realisation of unanticipated changes may increase costs related to governance and information technology. Considering the size of the Group, these costs may be higher in proportion than those of competitors and weaken the profitability of the Group's operations over the short term. Potential problems also include the fact that the special legislation pertaining to Hypo will not be considered sufficiently by the authorities or when setting new regulations. Rapid changes may also slow the market launch of special product and service packages and affect the Group's competitiveness in relation to other credit institutions. Regulation risks are managed through compliance operations and human and technological resources management related to the implementation of changes and by maintaining a good relationship with the authorities. However, the Group is aware that, over the long term, changes in the regulation and supervision environment serve to ensure that credit institutions in general function on a healthy and profitable basis.

The Hypo Group's general visibility and recognisability have increased significantly over the past decade. The growth has been based on the Hypo Group actively functioning in the public as an expert in the housing market and financing. This has clearly increased the number of the Group's customer contacts and partners. The Group will continue to increase its visibility in a profitable and risk-conscious manner. The key business indicators for recognisability are the number of customer contacts and the content of customer feedback, which are monitored regularly.

Statement of the Supervisory Board

After confirming the Mortgage Society of Finland's accounting principles, we have certified the financial statements for 2012 to be presented to the auditors and the Annual General Meeting. We hereby accept the Board of Directors' proposal for the distribution of profits.

The following members of the Supervisory Board have reached the end of their term of office: Antti Arjanne, Mikael Englund, Helena Jaatinen, Jukka Räihä, Väinö Teperi, Riitta Vahela-Kohonen and Veikko Vuorinen.

Helsinki, 28 February 2013

Markku Koskela
Chair

Väinö Teperi
Vice Chair

Antti Arjanne
Elina Bergroth
Mikael Englund
Markus Heino
Hannu Hokka
Helena Jaatinen
Tauno Jalonen
Kari Joutsa
Markku Koskinen
Kallepekka Osara
Jukka Räihä
Hannu Tarkkonen
Riitta Vahela-Kohonen
Veikko M. Vuorinen

Auditor's Report

(Translation from the Finnish Original)

TO THE ANNUAL GENERAL MEETING OF THE MORTGAGE SOCIETY OF FINLAND

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of The Mortgage Society of Finland for the year ended 31 December, 2012. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Supervisory Board or the members of the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or whether they have violated the Act on Credit Institutions or the Act on Mortgage Societies or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the Company's Financial Statements and the Report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki 1.3.2013

PricewaterhouseCoopers Oy
Authorised Public Accountants

Juha Wahlroos
Authorised Public Accountant

Release of financial statements

The Board of Directors and the Supervisory Board of the Mortgage Society of Finland approve the financial statements and the related annual report to be published on 28 February 2013, the date of their approval and certification. The members of the Mortgage Society of Finland will hold the Annual General Meeting by the end of April. The Annual General Meeting will verify the financial statements and release the administrative bodies from liability.

Corporate governance

As an issuer of bonds, the Mortgage Society of Finland (Hypo) has adhered to the recommendations on the governance of listed companies since 2004. The Securities Market Association's Finnish Corporate Governance Code is available at www.cgfinland.fi. A statement on compliance with, and exemptions from, the governance code in the Hypo Group is available at www.hypo.fi, along with the statutory 2012 Corporate Governance Statement. The following is a general outline of Hypo's governance system as well as its administrative bodies and their duties.

Supervisory Board

Pictured sitting from the left: Väinö Teperi, Markku Koskela and Helena Jaatinen, and standing from the left: Kallepekka Osara, Markus Heino, Jukka Räihä, Mikael Englund, Markku Koskinen, Kari Joutsa, Veikko M. Vuorinen and Riitta Vahela-Kohonen

SUPERVISORY BOARD

The Supervisory Board ensures that the Mortgage Society of Finland is governed with appropriate caution and care and in compliance with laws and regulations and the decisions made by the Annual General Meeting and the Supervisory Board.

The Supervisory Board and its auditors monitor financial reporting, internal auditing, risk management and auditing of the accounts. They also evaluate the auditor's independence and the quality of non-audit services. Twice a year, the auditors examine the management and administration of the Mortgage Society of Finland's cash balance, accounts, securities, obligations, loan and collateral documents as well as liquidity.

The Supervisory Board must consist of 15 to 18 members. The members are appointed by the Annual General Meeting for a maximum term of three years. The members of the Supervisory Board must be voting members of the Mortgage Society of Finland.

Supervisory Board in 2012

Markku Koskela, chairman, Doctor of Science (Economics), professor
Väinö Teperi, vice chair, Bachelor of Laws, lawyer
Antti Arjanne, Bachelor of Laws, managing director
Elina Bergroth, Master of Arts, lecturer
Mikael Englund, Master of Science (Engineering), MBA, managing director
Markus Heino, Bachelor of Laws, Master of Laws (trained on the bench), director
Hannu Hokka, Master of Science (Economics), managing director
Helena Jaatinen, Bachelor of Laws, managing director
Tauno Jalonen, managing director
Kari Joutsa, Bachelor of Laws, Master of Laws (trained on the bench)
Markku Koskinen, Construction Engineer, property manager
Kallepekka Osara, Agrologist, farmer
Jukka Räihä, Bachelor of Laws, Master of Laws (trained on the bench)
Hannu Tarkkonen, Diploma in Business and Administration, managing director
Riitta Vahela-Kohonen, Master of Arts, project manager
Veikko M. Vuorinen, managing director

Supervisory Board's auditors in 2012

Markku Koskela, chairman, Doctor of Science (Economics), professor
Väinö Teperi, vice chair, Bachelor of Laws, lawyer
Kallepekka Osara, Agrologist, farmer
Jukka Räihä, Bachelor of Laws, Master of Laws (trained on the bench)

Deputy auditors in 2012

Riitta Vahela-Kohonen, Master of Arts, project manager
Veikko M. Vuorinen, managing director

COMMITTEES

Nomination Committee

The Nomination Committee prepares a proposal for the Annual General Meeting on the members to be selected to the Supervisory Board. It also prepares a proposal for the Supervisory Board on the members of the Board of Directors as well as on the selection of the managing director and deputy managing director. The Mortgage Society of Finland's Nomination Committee consists of the chair and vice chair of the Supervisory Board and the chair and vice chair of the Board of Directors. In addition, the managing director or the deputy managing director takes part in the meetings of the Nomination Committee as a preparer and presenter of matters. The Nomination Committee's agenda must be confirmed by the Supervisory Board.

Nomination Committee in 2012

Markku Koskela, chairman, Doctor of Science (Economics), professor
Jarmo Leppiniemi, vice chair, Doctor of Science (Economics), professor
Väinö Teperi, Bachelor of Laws, lawyer
Sixten Korkman, Doctor of Social Sciences, managing director, member until 30 March 2012
Sari Lounasmeri, Doctor of Science (Economics), managing director as of 30 March 2012

Compensation Committee

The Compensation Committee prepares a proposal for the Annual General Meeting on the fees paid to the members of the Supervisory Board and to the auditors. It also prepares a proposal for the Supervisory Board on the fees paid to the members of the Board of Directors. The Mortgage Society of Finland's Compensation Committee consists of the chair, vice chair and auditors of the Supervisory Board. The Compensation Committee's agenda must be confirmed by the Supervisory Board.

Compensation Committee in 2012

Markku Koskela, chairman, Doctor of Science (Economics), professor
Väinö Teperi, vice chair, Bachelor of Laws, lawyer
Helena Jaatinen, Bachelor of Laws, managing director, member until 30 March 2012
Tauno Jalonen, managing director, member until 30 March 2012
Kallepekka Osara, Agrologist, farmer, member as of 30 March 2012
Jukka Räihä, Bachelor of Laws, Master of Laws (trained on the bench), member as of 30 March 2012

Board of Directors

The Board of Directors governs the Mortgage Society of Finland in compliance with laws and regulations and the decisions and guidelines issued by the Annual General Meeting and the Supervisory Board. The Mortgage Society of Finland's rules include a detailed list of the duties of the Board of Directors.

The Act on Mortgage Societies (936/1978) states that "the Board of Directors of a mortgage society shall comprise at least five members elected by the Supervisory Board. In addition, the Managing Director and another director of the mortgage society shall be members of the Board of Directors." In practice, "another director" refers to the deputy managing director. The managing director and the deputy managing director prepare matters for the meetings of the Board of Directors. The other members of the Board of Directors must be independent of the company, as specified by the Finnish Corporate Governance Code. Their independence is evaluated by the Board.

Pictured sitting from the left: Jarmo Leppiniemi, Elli Reunanen, Sari Lounasmeri and Ari Pauna, and standing from the left: Hannu Kuusela, Vesa Vihriälä, Tuija Virtanen, Harri Hiltunen and Teemu Lehtinen.

Board of Directors in 2012

Jarmo Leppiniemi, chair, Doctor of Science (Economics), professor, member of the Board since 2000

Sari Lounasmeri, Master of Science (Economics), managing director, member of the Board since 2011

Jari Eklund (born 1963), Master of Science (Economics), investment director, member of the Board since 2001, member until 30 March 2012

Harri Hiltunen, Master of Science (Economics), managing director, member of the Board since 2012, member as of 30 March 2012

Matti Inha, Bachelor of Laws, managing director, member of the Board since 2002

Sixten Korkman (born 1948), Doctor of Social Sciences, managing director, member of the Board since 2006, member until 30 March 2012

Hannu Kuusela, Doctor of Science (Economics), professor, member of the Board since 2001

Teemu Lehtinen, Doctor of Social Sciences, Master of Science (Engineering), managing director, member of the Board since 2005

Ari Pauna, Bachelor of Laws, deputy managing director, member of the Board since 2006

Vesa Vihriälä, Doctor of Social Sciences, managing director, member of the Board since 2012

Tuija Virtanen, Doctor of Science (Economics), teaching researcher, member of the Board since 2009

Deputy managing director Ari Pauna has served as the Board's secretary during 2012 while the ordinary secretary Elli Reunanen (born 1974, Bachelor of Laws, Master of Laws (trained on the bench), bank manager, secretary since 2009) has been on maternity and parental leave.

Management Group

MANAGING DIRECTOR

The managing director is responsible for ensuring that the Mortgage Society of Finland's routine administration complies with the laws, regulations and orders of the authorities and the guidelines issued by the Supervisory Board and the Board of Directors. The managing director is also responsible for implementing the decisions made by the Board of Directors.

The Supervisory Board appoints the managing director on the motion of the Nomination Committee. Matti Inha (b. 1949), Bachelor of Laws, was appointed as the managing director in 2002. His contract expired on 31 December 2012, with Inha continuing as an advisor to the management until his retirement on 30 April 2013.

In its meeting on 28 August 2012, the Supervisory Board appointed Ari Pauna, Bachelor of Laws, new managing director as of 1 January 2013.

MANAGEMENT GROUP

The Management Group assists the managing director, operating under his supervision and responsibility. The Management Group prepares strategic matters, significant operational matters and operational matters of principle for the meetings of the Board of Directors. It also plans, implements and monitors the Group's ongoing operations.

Pictured sitting from the left: Elli Reunanen, Ari Pauna and Aija Kontinen, and standing at the back Jouni Lehtinen and Mikko Huopio to the right.

The Management Group consists of the managing director and his deputy, bank managers, CFO and the Chief Risk Officer. The Management Group are:

Matti Inha, managing director (b. 1949), chair, member and chair of the Management Group until 31 December 2012
Bachelor of Laws, honorary financial counsellor
member of the Management Group since 2002

Ari Pauna, deputy managing director (b. 1967), vice chair, chair as of 1 January 2013
Bachelor of Laws
member of the Management Group since 2002

Mikko Huopio, Chief Risk Officer (b.1968)
Bachelor of Laws, Master of Laws (trained on the bench)
member of the Management Group since 2010

Jouni Lehtinen, bank manager (b. 1961)
Diploma in Business and Administration
member of the Management Group since 2002

Aija Kontinen, CFO (b. 1963)
Master of Science (Economics)
member of the Management Group since 2004

Elli Reunanen, deputy managing director as of 1 January 2013 (b. 1974), vice chair as of 1 January 2013
Bachelor of Laws, Master of Laws (trained on the bench)
member of the Management Group since 2006

ANNUAL GENERAL MEETING

The Annual General Meeting of the Mortgage Society of Finland confirms the financial statements, decides on the use of the annual profit, appoints the members of the Supervisory Board and the auditors and decides on their fees, and releases the members of the Board and other accountable parties from liability. Any changes to the rules of the Mortgage Society of Finland must be approved by the Annual General Meeting.

The Annual General Meeting is held by the end of March each year.

AUDITORS

Auditing of the accounts
PricewaterhouseCoopers, Authorised Public Accountants

Juha Wahlroos, Master of Science (Economics), Authorised Public Accountant, responsible auditor
Jukka Mynttinen, Master of Science (Economics), Authorised Public Accountant, deputy

Internal auditing
Internal auditor **Mikko Huopio**

Permanent personnel (31 March 2013)

Personnel 31 March 2013

Managing Director **Ari Pauna**
Advisor to the management (until 30 April 2013), honorary financial counsellor **Matti Inha**

Chief Risk Officer **Mikko Huopio**

GENERAL BANKING SECTOR – CUSTOMER SERVICE AND BASIC BANKING PRODUCTS

Deputy managing director, bank manager **Elli Reunanen**
Sales director **Sami Aarnio**
Credit manager, lawyer **Pekka Karttila**

LOANS, DEPOSITS, CARDS AND ONLINE BANKING

Mortgage loan expert **Tommi Häggström**
Home financing manager **Päivi Salo**, LKV
Home financing manager **Pauli Lange**, LKV
Home financing manager **Anu Maliranta**, LKV
Mortgage loan expert **Risto Marila**
Home financing manager **Maarit Muhli**, LKV
Mortgage loan expert **Marjut Nummelin**, LKV

PRIVATE BANKING – SPECIALIST FINANCING PRODUCTS, RS OPERATIONS AND APARTMENT RENTALS

Bank manager **Jouni Lehtinen**, LKV
Sales director **Sanna Schoultz**
Credit manager, property lawyer **Juho Pajari**

Major customers, loans and deposits
Financial manager **Piia Konttinen**, LKV
Financial specialist **Teemu Venäläinen**

Reverse financing solutions, products for seniors and partial ownership
Home financing manager **Maarit Valkeajärvi**, LKV
Home financing manager **Anja Kymäläinen**, LKV

Funding for housing companies, environmental loans
Home financing manager **Jari Häkkinen**, LKV
Home financing manager **Hannele Nyström**, LKV

Savings products
Home financing manager **Kristiina Aitala**, LKV

Apartment rentals, RS issues
Property specialist **Marja Niemelä**, LVV, KED

FINANCE AND ADMINISTRATION

Chief Financial Officer **Aija Kontinen**
ICT manager **Ari Korkia-Aho**
Development manager **Arttu Mönkkönen**
Accounting Manager **Piia Valtokari**

SERVICES AND CONTRACT AMENDMENTS

General ledger manager **Irma Könönen**
Mortgage loan expert **Anne Hiltunen**, LKV
Home financing manager **Päivi Hietamies**, LKV

The first 152 years of Hypo

From Imperial Proclamation of its establishment to having a loan portfolio of EUR 725 million in 2012. Deposit portfolio EUR 308 million. More than 24,000 active customers.

21 December 1858
The Senate of Finland decides on the proclamation to be made to establish the Mortgage Society of Finland

25 May 1859
His Imperial Majesty's Gracious Proclamation on the terms and general principles of the Mortgage Society of Finland.

15 September 1859
First general meeting in Helsinki for the establishment of the Mortgage Society of Finland.

4–6 July 1860
Decision on the establishment of the Mortgage Society of Finland at a general agricultural meeting in Hamina.

24 October 1860
Senate ratifies the rules of the Mortgage Society of Finland. Consul **Otto Reinhold Frenckell** serves as the first managing director from 1860 to 1867.

2/1862
Lending begins with funds received from the Bank of Finland and the Society's own bonds. Loans are repayable over 55 years in level annuity instalments.

1 February 1862
First private bond issue in Finland.

12/1864
First foreign loan from M. A. V. Rothschild & Söhne, Frankfurt am Main: 3 million Prussian thaler (FIM 8,998,300 after a 19 percent issue discount).

21 January 1865
The Finnish mark, markka, is tied to a silver standard backed by a FIM 8 million currency reserve deposited at the Bank of Finland by the Society.

1868–1869
Senator **Aleksander August Brunou serves as managing director.**

1869–1881
Senator J.V. Snellman serves as managing director at a fixed annual salary of FIM 8,000.

1881–1884
Senator **Gustav Robert Alfred Charpentier serves as managing director.**

1865–1914
Freedom fighter Lieutenant and Knight of Danneborg Herman Liikanen serves the Society as an accountant for nearly 50 years.

1884-1905
Senator **Pehr Kasten Samuel Antell serves as managing director.**

1890s
Economic growth. The Society's loan portfolio totalled FIM 22 million in 1890 and FIM 73 million in 1913.

1906–1920
Ernst Emil Schybergson, **Bachelor of Laws, serves as managing director.**

1914–1918
First World War. In the 1920s, based on the guarantee of the Grand Duchy of Finland, the Republic of Finland pays off bonds issued before the war as creditors demand payment on four currency-based loans in Swedish krona, the currency least affected by inflation.

1913–1917
The Society finances AB Brändö Villastad, the garden suburb of Kulosaari in Helsinki.

1920–1928
Senator **August Ramsay** serves as managing director.

1927–1979
Suomen Asuntohypoteekkipankki (the Housing Mortgage Bank of Finland). The bank had a market share of 18 percent in loans made on urban property in the late 1920s. Slightly less than 70 percent of these loans went to Helsinki. The bank was eventually toppled by foreign exchange losses.

1929–1942
Auli Markkula, Master of Laws (trained on the bench), serves as managing director.

1929 The Great Depression.

1937 The head office, which now houses the Ministry of Transport and Communications, is taken over by the government as old bonds and the related agricultural loans are assumed by the state.

1939–1945 Second World War.

1942–1967 **Ilmo Ollinen**, Doctor of Laws, serves as managing director.

1945–1959 Post-war period of reconstruction and resettlement. In addition to land loans, government funds are also used for loans for housing companies and their owners – that is, home mortgage banking. Agents include Kansallis-Osake-Pankki and Pohjoismaiden Yhdyspankki, as does Postisäästöpankki later on.

1960–1980 Loan portfolio grows slowly. Farm loans from government funds.

1967–1976 **Pentti Huhanantti**, Master of Laws (trained on the bench), serves as president.

1977–1978 **Pentti Linkomo** serves as acting managing director.

1979–1987 Osmo Kalliala, Master of Laws (trained on the bench),
serves as managing director. Lending expands to home building, flat purchasing and new developments and to housing companies for renovation projects.

1987–2001 Risto Piepponen, Master of Laws (trained on the bench),
serves as managing director. Lending focuses increasingly on housing companies and rental communities instead of private individuals. Positive net income even during banking crisis. The euro is adopted. Y2K preparations. Loan portfolio EUR 280 million. Average number of personnel: 30.

2002–2012 **Matti Inha**, Bachelor of Laws, honorary financial counsellor, serves as managing director.

Secure options for better living – decade. During the era of honorary financial counsellor Inha, Hypo was given a new lease on life and established its position as the only bank specialising in housing and home financing in Finland. The Hypo Group almost tripled its loan portfolio to EUR 725 million and its balance sheet to EUR 912 million. AsuntoHypoPankki established its position as a group company and achieved a deposit portfolio of EUR 308 million. The number of customers doubled to approximately 25,000 customers during Inha's era, and the Group's own funds increased to nearly EUR 80 million with the capital adequacy remaining strong. All of this was achieved during the worst global financial and government crisis in economic history so far, driven by under 30 home financing specialists on average.

2013– **Ari Pauna**, Bachelor of Laws, assumes his position as the 15th managing director in Hypo's history, with his first goal being to increase Hypo's loan portfolio to EUR 1 billion profitably while managing risks.

Otto Eliel Stenroth founded Suomen Asuntohypoteekkipankki

Otto Stenroth was born on 13 May 1861 in Saarijärvi and died on 16 December 1939 in Helsinki. Stenroth was a lawyer who served in several responsible positions as parliamentary representative, senator and held senior management positions at several banks during his career.

In the banking sector, Stenroth served as the deputy of the director general of Kansallis-Osake-Pankki in 1893–1906, chairman of the Board of Suomen Hypoteekkikassa in 1904–1908 and 1909–1916, managing director of Suomen Kiinteistöpankki in 1907–1908 and 1909–1918, and as chairman of the Board of the Bank of Finland in 1918–1923.

Stenroth represented burghers at the Diet of Finland in 1891–1900 and was a member of the Parliament for the Young Finnish Party in 1908–1909. He was a member of the Helsinki City Council in 1911–1918 and vice chairman of the council in 1915–1918.

In addition, Stenroth headed the trade and industrial committee of the Senate of the Grand Duchy of Finland and served as senator in 1908–1909. After Finland gained her independence, Stenroth headed the committee for foreign affairs and served as senator in Paasikivi's first senate in 1918.

Stenroth contributed strongly to the establishment of Suomen Asuntohypoteekkipankki in 1929 and the activity of the Asuntoreformiyhdistys. Both aimed to solve challenges related to the housing market of growing cities in particular, especially to improve the availability of reasonably priced housing and ease their financing. Asuntoreformiyhdistys is still active.

Suomen Asuntohypoteekkipankki, a specialist in financing housing companies in Finnish cities, was merged with the Mortgage Society of Finland in 1979. Hypo Group's deposit bank, Suomen AsuntoHypoPankki Oy, which was established ten years ago, was named in honour of Asuntohypoteekkipankki. One can justifiably state that with Asuntohypoteekkipankki, the Mortgage Society of Finland (which had focused on funding countryside projects) also developed to finance urban projects over time.

Otto Stenroth's bust can be found in the J.V.Snellman hall in HYPO House.

Design: Kreab Gavin Anderson Pictures: Petri Krook

THE MORTGAGE SOCIETY OF FINLAND
SUOMEN ASUNTOHYPOPANKKI OY

Street address: Yrjönkatu 9 A, Helsinki
Mailing address: P.O. Box 509, 00101 Helsinki
Tel. +358 9 228 361
Fax +358 9 647 443
www.hypo.fi

Full contact details