Secure way for better living.

THE MORTGAGE SOCIETY OF FINLAND

ANNUAL REPORT 2013

Contents

2013

JANUARY

- Shares in the RS project Asunto Oy Helsingin Kapteenskanmäki become available for sale
- The Supervisory Board and its auditors convene for a meeting
- Hypo organises the Credit Update event
- Hypo adopts the book-entry system
- Shares in Housing companies under construction project Asunto Oy Helsingin Muinaisrannantie 3 become available for sale (1st phase)
- Housing companies under construction project Asunto Oy Jyväskylän Tukkipoika is completed

FEBRUARY

MARCH

- Hypo Housing Market Analysis Q1/2013 is published
- Hypo's Annual General Meeting
- The new Supervisory Board and Board of Directors assemble Timo Hietanen (M.Sc. Econ., deputy managing director) joins the Supervisory Board as a new member
- Hypo publishes the 2012 Financial Statements
- Hypo exhibits at the Vero 2013 fair
- Hypo issues its first bond in 2013
- Hypo issues its second bond in 2013
- The subscription for Hypo Bond 3/2013 begins
- Shares in Housing companies under construction project As. Oy Vantaan Saunapolku becomes available for sale
- Shares in Housing companies under construction project Asunto Oy Vantaan Ilolanpiha become available for sale
- Shares in Housing companies under construction project Asunto Oy Matinpuronpuisto 1 become available for sale
- Housing companies under construction project Asunto Oy Helsingin Kaanaanranta is completed

APRIL

- Hypo's former managing director Matti Inha (honorary financial counsellor) retires after 11 years of service. Matti Inha's portrait is revealed in Hypo's Snellman hall
- Hypo's balance sheet surpasses the billion euro limit
- Elections of Hypo's pension foundation and the organisation meeting of the new Board of Directors
- Netta Sundberg joins the Finance and administration unit as an accountant
- Aki Lakkisto (M.Sc. Econ.) joins general banking as a financial specialist
- Hypo meets Nordic investors in Stockholm
- Hanna Moilanen and Kati Ryhänen join general banking as home financing managers
- Shares in Housing companies under construction project Asunto Oy Nummelan Kotiniitty, Vihti, become available for sale
- Housing companies under construction project Asunto Oy Turun Michailowinportti is completed
- Housing companies under construction project As. Oy Espoon Adjutantti is completed

MAY

- Hypo returns to the international bond market after nearly a 100-year break, and issues a SEK denominated bond. Simultaneously, it issues the fourth domestic bond in 2013
- Mikke Pietilä (M.Sc. Econ.) joins general banking as a sales manager
- Joanna Bremer joins Hypo as an executive assistant
- Shares in Housing companies under construction project Asunto Oy Lahden Tammiheikki become available for sale
- Shares in Housing companies under construction project Asunto Oy Matinpuronpuisto 2 become available for sale
- Shares in Housing companies under construction project Asunto Oy Vantaan Kornetti become available for sale
- Housing companies under construction project Asunto Oy Painiitynkulma Espoo is completed

JUNE

- Hypo's product range expands with the inclusion of MasterCard
- Hypo Housing Market Analysis Q2/2013 is published
- Hypo's OnLine telephone bank begins operations
- The sale of Hypo Bond 6/2013 begins
- Shares in Housing companies under construction project Asunto Oy Kauniaisten Kokka become available for sale
- Housing companies under construction project Asunto Oy Helsingin Atlantis is completed

About Hypo

Hypo is the only credit institution in Finland that specialises in housing. We offer mortgage and consumer loans tailored to our customers' needs. The loans are for all stages of home owning including purchasing and renovating. For customers interested in saving and investing, we offer safe deposit accounts and productive bonds. We also issue credit cards.

Our customers are served by 50 home financing specialists in the historic, 100 year-old Hypo House, in the heart of Helsinki. We also work with our customers through our secure, user-friendly and up-to-date online and telephone banking services.

Personalised service and long-term customer relationships form the cornerstone of our operations; built on competence and depth of knowledge in mortgage loans and the housing market. Unlike other providers, our customers do not need to transfer their banking business to us as a condition of a mortgage loan which makes us more competitive.

Hypo strives to help Finns grow their housing property wealth by offering reasonably priced housing loans and by actively engaging in public discussions concerning housing.

A strong capitalisation is the foundation of our business. Profitable growth and effective risk management strengthens our capital adequacy and allows us to develop our customer service on a continuous basis. "Secure way for better living" is the customer promise that guides all of our activities. Nearly 25,000 people – most of whom live in growth centres – have already taken us up on that promise.

At the end of 2013, Hypo's balance sheet stood at more than €1.2 billion. We had a loan portfolio of €978 million and a deposit portfolio of €360 million. Hypo's own funds totalled €105 million. Our capital adequacy ratio, calculated according to the standard method, was 18 per cent, and non-performing receivables represented 0.10 per cent of our loan portfolio. No credit losses were recorded.

Hypo Group's core is the Mortgage Society of Finland, established in 1860, which is the oldest private credit institution in Finland with nationwide operations. The Group also includes Suomen AsuntoHypoPankki Oy. Hypo is a member of the Federation of Finnish Financial Services and a founding member of the federation of Nordic mortgage banks, Nordiska Realkredit Samrådet. In addition, Hypo is a member of the International Housing Finance Union and the Mortgage Banker's Association.

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

JULY

- Credit director Pekka Karttila retires after 31 years of service

AUGUST

- Hypo launches the MasterCard of the Association of Finnish Lawyers
- The Supervisory Board and its auditors convene for a meeting
- Annual meeting of the Nordic Mortgage Council
- Hypo publishes its interim report for 1 January 30 - June 2013
- Tom Lönnroth (M.Sc. Econ.) joins general banking as a credit director
- Sami Vallinkoski (M.Soc.Sc.) joins the Finance and administration unit as service and marketing director
- Housing companies under construction project Asunto Oy Helsingin Studio is completed
- Housing companies under construction project Asunto Oy Munkkivuoren Mäntyrinne, Helsinki, is completed

SEPTEMBER

- Hypo Housing Market Analysis Q3/2013 is published
- Hypo begins quarterly reporting
- Hypo organises the Credit Update event
- Hypo issues its seventh devebture loan in 2013
- Hypo meets Nordic investors in Copenhagen
- Petteri Bollmann joins the Finance and administration unit as a treasury and funding director
- Jarkko Perälä joins general banking as a home financing specialist

OCTOBER

- Pekka Kainulainen (M.Sc. Econ.) joins the Finance and administrative unit as chief accountant and controller
- Martina Lindholm (M.Sc. Econ.) joins private banking as home financing manager
- Elisa Sunikka and Petra Koistinen join general banking as mortgage loan specialists
- Hypo issues its eighth bond in 2013
- Shares in Housing companies under construction project Asunto Oy Helsingin Berliininpiha become available for sale
- Shares in the Housing companies under construction project Asunto Oy Helsingin Fenixinrinne become available for sale
- Housing companies under construction project Asunto Oy Vantaan Wiineri is completed

NOVEMBER

- The Group's credit liabilities and off-balance pledges of credit surpass the billion euro limit
- Hypo takes part in the Sijoitus Invest 2013 event
- Hypo publishes its interim report for 1 January–30 September 2013
- Kirsti Heikura (LL.M., trained on the bench) joins general banking as a lawyer
- Shares in Housing companies under construction project Asunto Oy Helsingin Suezinpuisto become available for sale
- Housing companies under construction project Asunto Oy Helsingin Saukonkanava is completed
- Housing companies under construction project As. Oy Vantaan Saunapolku is completed

DECEMBER

- Hypo organises the Credit Update event
- Hypo Housing Market Analysis Q4/2013 is published
- The subscription for Hypo Debenture 1/2013 begins
- Hypo issues its tenth bond in 2013
- Direct debiting of Hypo loans changes into e-invoices, direct payments or online invoices
- Eerika Koivisto (LL.M.) joins private banking as a banking lawyer
- Ahti Aalto joins the Finance and administration unit as an accountant
- Shares in Housing companies under construction project Asunto Oy Kirkkonummen Kaaripiha become available for sale
- Shares in Housing companies under construction project Asunto Oy Vantaan Luhtalemminki become available for sale
- Shares in Housing companies under construction project As. Oy Tampereen Härmälänrannan Lentolaituri become available for sale
- Shares in Housing companies under construction project Asunto Oy Helsingin Muinaisrannantie 3 become available for sale (2nd phase)
- Housing companies under construction project Asunto Oy Kirkkonummen Kaarisilta is completed
- Housing companies under construction project Asunto Oy Vantaan Kopparheikki is completed
- Housing companies under construction project Asunto Oy Espoon Rubiini is completed
- Housing companies under construction project Asunto Oy Espoon Soukanniemen Kimallus is completed

CEO's review

Hypo's journey continued favourably – loan portfolio at a billion euro

Last year marked a new milestone in Hypo's development. Matti Inha's 11 years as Hypo's managing director came to an end, and we set ourselves new goals to achieve as we move ahead toward Hypo's 160th anniversary on 24 October 2020.

Our goal is to surpass the billion euro mark in our loan portfolio. I can now happily report that we are very close to achieving this milestone as our loan portfolio increased to €978 million by the end of the year. The loan portfolio grew by €235 million in 2013, but non-performing loans remained at the very low level of 0.1 per cent.

Performance in 2013 was also successful in all other respects. Net interest income improved and amounted to €5.2 million. Cost-to-income ratio remained at the very satisfactory level of 57 per cent, whereas the capital adequacy ratio was at 18 per cent. Operating profit grew by 15 per cent in comparison to the year before, amounting to €6.0 million, in line with our target.

Throughout the year we focused on strengthening our organisation. We want to provide both our present customers and the continuously growing number of new customers with superior services. Our goal is to improve profitability at the same time as we respond to the marked increase in regulatory pressures. Hypo now employs 50 permanent, full-time home financing experts.

In terms of the housing market, 2013 marked a year of strong differentiation. Finland is urbanising very rapidly, and housing challenges concern all Finnish people. While housing property ownership in growth centres is increasing, so is the debt rate. Home prices have risen to the very limit of purchasing power because of the strong demand and short supply. The opposite is true in declining population centres, where the value of homes is gradually declining alongside the decline of the overall economy in these areas.

The year ahead will give an indication of the impact that urbanisation will have on the mortgage loan market. Industry operators are assessing their own market positions and strategies with very critical eyes. We will see alliances, mergers and specialisation as structures break down and competition increases. The changes are spurred on by increased regulation and the profitability requirements imposed on banks.

For homebuyers, urbanisation, housing challenges and the changes sweeping through the banking sector translate into insecurity and uncertainty. Buying a home means a transaction worth hundreds of thousands of euros; what customers need from their bank is insight and security.

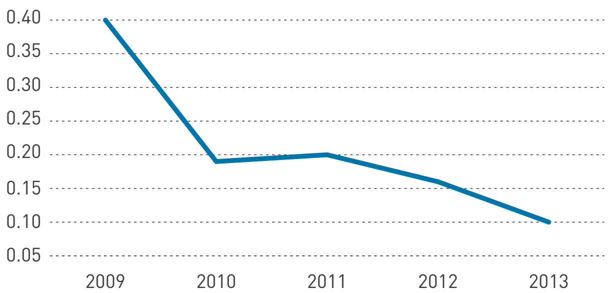
As a mortgage bank, Hypo represents a genuine alternative. This is because we can meet challenges in a secure way while managing the risks involved and without the forced concentration of financial affairs.

After working with our experts and making a housing property deal in the J. V. Snellman hall of the historic Hypo building, our customers often tell us they feel the unique combination of history and innovation. This is a great point from which to continue in 2014.

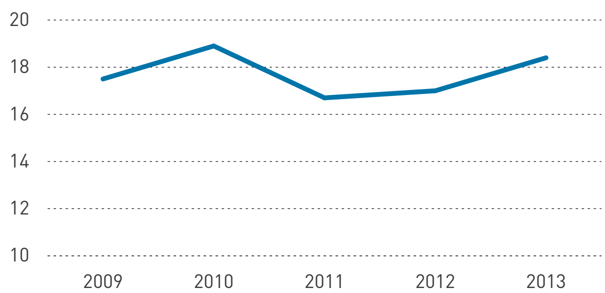
I would like to thank our entire personnel for their excellent performance and focus on growth and organising. I also want to thank Pekka Karttila – our long-time lawyer and Knight, First Class, of the Order of the Lion of Finland – for his work for the benefit of the Mortgage Society of Finland and its member customers during the course of more than a 30-year career with us. I wish him the most relaxing retirement days.

Helsinki, 28 February 2014
Ari Pauna, CEO

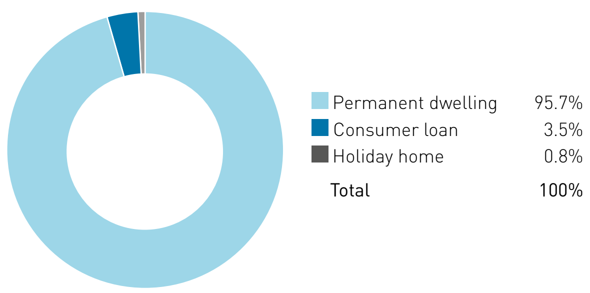
NON-PERFORMING RECEIVABLES, %



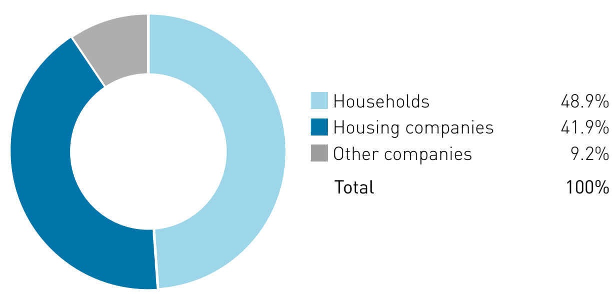
CAPITAL ADEQUACY, %



LOAN PORTFOLIO BY PURPOSE OF USE, %



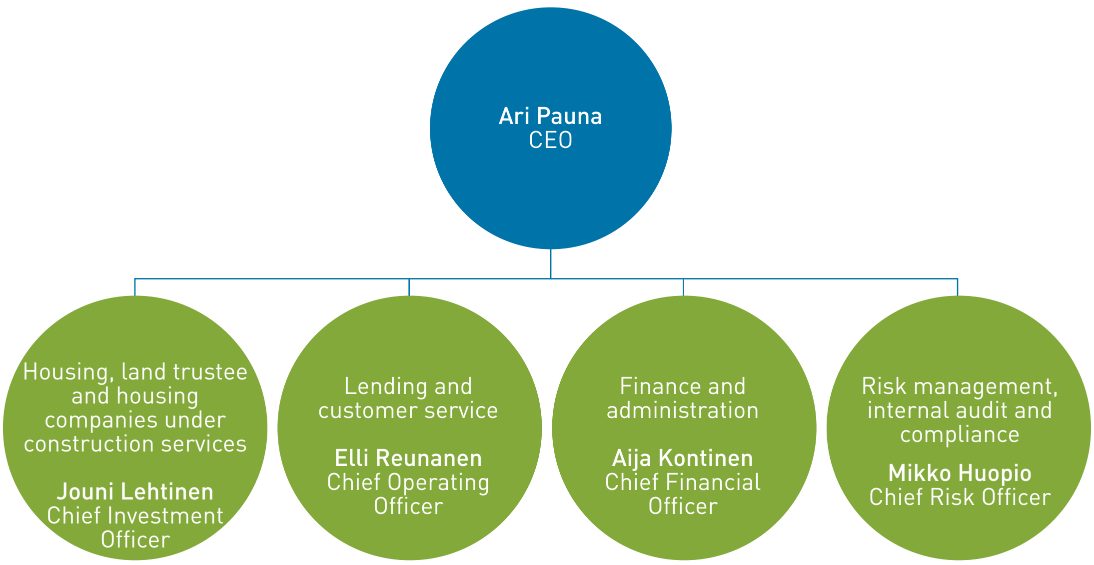
STRUCTURE OF THE LOAN PORTFOLIO, %



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	153 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/LTV ratio	No limit	Always required/max. 70%/in practice less than 60%	Always required/max. 60%–70%
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.

THE ORGANISATION OF THE MORTGAGE SOCIETY OF FINLAND AND SUOMEN ASUNTOHYPOPANKKI OY



Products and services

Lending and customer service

Hypo provides its customers with the full array of financial services necessary to finance housing. Our financing options allow us to support the individual needs of individual customers as well as housing companies and their shareholders.

Our team provides our customers with a positive and smooth customer experience. Their professional skills benefit every one of our customers.

Elli Reunanen
Chief Operating Officer

Hypo aims to be the preferred financier for home buyers, housing investors and housing companies in the metropolitan area

Hypo finances both home ownership and the maintenance and renovation of housing companies. We offer first-time homebuyers, home changers and housing investors with competitive mortgage loans and consumer loans against housing collateral. Hypo's reverse mortgage loans and transactions have become an established part of the Finnish mortgage loan market.

Our home financing professionals are often considered as some of the leading experts in the financial sector. They help our customers find secure way for better living. Responsible lending is one of the key factors that guide our operations. In our loan negotiations we evaluate the loan applicant's own finances and attempt to anticipate the changes in the interest markets together with the customer. We also take into account the expected costs of any future maintenance projects concerning the home to be purchased.

LENDING AND CUSTOMER SERVICE IN 2013

In 2013, we succeeded in increasing our housing loan portfolio at a rate that exceeded market growth. We also gained many new customers. We also reinforced our customer services with new home financing professionals. In addition, we also concentrated our phone services in our new telephone banking service Hypo OnLine. Our home financing experts now serve our customers in all matters related to their customer accounts on the number +358 9 228 361. This new service ensures that we are always able to respond to our customers' calls and contact requests quickly and that Hypo's customers are provided with first-class and personalised telephone service.

We also introduced the new Hypo MasterCards to the market. In addition to the cards of private customers, we offer the Hypo MasterCards to our partners, as co-branded cards that appear as their own brands.

LENDING AND CUSTOMER SERVICE IN 2014

The current year will see us continue to increase our market share as a financier for home changers and first-time homebuyers in the Helsinki Metropolitan Area and the Uusimaa region. The expertise offered by our top-notch home financing professionals provides great benefits to both first-time and veteran homebuyers.

Another goal is to increase the number of our housing company customers. We have reinforced our competence in housing companies and intend to increase cooperation with property management agencies in the Helsinki Metropolitan Area and the Uusimaa region.

Environmental and energy efficiency issues are among our chief concerns. We want to make our contribution to protecting the environment by supporting environmentally friendly reconstruction projects such as geothermal heat and window renovations by means of special financing terms. We also offer consumer loans against housing collateral on special terms if the credit is used to purchase an electric or hybrid vehicle.

Our consumer loans are available for both our mortgage loan customers and other customers with housing collateral that can be used against a consumer loan.

We will continue to improve our customer experience so that each and every one of our customers can always look forward to pleasant, skilled and people-oriented service. We want our customers to feel confident in recommending our services to other people in need of home financing.

HYPO'S CREDITS – SERVICE ALWAYS TAILORED FOR CUSTOMER NEEDS

THE 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 liquidity. 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. The Environmental Loan is suitable for renovating owner-occupied homes, investment apartments or holiday homes. Our Environmental Loan is now also available for financing the purchase of an electric or hybrid vehicle.

ASP ACCOUNT is a good traditional way of saving for a home and particularly commendable now that advance savings have again become a prerequisite for securing a home mortgage. An ASP saver is rewarded with a home savings bonus, in addition to which homebuyers relying on an ASP loan are entitled to free hedging against possible interest rate hikes and a state guarantee for their loan.

HYPO HOME-SECURED consumer loans offer flexible ways to finance the purchase of a car, a boat or a summer cottage, to name just a few examples.

The Lending and customer service management team is composed of Sami Aarnio (left), Kirsti Heikura, Eerika Koivisto, Tom Lönnroth, Sanna Schoultz and Elli Reunanen.

All Hypo loans ARE GRANTED AGAINST HOUSING OR RESIDENTIAL PROPERTY COLLATERAL. Possible additional collateral for mortgage loans include 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 mortgage loan customers, as well as their children and grandchildren on special terms.

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 LOANS WITHOUT CHANGING BANKS Hypo financing can be secured without the need to change the payment traffic bank – a significant benefit for housing companies making financing decisions. Hypo offers housing companies the widest selection of financing options on the market, based on owners' individual needs.

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

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

> "We want our customers to feel confident in recommending our services to other people in need of home financing.

HYPO SERVICES FOR EMPLOYERS offers employers the chance to secure the commitment of their employees with personnel loans and personnel cards issued via Hypo. Hypo has provided Finnish employers with personnel loans for several decades.

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

HYPO MASTERCARD is free of annual charges and offers a fair interest on credit. It is available to all of our mortgage loan customers with special terms. The Hypo MasterCard is also available for others, without a need to concentrate banking affairs.

HYPO MASTERCARD CO-BRANDING COOPERATION allows our partners to launch a MasterCard based on their own brand. Each co-branding card programme is fully tailored to suit the needs of the partner and its customers, members and employees. The card's appearance is in accordance with the partner's logo and look. The card may also function as a personnel ID.

Products and services

Housing, Land Trustee and Housing Companies Under Construction

Hypo's Housing, Land Trustee and Housing Companies Under Construction services unit develops and markets new and innovative forms of home financing and manages Hypo's own housing property assets. The skills of a specialised professional and close cooperation with major construction companies guarantee profitable growth.

Our special services related to land/plots – the land trustee services and Hypo Site – account for a substantial share of our growth.

Jouni Lehtinen
Chief Investment Officer

Photo: Jarle Nyttingnes

Continuing to achieve results in 2014

The operations of the Housing, Land Trustee and Housing Companies Under Construction unit focuses on special services related to financing and land. Hypo Site allows for the allocation of owner-specific costs over a long period of time. Hypo's land trustee services take care of the management and maintenance of residential plots that are invested in or owned by residential plot funds. In addition, the unit manages Hypo's own housing property assets and rental business.

THE UNIT'S OPERATIONS IN 2013

In 2013, we continued to implement the BokKlok concept in cooperation with Skanska and Ikea. This concept allows us to provide the housing market with reasonably-priced new homes. Late in the year we teamed up with NCC to introduce a concept for changing homes that enables safe deals without fear of being caught up in a two-home trap.

In 2013, Hypo Site enabled the implementation of new housing companies in the Helsinki Metropolitan Area, Lahti, Tampere and Jyväskylä. In Helsinki, for example, our new partner Helsingin Seurakuntayhtymä is having new sites built within the framework of Hypo Site in Viikki and Arabianranta.

THE UNIT IN 2014

Our goal is to produce significant growth with the help of Hypo Site products that allow us to support the building of new homes in growth centres.

Hypo Site offers help for the updating and management of municipalities' land lease agreements. In 2014, Hypo's plot trustee services will be run partly through a new subsidiary of Hypo Group. The relevant application for an operating licence will probably be submitted to the Financial Supervisory Authority in the summer of 2014.

HYPO'S INNOVATIVE SERVICES FOR NEW BUILDINGS

HYPO SITE is a solution for allocating housing companies' owner-specific land-related costs over a number of years. The owners can decide whether they want to purchase their share of a land all at once or in monthly instalments. The concept is available in our partners' new residential developments in the major growth centres in Finland.

HYPO'S LAND TRUSTEE SERVICES offer added value solutions for its partners such as construction companies, pension associations and the residential land funds they own, as well as to the housing companies built by construction companies and the residents of these housing companies.

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.

OUR HOUSING COMPANIES UNDER CONSTRUCTION BANKING SERVICES are available to our partners. Visit our website for more information on Housing companies under construction.

RENTAL FLAT SERVICES

Hypo owns more than 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.

The management group of the Housing, Land Trustee and Housing Companies Under Construction services unit is composed of Juho Pajari, Heidi Ketolainen and Jouni Lehtinen.

Products and services

Finance and administration

The Finance and Administration department manages the Group's funding with a comprehensive approach. Accounting and reporting constitutes the core of our operations. Our other key tasks involve ICT and office services, marketing and the development of distribution channels.

Aija Kontinen
Chief Financial Officer

Funding is one of the key tasks of Finance and administration

THE FINANCE AND ADMINISTRATION UNIT IN 2013

The key achievements of the Finance and administration unit in 2013 included the adoption of quarterly financial reporting and the commencement of bond issuances aimed at private customers. It is also worth mentioning that during the past year, we returned to the international bond markets, after a break that spanned nearly a century.

On the ICT front, we implemented the subscription system for Hypo retail bonds and an electronic desktop that facilitates the operations at the office. The year also saw us converting direct debiting loans to e-invoices, direct payments and online invoices.

The Finance and administration unit also reinforced its organisation in 2013. The unit's operations were divided into three independent functions. We also recruited experienced professionals to head each of these functions. The new functions are internal and external accounting, services and marketing as well as treasury and funding.

THE FINANCE AND ADMINISTRATION UNIT IN 2014

Internal and external accounting

We publish the financial reports of Hypo every quarter. In addition to the quarterly 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.

Services and marketing

Services and marketing is responsible for Hypo Group's ICT and office services, marketing, business development and cost management.

Our ICT and office services ensure business continuity and uninterrupted operations. They also support Hypo Group's business development. In terms of information technology, we focus on information security and the reliability of our banking services. To improve the customer experiences, we will also focus on the development of Hypo's online services in 2014. Our website and online banking service will be redesigned for added ease-of-use. We are also engaged in large-scale ICT development projects concerning our treasury and reporting systems.

Hypo Group's marketing is tasked with making potential customers familiar with Hypo and with increasing sales. In 2014, we will focus on increasing our media and online visibility. As has been the case during recent years, we will appear regularly in different media in our capacity as housing market experts. We will regularly introduce new and interesting views into home financing and the housing market via Hypo's Asuntoneuvola blog. Hypo's Asuntoneuvola blog is available at **asuntoneuvola.yritysblogi.fi**.

Treasury and funding

We ensure that the Group's liquidity 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.

One of our most important tasks is to sell the Group's deposit and retail bond products to our members and to new investors. In 2014, we will be able to provide our private customers with the safe and profitable Hypo bonds on a regular basis, in addition to the deposit products we offer.

Treasury and funding supports the work of the Group's management by providing the continuous financial monitoring information required for business control and by taking part in financial planning and liquidity management processes.

The management group of Finance and administration is made up of Sami Vallinkoski, Aija Kontinen, Petteri Bollmann and Pekka Kainulainen.

FUNDING PRODUCTS

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. Hypo Avista offers a good interest on savings that are nonetheless available at any time, without limits on withdrawals. Available for private individuals as well as housing companies.

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 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 young people saving up for a home of their own. The account holder can convert Hypo Teenager to an ASP account at the age of 18.

> ” Hypo's marketing is tasked with making potential customers familiar with Hypo and with increasing sales. In 2014, marketing will focus on increasing Hypo's media and online visibility.

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.

HYPO'S CERTIFICATES OF DEPOSITS AND BOND ISSUES 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 solid 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 DEPOSITS are available for investors with an investment need of at least €100,000 for no more than a year.

HYPO BONDS are issued within the current €600 million domestic MTN programme. The programme consists of separate investor-oriented issues for institutional investors and private individuals.

Independence ensures risk management

Hypo's risk management operations are responsible for ensuring that business risks are identified, assessed and anticipated, and that they are managed effectively as part of each business unit's daily activities.

Mikko Huopio
Chief Risk Officer

The nature of Hypo's business involves risk taking. In the credit process we assess whether a customer is able to meet the relevant obligations for the next 20 years. When making a deposit offer, we have to ensure that the competitive interest rate offered to the customer is in line with Hypo's own funding costs. Hypo's own investments and balance sheet management must account for the expected development of the global financial markets and analyse its potential negative effects on the sensibility of an investment and the general operating requirements of Hypo's business.

Hypo's risk management operations are charged with ensuring that business risks are identified, assessed and anticipated, and that they are managed effectively as part of each business unit's daily activities. Carrying out this assessment of risk-taking requires risk management to be independent. By independence we are referring to the function responsible for risk management planning and focusing its operations on the basis of risk assessments rather than daily business goals. Independence means that the person responsible for risk management does not make decisions pertaining to risk taking. Risk management evaluates the risk taking of businesses, develops risk management methods together with business units and reports on the level and results of risk management to Hypo's senior management.

Independence is also required when evaluating whether Hypo meets the requirements provided in currently valid legislation and official regulations. The banking sector has recently been subject to a marked increase of stricter regulations. This has led to a great number of new, partly supranational regulations and interpretations thereof. Their management requires a strong investment in the management of changes in the regulatory environment. Indeed, reports on forthcoming regulations provided to business units and making sure that business units observe both currently valid and future regulations in their operations are key tools when monitoring compliance.

The third independent function within Hypo is internal auditing. Its basic task is to produce the operative and senior management with impartial information on how well the business performs in internal control, whether the business is managed on the basis of reliable information and whether the business adheres to Hypo's own internal rules and operating principles. The internal auditing function carries out its tasks according to a predetermined audit plan, but performs various separate audits as well. Internal auditing reports to the Board of Directors.

The three segments described above are the responsibility of Hypo's risk management director. Managing this area of responsibility requires up-to-date information on the business situation and any changes in the operating environment. This is possible only through constant interaction with the business units and management, as well as clear communications. Independence, too, requires cooperation.

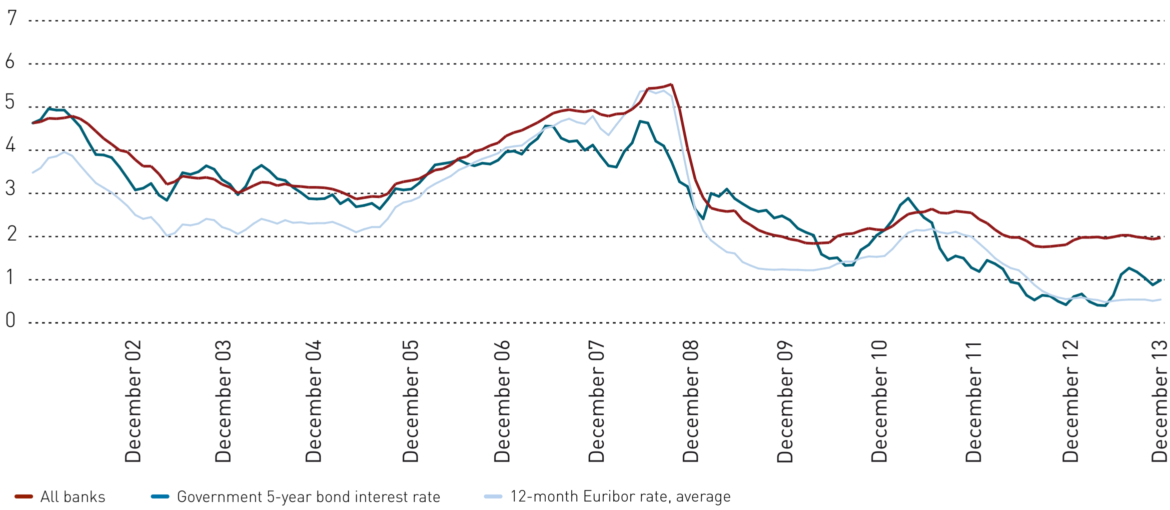
Financial statements 2013

Key figures 2013

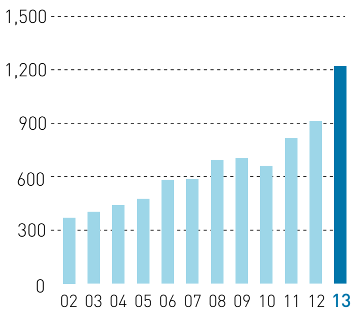
KEY FINANCIAL FIGURES FOR 2012–2013

€ million	2013	2012
Turnover	**27.1**	28.3
Operating profit/profit before appropriations and taxes	**6.0**	5.2
% of turnover/operating profit	**22.2**	18.4
Return on equity (ROE), %	**5.8**	5.2
Return on assets (ROA), %	**0.5**	0.5
Equity ratio, %	**7.2**	8.8
Capital adequacy, %	**18.4**	17.0
Own funds	**105.4**	79.2
Minimum requirement for own funds	**45.8**	37.3
Cost-to-income ratio, %	**57.4**	55.0
Average number of personnel	**36.0**	28.0
Salaries and remuneration	**2.9**	2.0
Balance sheet total	**1,219.6**	911.2

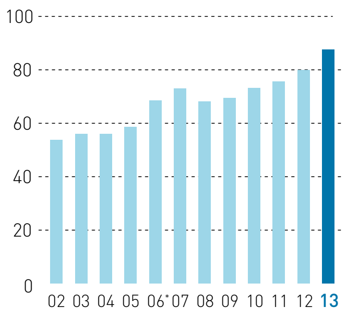
NEW MORTGAGE LOANS FROM BANKS FOR HOUSEHOLDS, AVERAGE INTEREST RATE 2002–2013, %



BALANCE SHEET TOTAL, € MILLION

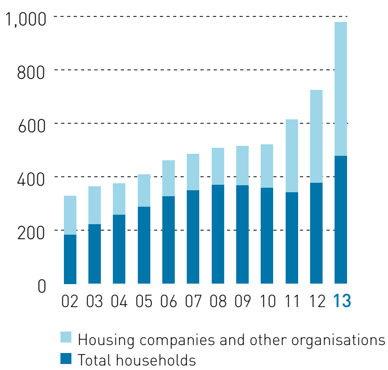


EQUITY, € MILLION



*) Since 2006, shareholders' equity is presented in accordance with IFRS.

STRUCTURE OF THE LOAN PORTFOLIO, € MILLION



Annual management report

THE MORTGAGE SOCIETY OF FINLAND GROUP

The Mortgage Society of Finland Group (hereinafter Hypo Group or the Group) is the only expert organisation specialising in home financing and housing in Finland. The Mortgage Society of Finland's (hereinafter Hypo) domicile and administrative headquarters are in Helsinki. While the operating area covers the entire country, operations focus on the Helsinki Metropolitan Area and the Uusimaa region. Hypo, the Group's parent company, is a mutual company governed by its member customers that carries out operations as referred to in the Act on Credit Institutions.

Hypo Group's consolidated financial statements cover the parent company Hypo, Suomen AsuntoHypoPankki, a subsidiary owned entirely by the parent company, and the housing property subsidiary Bostadsaktiebolaget Taos (hereinafter Taos), of which the parent company owns 59.4 per cent. 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 housing companies under construction system, which protects consumers under the Housing Transactions Act. AsuntoHypoPankki began offering investment services in 2013. It is covered by the Deposit Guarantee Fund and the Investors' Compensation Fund. Taos owns and manages the plot and property and rents out office premises from the property in which Hypo's customer service facilities are also located. 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).

THE GROUP'S STRATEGY AND GOALS

The Group aims at steady and profitable growth in its loan portfolio and customer relationships, while carefully managing risks. The Group's goal is to constantly complement its traditional home financing and housing products with new, alternative and customer-focused solutions. Profits are used to maintain a solid 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 Hypo Group's business goals, which are confirmed, entered onto scorecards and monitored annually.

OPERATING ENVIRONMENT

During the 153rd operating year of the Mortgage Society of Finland, both housing prices and rents increased. Euribor rates increased slightly during the year.

During 2013, the prices of apartments in older buildings increased by 0.7 per cent across the country. The increase in the Helsinki Metropolitan Area was 2.3 per cent, while prices elsewhere in Finland declined by 0.5 per cent. Rents for privately financed rental flats increased by 3.7 per cent during the year.

The 12-month Euribor rate, which is the most common reference rate for mortgage loans, remained on par with the previous year, increasing by a mere 0.01 per cent in comparison to the previous turn of the year. (Source: Prices of dwellings in housing companies, 28 January 2014, and Rents of dwellings, 7 February 2014, Statistics Finland. the 2013 interest rate statistics of the Bank of Finland.)

More than 70 per cent of new mortgage loans were tied to Euribor rates. The annual growth of the mortgage loan portfolio has been slowing down continuously for over a year, and was at 2.3 per cent in December (5.6 per cent in 2012). (Source: MFI balance sheet and interest rates, 31 January 2014, Bank of Finland.)

The annual change in the stock of household deposits in Finland (January 2013–December 2013) was –0.6 per cent (–0.3 per cent in January 2012–December 2012). The average interest rate of the stock of deposits in Finland stood at 0.47 per cent at the end of December 2013, having stood at 0.72 per cent during the corresponding period the year before. Hypo Prime, which functions as the reference rate for Hypo Avista deposits, remained unchanged – at 0.80 per cent – throughout 2013.

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 home 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

As a mortgage socipety, Hypo's loan portfolio is entirely secured by residential property. The average loan-to-value (LTV) ratio of Hypo's loan portfolio was 49.98 per cent on (51.03 per cent on 31 December 2012). The total amount of non-performing receivables, which describes the quality of the loan portfolio, remained low at €1.0 million (€1.2 million), representing only 0.10 per cent of the total loan portfolio.

At the end of the year, Hypo's loan portfolio was €977.9 million (€725.0 million). Compared to the end of 2012, the amount of undrawn loans issued during the financial year increased by €19.5 million. The majority of the lending and collateral is focused on growth centres and particularly the Helsinki Metropolitan Area. Borrowers consist primarily of households and housing companies or equivalent housing associations.

Liquidity

Hypo Group continued to maintain a strong liquidity position in 2013. Liquidity, including cash and cash equivalents in the cash flow statement and binding credit facilities, totalled €205.6 million (€141.9 million) at the end of the period under review. Slightly more than 52 per cent of cash and cash equivalents were invested in funds with a minimum rating of AA, distributed widely across various counterparties, and in debt securities that are tradable on the secondary market. Of the total liquidity, €161.1 million was available for unlimited use in liquidity management.

In addition to cash and 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 consist chiefly 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. As a result of sales, the Group's housing and residential plot holdings decreased to €46.1 million (€54.6 million). At the end of the financial period, the fair value of investment properties was €13.2 million (€13.3 million) higher than their book value. Property investments constituted 3.8 per cent (6.1 per cent) of the balance sheet total, which is clearly less than the 13 per cent 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 €6.2 million (€7.1 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. On 31 December 2013, the balance sheet value of receivables from derivatives was €0.0 million (€0.1 million) and that of liabilities from receivables was €3.0 million (€1.5 million).

Deposits and other funding

The Group's funding operations benefit from a high capital adequacy ratio and a strong liquidity position – both of 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 and bond funding was increased in comparison to the year before. The deposit and bond portfolio (including deposits by financial institutions) grew by 21.4 per cent to €374.7 million (€308.6 million), representing 33.8 per cent (38.1 per cent) of total funding.

Hypo's bond programme was updated to €600 million on 13 May 2013, and subsequently supplemented on two occasions to maintain issuance readiness. During the financial year, Hypo carried out nine bond issues with a total nominal capital of €353.2 million. These were used to refinance maturing bonds and other funding contracts. The issued bonds and certificates of deposit on 31 December 2013 amounted to €534.3 million (€298.9 million), representing 48.1 per cent (36.9 per cent) of total funding.

Hypo Group's acquisition of assets totalled €1,109.6 million (€810.4 million).

CHANGES IN EQUITY

Equity stood at €87.5 million at the end of the financial period (€79.8 million). The changes in equity are presented in more detail in the financial statements for 2013 under "Statement of changes in equity between 1 January and 31 December 2013".

The balance sheet of the parent company includes, in accordance with section 46 of the Business Income Tax Act, a general credit loss provision of €22.5 million after deferred tax liabilities (€18.0 million). In the consolidated financial statements, this provision is included in non-restricted equity under "Retained earnings".

HYPO GROUP'S RESULT, PROFITABILITY AND CAPITAL ADEQUACY RATIO

The Group's operating profit for the period 1 January –31 December 2013 was €6.0 million (€5.2 million for the period 1 January –31 December 2012).

During the financial period, returns of impairments exceeded those recognised, which means that no net impairment loss was recorded. Impairment gains totalled €0.02 million (€0.03 million of impairment losses).

Known as a financially sound Finnish credit institution and deposit bank operator, the Group had some 24,500 customers on 31 December 2013.

Income from fees and commissions totalled €2.7 million (€2.3 million), consisting of fees related to lending, trustee services and credit cards.

Net profits from investment properties (housing units and residential plots) amounted to €5.8 million (€6.1 million). This included €2.8 million of capital gains (€3.0 million).

KEY FINANCIAL INDICATORS 2009–2013

Total	IFRS 2009	IFRS 2010	IFRS 2011	IFRS 2012	**IFRS 2013**
Turnover, € million	30.8	23.1	26.8	28.3	**27.1**
Operating profit/profit before appropriations and taxes, € million	3.0	2.2	4.0	5.2	**6.0**
% of turnover/operating profit	9.8	9.7	14.9	18.4	**22.2**
Return on equity (ROE), %	3.1	2.3	4.5	5.2	**5.8**
Return on assets (ROA), %	0.3	0.2	0.4	0.5	**0.5**
Equity ratio, %	9.9	11.1	9.2	8.8	**7.2**
Capital adequacy, %	17.5	18.9	16.7	17.0	**18.4**
Capital adequacy, %, Tier I funds	15.8	17.3	15.4	15.9	**14.0**
Own funds, € million	69.5	71.6	75.0	79.2	**105.4**
Total Tier I funds	62.6	65.5	69.3	73.8	**80.4**
Minimum requirement for own funds, € million	31.4	30.3	36.0	37.2	**45.8**
Cost-to-income ratio, %	60.4	71.0	61.9	55.0	**57.4**
Average number of personnel *	24	27	29	28	**36**
Salaries and remuneration, € million	1.7	1.5	2.1	2.0	**2.9**
Non-performing receivables, % of loan portfolio	0.40	0.19	0.20	0.16	**0.10**
Loan-to-value ratio (average LTV), %	-	57.9	57.8	51.0	**50.0**
Deposits/loans, %	22.5	25.1	37.1	42.6	**36.8**
Receivables from the public and public entities	515.0	520.4	615.0	725.0	**977.9**
Deposits (incl. deposits of financial institutions)	115.8	130.5	228.3	308.6	**359.7**
Balance sheet total, € million	703.4	660.8	818.0	911.2	**1,219.6**

* Including employees in permanent and fixed-term employment relationships, but excluding the managing director and the managing director's deputy.

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

Administrative costs totalled €7.3 million (€6.1 million). Salaries and indirect employee costs increased by €0.9 million when compared to the previous year, constituting 58.2 per cent of total administrative costs (55.4 per cent). Other administrative costs totalled €3.1 million (€2.7 million).

Depreciation amounted to €0.3 million (€0.2 million), consisting mainly of items related to the deposit system. Other operating expenses totalled €0.5 million (€0.4 million).

The Group's cost-to-income ratio was 57.4 per cent (55.0 per cent).

The Group's profit for the financial period was €4.9 million (€4.1 million). The Group's comprehensive income, €7.7 million (€4.2 million) includes, in addition to the profit for the period, 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 positions of Hypo and Hypo Group have not undergone significant changes since the end of the 2013 financial period.

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.

ESTIMATE OF PROBABLE FUTURE DEVELOPMENTS

Although there are signs of cautious optimism in the general economic situation, growth is expected to remain slow in 2014. Economic cycles and interest rate levels are not expected to bring about substantial changes in the housing market situation. We are very confident that Hypo, as a specialist in home financing, is in a good position to continue the profitable growth of its business in 2014 while managing risks. We estimate the results for 2014 to increase in comparison to the results in 2013.

BOARD'S PROPOSAL CONCERNING THE DISPOSAL OF PROFITS

According to section 21 of the rules of the Mortgage Society of Finland, at least 80 per cent 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 8 per cent. If the capital adequacy ratio is at least 8 per cent but less than 9 per cent, at least 70 per cent of annual profits must be transferred to a contingency or reserve fund. If the ratio is at least 9 per cent, at least 50 per cent of annual profits must be transferred to a contingency or reserve fund.

The Board of Directors proposes that €3,389.47 of Hypo's result for 2013, which was €6,778.94, be transferred to the reserve fund and the rest remain unused.

DEFINITIONS OF KEY INDICATORS

Indicator	Definition	
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

RISK MANAGEMENT STRATEGIES AND PRACTICES

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 key business areas comprise lending against housing collateral, deposits from the public, the renting of homes and residential properties, the provision of trustee services in selected services and selected investment services. The Group does not offer payment transaction services.

A more detailed description of the Group's risk management policy can be found in the notes to the financial statements.

GOVERNANCE AND SUPERVISION SYSTEMS

Hypo's operations are governed by general laws and regulations concerning 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. Although Hypo is not a listed company, it issues bonds that are traded publicly. For this reason, it must comply with many of the regulations concerning listed companies. Hypo adheres to the Finnish Corporate Governance Code of the Securities Market Association with certain exceptions. Statements on the administration and governance systems of the Mortgage Society of Finland, as well as on its internal auditing and risk management systems related to financial reporting, have been published on the Society's website (http://www.hypo.fi/johtaminen_ja_hallinnointi) in conjunction with this annual report.

PERSONNEL, INCENTIVES, COMPETENCE DEVELOPMENT AND PENSION LIABILITIES

The average number of permanent employees was 35 (27) during the financial year. At the end of the financial period, permanent employees numbered 44 (30). These figures do not include the managing director and his deputy. The average number of fixed-term employees during the year was 1 (1). At the end of the financial year, employees with a fixed-term employment contract numbered 3 (1). All employment contracts were full-time contracts.

The number of new personnel hired during the financial period was 16; three employment relationships ended. The Group continued its cooperation with Helmi Business College by offering internships to students pursuing a diploma in business and administration.

Of the Group's personnel, about 71 per cent work in direct customer service duties and 29 per cent in administration. The average age of employees is 43.6 years. At the end of the year, the youngest employee was 24 years of age and the oldest was 61. The average length of an employment relationship is 6 years. Of all employees, 56 per cent are women and 44 per cent are men. Two of the five members of the Management Group are women and three are men. Of the Group's employees, 36 per cent hold a degree of higher education; 64 per cent have graduated from a university of applied sciences (polytechnic) or have completed upper secondary education. Regarding women, 24 per cent hold a degree of higher education degree; 76 per cent have graduated from a university of applied sciences (polytechnic) or have completed upper secondary education. Regarding men, the proportions are 50 and 50 per cent, respectively.

All permanent employees are included in the Group's incentive and commitment scheme. The incentive scheme considers the success of the company and business area as well as personal performance. The scheme enables employees to earn a discretionary reward that, at maximum, can equal 16 weeks' pay. The Board of Directors decides on rewards for employees and middle management on the proposal of the CEO. Decisions about rewards for the CEO and his deputy are made by Hypo's Compensation Committee at the proposal of the Board of Directors. The scheme also takes into account the contents of a decree issued by Ministry of Finance, particularly insofar as it applies to the remuneration of senior management.

Incentives are paid partly in cash and partly as insurance premiums to the defined contribution-based Department M of Hypo's pension foundation. Department M provides both Hypo and its personnel with an incentive and special opportunity to increase the personnel's pension security. Due to cautionary reasons, the part paid in cash is remitted with a delay.

The amount of personnel grew during the financial period with a number of specialised professionals. The recruitments represented Hypo's response to the needs arising from increased business and the changes taking place in its operating environment. In line with its HR policy, Hypo is a learning, efficient and profitable organisation. The continuous development of its people's competence, as well as management and the work community, is an integral part of the 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.

The determined fostering of competence throughout the organisation has laid a solid foundation not only for business growth but product-specific specialisation in the organisation of work. This has allowed the Group to ensure that each Hypo employee's best competence is utilised in work with customers. All of our customer service employees have completed their licensed housing property broker diplomas (LKV), and all new employees hired during the financial period 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 Elo 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 4 employees. Through Department M, the pension foundation covers a total of 66 people.

Helsinki, 27 February 2014

Board of Directors

CONSOLIDATED INCOME STATEMENT 1 JANUARY 2013–31 DECEMBER 2013, IFRS

€ 1,000	Note	1 January–31 December 2013	Adjusted 1 January–1 December 2012
Interest income	1	17,663.2	19,245.8
Interest expenses	1	−12,373.0	−15,793.8
NET INTEREST INCOME		5,290.2	3,452.0
Income from equity investments			
From other companies		98.0	65.5
Fee income	3	2,747.6	2,266.9
Fee expenses	3	−24.2	−19.5
Net income from currency operations and securities trading			
Net income from currency operations	4	−1.7	1.1
Net income from available-for-sale financial assets	5	103.6	16.4
Net income from investment properties	6	5,825.4	6,123.5
Other operating income	7	8.5	40.2
Administrative expenses			
Personnel expenses			
Salaries and remuneration		−3,329.2	−2,587.1
Indirect personnel expenses			
Pension expenses		−824.9	−680.7
Other indirect personnel expenses		−99.7	−125.7
Other administrative expenses		−3,060.9	−2,734.3
Total administrative expenses		−7,314.7	−6,127.7
Depreciation and impairment losses on tangible and intangible assets	9	−261.4	−207.9
Other operating expenses	8	−484.3	−359.6
Impairment losses on loans and other commitments	10	19.1	−29.7
OPERATING PROFIT		6,006.1	5,221.2
Income taxes	11	−1.116.5	−1,129.1
PROFIT FROM OPERATIONS AFTER TAXES		4,889.7	4,092.1
PROFIT FOR THE PERIOD		4,889.7	4,092.1

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT 1 JANUARY 2013–31 DECEMBER 2013, IFRS

€ 1,000	Note	1 January–31 December 2013	Adjusted 1 January–1 December 2012
Profit for the period		4,889.7	4,092.1
Other comprehensive income			
Items that may in the future be recognised through profit or loss			
Change in fair value reserve			
Hedging of cash flows		700.0	999.1
Financial assets available for sale		−110.3	164.2
		589.7	1,163.3
Changes in the corporate tax rate			
Deferred tax on credit loss provisions		1,074.7	0.0
Deferred tax on revaluation reserve		409.7	0.0
IAS deferred tax on the pension foundation		275.1	0.0
Effect of change in holding of Bostads Ab Taos		0.0	−237.7
		1,759.5	−237.7
Items that may not be included in the income statement later			
Revaluation of defined benefit pension plans		488.0	−776.1
Total other comprehensive income		2,837.2	149.4
COMPREHENSIVE INCOME FOR THE PERIOD		7,726.9	4,241.5

CONSOLIDATED BALANCE SHEET 31 DECEMBER 2013, IFRS

€ 1,000	Note	1 January–31 December 2013	Adjusted 1 January–1 December 2012
ASSETS			
Liquid assets	13,14,32	560.0	0.0
Debt securities eligible for refinancing with central banks			
Treasury bills	14, 15, 30, 31	10,029.5	0.00
Other	14, 15, 30, 31, 32	109,193.2	106,385.1
		119,222.7	106,385.1
Receivables from credit institutions			
Repayable on demand	14, 15, 30, 31, 32	16,932.4	7,689.4
Other	14, 15, 30, 31, 32	43,915.0	3,019.0
		60,847.4	10,708.4
Receivables from the public and public entities			
Other than those repayable on demand	16, 30, 31, 32	977,893.5	725,046.2
Debt securities			
From public entities	17, 30, 31, 32	0.0	0.0
From others	17, 30, 31, 32	1,999.4	1,300.0
		1,999.4	1,300.0
Shares and holdings	18, 31, 32	113.4	113.4
Derivative contracts	19, 31, 32	0.0	90.5
Intangible assets			
Other long-term expenditure	20.22	739.1	338.6
Tangible assets			
Investment properties and shares and holdings in investment properties	21.22	46,068.6	54,616.9
Other properties and shares and holdings in housing property corporations		828.3	834.2
Other tangible assets	21.22	298.8	256.4
		47,195.7	55,707.5
Other assets	23	7,518.0	7,534.6
Deferred income and advances paid	24	2,740.6	2,768.3
Deferred tax receivables	25	765.4	1,210.3
TOTAL ASSETS		1,219,595.1	911,203.0
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities to credit institutions			
To central banks		40,000.0	40,000.0
To credit institutions			
Repayable on demand		27,749.5	19,034.2
Other than those repayable on demand	30, 31, 32	123,347.0	128,255.5
		191,096.5	187,289.7
Liabilities to the public and public entities			
Deposits			
Repayable on demand	30, 31, 32	182,996.3	148,547.6
Other than those repayable on demand	30, 31, 32	132,226.4	119,980.0
		315,222.7	268,527.6
Other liabilities			
Other than those repayable on demand	30, 31, 32	47,241.4	54,989.1
		362,464.1	323,516.7
Debt securities issued to the public			
Bonds	25, 30, 31, 32	417,847.3	198,087.9
Other	25, 30, 31, 32	116,404.0	100,782.7
		534,251.3	298,870.7
Derivative contracts	31, 32, 33	3,035.5	1,533.9
Other liabilities			
Other liabilities	27	7,184.9	5,725.7
Deferred expenses and advances received	28	4,490.9	4,953.6
Subordinated liabilities			
Other	29, 30, 31, 32	21,834.7	680.0
Deferred tax liabilities	25	7,744.3	8,866.6
EQUITY			
Basic capital	35	5,000.0	5,000.0
Other restricted reserves			
Reserve fund		22,790.4	22,789.4
Fair value reserve			
From cash flow hedging		–2,964.1	–3,664.1
From valuation at fair value		104.3	214.6
Defined benefit pension plans			
Actuarial gains/losses		488.0	0.0
Unrestricted reserves			
Other reserves		22,923.5	22,923.5
Retained earnings		34,261.1	28,410.5
Profit for the period		4,889.7	4,092.1
		87,492.9	79,766.0
TOTAL LIABILITIES AND EQUITY		1,219,595.1	911,203.0

CHANGE IN EQUITY 1 JANUARY 2013–31 DECEMBER 2013

€ 1,000	Basic capital	Revaluation reserve	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
Equity 1 Jan 2012	5,000.0	0.0	22,789.8	–4,612.8	22,923.5	29,433.6	75,534.1
Adjustment caused by a change in accounting principles	0.0	0.0	0.0	0.0	0.0	–776.1	–776.1
Adjusted equity 1 January 2012	**5,000.0**	**0.0**	**22,789.8**	**–4,612.8**	**22,923.5**	**29,433.6**	**74,758.0**
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							
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
Investment properties, revaluation reserve							
Amount transferred to retained earnings							
Change in deferred taxes							
Total other comprehensive income	0.0	0.0	–0.4	1,163.3	0.0	–237.3	925.6
Equity 31 Dec 2012	**5,000.0**	**0.0**	**22,789.4**	**–3,449.5**	**22,923.5**	**33,278.7**	**79,766.0**

€ 1,000	Basic capital	Revaluation reserve	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
Equity 1 Jan 2013	5,000.0	0.0	22,789.4	–3,449.5	22,923.5	32,502.6	79,766.0
Profit for the period						4,889.7	4,889.7
Other comprehensive income							
The impact of the change in the tax rate on							
deferred taxes on items included in retained earnings						1,759.5	1,759.5
Distribution of profits			1.0			–1.0	0.0
Hedging of cash flow							
Amount recognised in equity				1.0			1.0
Amount transferred to the income statement				1,147.0			1,147.0
Change in deferred taxes				–448.0			–448.0
Financial assets available for sale							
Change in fair value				–50.3			–50.3
Amount transferred to the income statement				–103.6			–103.6
Change in deferred taxes				43.6			43.6
Defined benefit pension plans							
Actuarial gains/losses				610.0			610.0
Change in deferred taxes				–122.0			–122.0
Investment properties, revaluation reserve							
Amount transferred to retained earnings		0.0				0.0	0.0
Change in deferred taxes		0.0				0.0	0.0
Total other comprehensive income	0.0	0.0	1.0	1,077.7	0.0	1,758.5	2,837.2
Equity 31 Dec 2013	**5,000.0**	**0.0**	**22,790.4**	**–2,371.8**	**22,923.5**	**39,926.9**	**87,492.9**

CONSOLIDATED CASH FLOW STATEMENT 1 JANUARY 2013–31 DECEMBER 2013

€ 1,000	1 January–31 December 2013	1 January–31 December 2012
Cash flow from operating activities		
Interest received	17,051.7	19,922.8
Interest paid	–13,146.9	–16,195.2
Fee income	2,712.4	2,251.5
Fee expenses	–24.2	–19.5
Net income from currency operations	–1.7	1.1
Net income from available-for-sale financial assets	103.6	16.4
Net income from investment properties	5,666.4	6,346.1
Other operating income	8.5	40.2
Administrative expenses	–6,925.4	–6,635.6
Other operating expenses	–583.5	–447.9
Credit and guarantee losses	19.1	–29.7
Income taxes	–145.9	–1.115.5
Total net cash flow from operating activities	4,734.1	4,134.7
Operating assets increase (-) / decrease (+)		
Receivables from customers (lending)	–250,828.1	–108,776.2
Investment properties	8,966.6	12,144.5
Operating assets increase (-) / decrease (+) total	–241,861.4	–96,631.7
Operating liabilities increase (+) / decrease (-)		
Liabilities to the public and public sector organisations (deposits)	46,695.1	69,883.6
Operating liabilities increase (+) / decrease (-) total	46,695.1	69,883.6
NET CASH FLOWS ACCRUED FROM OPERATING ACTIVITIES	–190,432.3	–22,613.4
Cash flows from investments		
Change in fixed assets	–698.3	–13.6
Equity investments increase (-) / decrease (+)	0.0	–0.6
Dividends received	98.0	65.5
Net income from equity investments	0.0	0.0
NET CASH FLOWS ACCRUED FROM INVESTMENTS	–600.3	51.2
Cash flows from financing		
Bank loans, new withdrawals	164,031.7	160,302.1
Bank loans, repayments	–160,224.9	–152,201.3
Other liabilities increase (+) / decrease (-)	–7,813.6	–10,252.0
Bonds, new issues	358,465.8	91,497.3
Bonds, repayments	–135,966.4	–98,479.3
Certificates of deposit, new issues	255,952.2	194,016.5
Certificates of deposit, repayments	–240,330.9	–165,608.9
Subordinated liabilities, new withdrawals	21,501.1	0.0
Subordinated liabilities, repayments	–346.5	–340.0
NET CASH FLOWS ACCRUED FROM FINANCING	255,268.6	18,934.5
NET CHANGE IN CASH AND CASH EQUIVALENTS	64,236.1	–3,627.7
Cash and cash equivalents at the beginning of the period	118,393.5	122,021.2
Cash and cash equivalents at the end of the period	182,629.5	118,393.5
CHANGE IN CASH AND CASH EQUIVALENTS	64,236.1	–3,627.7

GROUP'S DEVELOPMENT PER QUARTER

€ 1,000	10–12/2013	7–9/2013	4–6/2013	1–3/2013	10–12/2012
Interest income	5,163.0	4,314.4	4,277.2	3,908.6	4,259.5
Interest expenses	–3,189.5	–3,124.1	–2,960.4	–3,099.0	–3,254.2
NET INTEREST INCOME	1,973.5	1,190.3	1,316.7	809.6	**1,005.3**
Income from equity investments					
From other companies	28.0	0.0	70.0	0.0	65.5
Fee income	698.6	690.5	768.8	589.6	654.5
Fee expenses	–4.1	–9.8	–6.7	–3.7	–7.2
Net income from currency operations and securities trading					
Net income from currency operations	–0.6	0.3	–1.3	–0.1	–1.2
Net income from available-for-sale financial assets	90.0	–3.3	16.9	0.0	9.1
Net income from investment properties	1,645.2	1,624.7	1,915.5	640.0	3,046.2
Other operating income	–15.8	4.2	14.7	5.4	–7.6
Administrative expenses					
Personnel expenses					
Salaries and remuneration	–1,152.2	–714.2	–702.8	–759.9	–861.8
Indirect personnel expenses					
Pension expenses	–438.4	–123.4	–140.5	–122.6	–269.9
Other indirect personnel expenses	–38.7	–19.6	–19.6	–21.8	–21.1
Other administrative expenses	–878.0	–755.4	–870.9	–556.6	–1,065.9
Total administrative expenses	–2,507.4	–1,612.6	–1,733.8	–1,460.9	–2,218.7
Depreciation and impairment losses on tangible and intangible assets	–77.3	–66.4	–62.7	–55.0	–65.8
Other operating expenses	–130.7	–93.2	–195.1	–65.3	–139.7
Impairment losses on loans and other commitments	–9.2	–1.7	17.9	12.2	–33.1
OPERATING PROFIT	1,690.3	1,723.1	2,121.0	471.8	**2,307.1**
Income taxes	–220.6	–358.7	–454.9	–82.3	–468.0
PROFIT FROM OPERATIONS AFTER TAXES	1,469.7	1,364.4	1,666.1	389.4	**1,839.1**
PROFIT FOR THE PERIOD	1,469.7	1,364.4	1,666.1	389.4	**1,839.1**

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT, IFRS

€ 1,000	10–12/2013	7–9/2013	4–6/2013	1–3/2013	10–12/2012
Profit for the period	1,469.7	1,364.4	1,666.1	389.4	1,839.1
Items that may be included in the income statement later					
Reservation of profits for the public good and other adjustments	0.0	0.0	0.0	0.0	0.0
Change in fair value reserve					
Hedging of cash flows	–237.0	756.6	8.6	171.8	876.3
Financial assets available for sale	–149.0	96.2	–25.0	–32.6	–59.6
	–385.9	852.8	–16.4	139.2	816.7
Changes in the corporate tax rate					
Deferred tax on credit loss provisions	1,074.7	0.0	0.0	0.0	0.0
Deferred tax on revaluation reserve	409.7	0.0	0.0	0.0	0.0
IAS deferred tax on the pension foundation	275.1	0.0	0.0	0.0	0.0
Effect of change in holding of Bostads Ab Taos	0.0	0.0	0.0	0.0	–237.7
	1,759.5	0.0	0.0	0.0	–237.7
Items that may not be included in the income statement later					
Revaluation of defined benefit pension plans	589.9	–101.9	0.0	0.0	–350.3
Total other comprehensive income	1,963.5	750.9	–16.4	139.2	228.7
COMPREHENSIVE INCOME FOR THE PERIOD	3,433.2	2,115.3	1,649.7	528.6	**2,067.8**

Accounting policies

GENERAL INFORMATION

The Mortgage Society of Finland 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, operates in deposit banking and offers its customers deposit accounts and credit cards in addition to trustee services related to retail banking. Its operations are monitored by the Financial Supervisory Authority.

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 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

The new IAS 19 standard Employee Benefits took effect as of 1 January 2013. The change means that actuarial gains and losses can no longer be applied as part of the 'corridor' or immediately through profit or loss. Rather, they must be recognised in comprehensive income. The discount rate for profit from investment funds and pension obligations must be equal. The change's effect on the comparative figures is shown in the table below.

The change in IAS 1 standard Presentation of Financial Statements applies to the presentation of other comprehensive income. Items to be recognised through profit or loss later must be presented separately from those which will never be recognised through profit or loss. The change will not have an effect on the actual content of other comprehensive income.

The change concerning the netting of assets and liabilities in IFRS 7 Financial Instruments: Disclosures includes new requirements pertaining to notes, due to which the Group has added note 33.

The new standards and interpretations which have not yet been adopted, but which may have an effect on the Group's future financial statements are:

- IFRS 9 Financial Instruments
- IFRS 10 Consolidated Financial Statements
- IFRS 12 Disclosure of Interests in Other Entities
- IAS 32 Financial Instruments: Presentation
- IAS 39 Financial Instruments: Recognition and Measurement

TOTAL

Hypo Group's consolidated financial statements cover the Mortgage Society of Finland (hereinafter Hypo) as well as Suomen AsuntoHypoPankki Oy, of which the Group owns 100 per cent, and Bostadsaktiebolaget Taos (hereinafter Taos), of which the Group owns 59.4 per cent. 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 per cent) 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.

Effect of IAS 19 standard	New accounting policy	Earlier accounting policy	Change
Balance sheet 1 January 2012			
Assets (-)/liabilities (+) recognised in the balance sheet	–6,903	–7,655	–752
Deferred tax liabilities	1,381	1,531	150
Result of previous periods	–5,523	–6,124	–602
Balance sheet 31 December 2012			
Assets (-)/liabilities (+) recognised in the balance sheet	–6,118	–7,146	–1,028
Deferred tax liabilities	1,224	1,429	205
Result of previous periods	–4,894	–5,717	–823
Income statement 2012			
Personnel expenses, net	–258	–246	13
Tax expenses	52	49	–3
Change in result	–207	–196	10

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) that are classified under "Financial assets available for sale", are 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. Debt securities held until maturity are recognised at the amortised acquisition cost. 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 per cent. 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 the start-up costs related to MasterCard 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

Investment properties

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 housing property companies refer to the part of the property that is used by the Group.

New developments related to potential 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 investments. At the time of the 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 investment properties 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 the residential plots it owns. Once a year, the housing company has the opportunity to purchase plot shares if the customers 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 accordance with the new IAS 19 standard that took effect on 1 January 2013, actuarial gains and losses are recognised in other comprehensive income for the period during which they arise. Any surplus returned by the pension foundation to the parent company will not affect the 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 recognised as a defined contribution pension plan. 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 CONSOLIDATED INCOME STATEMENT 1 JANUARY 2013–31 DECEMBER 2013

€ 1,000

1 BREAKDOWN OF INTEREST INCOME AND EXPENSES BY BALANCE SHEET ITEM

	2013	2012
Receivables valued at allocated acquisition cost		
Receivables from credit institutions	24.0	31.8
Receivables from the public and public entities	16,162.6	16,889.8
Total	16,186.6	16,921.6
Debt securities	1,254.2	1,956.3
Other interest income	222.4	367.9
Total interest income	17,663.2	19,245.8
Liabilities valued at allocated acquisition cost		
Liabilities to credit institutions	–2,203.6	–2,838.8
Liabilities to the public and public entities	–3,302.7	–5,102.5
Debt securities issued to the public	–5,494.3	–5,987.7
Subordinated liabilities	–225.4	–22.5
Total	–11,226.0	–13,951.5
Derivative contracts	–1,147.0	–1,841.8
Other interest expenses	0.0	–0.5
Total interest expenses	–12,373.0	–15,793.8

2 INCOME FROM EQUITY INVESTMENTS

	2013	2012
From available-for-sale financial assets	98.0	65.5

3 FEE INCOME AND EXPENSES

	2013	2012
From lending and deposits	1,435.8	917.5
From legal assignments	132.5	142.2
From residential property trustee service	673.5	641.5
From other operations	505.9	565.9
Total fee income	2,747.6	2,266.9
Other fee expenses	–24.2	–19.5
Total fee expenses	–24.2	–19.5

4 NET INCOME FROM CURRENCY OPERATIONS AND SECURITIES TRADING

	2013	2012
Net income from securities trading	0.0	0.0
Net income from currency operations	–1.7	1.1
Total	–1.7	1.1

5 NET INCOME FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2013	2012
Capital gains from debt securities	103.6	16.4
Sales gains from shares and fund units	0.0	0.0
	103.6	16.4

6 NET INCOME FROM INVESTMENT PROPERTIES

	2013	2012
Rental income	3,338.3	3,770.0
Capital gains (losses)	2,816.9	2,973.7
Other income	407.5	302.3
Maintenance charges and other maintenance costs paid		
From investment properties that have accrued rental income during the period	–654.5	–820.2
From investment properties that did not accrue rental income during the period	0.0	–12.5
Other expenses	–48.6	–38.9
Impairment losses	0.0	0.0
Depreciation according to plan	–34.3	–50.9
Total	5,825.4	6,123.5

7 OTHER OPERATING INCOME

	2013	2012
Rental income, property assets in own use	0.0	0.0
Other income	8.5	40.2
Total	8.5	40.2

8 OTHER OPERATING EXPENSES

	2013	2012
Rental expenses	**–56.9**	–58.7
Expenses from properties in own use	**–57.9**	–38.9
Other expenses	**–369.5**	–262.0
Total	**–484.3**	–359.6

9 DEPRECIATION AND IMPAIRMENT LOSSES ON TANGIBLE AND INTANGIBLE ASSETS

	2013	2012
Depreciation according to plan	**–261.4**	–207.9

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

	2013	2012
On receivables from the public and public entities		
Agreement-specific impairment losses	**–39.8**	–67.2
Deductions	**59.0**	37.5
Total	**19.1**	–29.7

11 INCOME TAXES

	2013	2012
Breakdown of taxes in the income statement		
Tax expense based on taxable income for the financial period	**–563.0**	–338.8
Change in deferred taxes	**–555.7**	–792.7
Taxes from previous periods	**2.2**	2.4
Taxes in the income statement	**–1.116.5**	–1,129.1

Reconciliation of taxes		
Profit before taxes	**6,006.1**	5,221.2
Tax-free income	**–937.9**	–436.5
Non-deductible expenses	**27.9**	27.2
Recognition of previously unrecorded tax losses	**–19.9**	–12.3
Total	**5,076.2**	4,799.6
Taxes calculated using the tax rate of 24.5%	**–1,243.7**	–1,175.9
Taxes from previous periods	**2.2**	2.4
Other items	**125.0**	44.4
Taxes in the income statement	**–1.116.5**	–1,129.1

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 and MasterCard charge cards issued and granted by card partners and services provided to a company outside the Group.

2013	Combined amount of income	Operating profit	Total assets	Total liabilities	Personnel
Lending and deposits and other housing products and services	**13,364.8**	**5,742.4**	**1,219,486.6**	**1,132,102.2**	**38**
Other operations	**608.8**	**263.7**	**108.5**	**0.0**	**0**
	13,973.6	**6,006.1**	**1,219,595.1**	**1,132,102.2**	**38**

2012	Combined amount of income	Operating profit	Total assets	Total liabilities	Personnel
Lending and deposits and other housing products and services	10,992.1	5,005.0	911,094.5	831,688.8	30
Other operations	664.7	216.3	108.5	0.0	0
	11,656.8	5,221.2	911,203.0	831,688.8	30

NOTES TO THE CONSOLIDATED BALANCE SHEET 31 DECEMBER 2013

€1,000

13 LIQUID ASSETS

	2013	2012
Cash	560.0	0.0

14 CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT

	2013 balance sheet value	2012 balance sheet value
Liquid assets	560.0	0.0
Debt securities eligible for refinancing with central banks	119,222.7	106,385.1
Receivables from credit institutions	60,847.4	10,708.4
Debt securities	1,999.4	1,300.0
	182,629.5	118,393.5

15 RECEIVABLES FROM CREDIT INSTITUTIONS (LOANS AND OTHER RECEIVABLES)

	2013			2012		
	Repayable on demand	Other than those repayable on demand	Total	Repayable on demand	Other than those repayable on demand	Total
From the central bank	0.0	43,915.0	43,915.0	0.0	3,019.0	3,019.0
From domestic credit institutions	16,244.8	0.0	16,244.8	7,449.4	0.0	7,449.4
From foreign credit institutions	687.6	0.0	687.6	239.9	0.0	239.9
Total	16,932.4	43,915.0	60,847.4	7,689.4	3,019.0	10,708.4

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)

	2013	2012
Companies and housing corporations	497,296.9	340,680.3
Households	474,681.5	378,604.9
Non-profit organisations serving households	1,917.6	2,328.5
Foreign countries	3,997.4	3,432.5
Total	977,893.5	725,046.2
Subordinated receivables	721.5	725.8
Receivables from the public and public entities consist of long-term lending to various counterparties.		
Impairment losses on receivables recognised during the period		
Impairment losses at the beginning of the year	333.8	295.7
Receivable-specific impairment losses recognised during the period	39.8	67.2
Receivable-specific impairment losses reversed during the period	–57.8	–29.1
Impairment losses at the end of the year	315.9	333.8

No group-specific impairment losses have been recognised.

17 DEBT SECURITIES

	2013			2012		
	Publicly quoted	Other	Total	Publicly quoted	Other	Total
Issued by public entities						
Available for sale						
Treasury bills	10,029.5	0.0	10,029.5	0.0	0.0	0.0
Those issued by other than public entities						
Held until maturity						
Bonds issued by banks	10,916.4	0.0	10,916.4	0.0	0.0	0.0
Available for sale						
Certificates of deposit	0.0	0.0	0.0		0.0	0.0
Commercial papers	0.0	0.0	0.0		0.0	0.0
Bonds issued by banks	98,276.8		98,276.8	106,385.1		106,385.1
Other debt securities	1,999.4		1,999.4	1,300.0		1,300.0
Total debt securities	121,222.1	0.0	121,222.1	107,685.1	0.0	107,685.1
Subordinated liabilities			0.0			0.0
Receivables eligible for refinancing with central banks			119,222.7			106,385.1

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)

	2013			2012		
	Publicly quoted	**Other**	**Total**	Publicly quoted	Other	Total
Shares and holdings, available for sale		**113.4**	**113.4**		113.4	113.4
Of which at acquisition cost		**0.1**	**0.1**		0.1	0.1
Of which in credit institutions		**108.5**	**108.5**		108.5	108.5

19 DERIVATIVE CONTRACTS

	2013 Book value		2012 Book value	
	Assets	**Liabilities**	Assets	Liabilities
Hedging derivatives				
Interest rate swaps, cash flow hedge accounting model, fair value		**3,266.7**		–1,966.3
Interest rate and currency swaps, fair value hedge accounting model, fair value		**–231.2**		3,409.7
Interest rate swaps, index-tied, fair value			90.5	
Embedded derivatives of bonds (object of hedging), fair value				90.5
	0.0	**3,035.5**	90.5	1,533.9
Interest rate and currency swaps, interest carried forward		**635.8**		1,072.0
Total	**0.0**	**3,671.3**	90.5	2,606.0

2013

Remaining maturity	**Less than one year**	**1–5 years**	**5–10 years**	**Total**
Nominal values of the underlying instruments	**55,402.0**	**109,935.0**		**165,337.0**
Fair value, assets				**0.0**
Fair value, liabilities	**–956.0**	**3,991.5**		**3,035.5**

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	169,416.7
Fair value, assets	90.5			90.5
Fair value, liabilities	284.6	153.3	1,005.5	1,443.4

20 INTANGIBLE ASSETS

	2013	2012
IT programmes and projects	**739.1**	338.6
Other intangible assets	**0.0**	0.0
	739.1	338.6
Amount of agreement-based commitments concerning acquisition of intangible assets	**100.0**	448.4

21 TANGIBLE ASSETS

	2013	2012
Investment properties and investment property shares, balance sheet value		
Land and water areas	**22,145.5**	28,286.1
Buildings	**545.2**	579.5
Shares and holdings in housing property corporations	**23,377.8**	25,751.3
Total balance sheet value	**46,068.6**	**54,616.9**
Total fair value of investment properties	**59,288.6**	67,887.4
of which share based on assessments of a qualified third-party valuer	**6,596.8**	6,596.8
Non-cancellable plot lease agreements		
Rental receivables within one year	**956.7**	1.312.0

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

Agreement-based obligations of investment properties		
Potential redemptions of partially owned housing units and those to be completed	**761.6**	1,318.2
Liabilities related to construction	**2,181.9**	2,181.9
Total	**2,943.5**	**3,500.2**

Agreement-based obligations of investment properties are included in off-balance sheet commitments presented in note 37.

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

Other properties and shares in housing property corporations, balance sheet value		
In own use		
Land and water areas	**734.1**	734.1
Buildings	**94.2**	100.1
Total balance sheet value	**828.3**	**834.2**
Total fair value of other properties	**2,883.0**	**2,888.9**
Obligations related to sites under construction		
Unpaid purchase prices of sites under construction	**822.5**	52.6

22 CHANGES IN INTANGIBLE AND TANGIBLE ASSETS DURING THE FINANCIAL PERIOD

	Intangible assets	Investment properties and investment property shares	Other properties and housing property shares	Other tangible assets	Total tangibles
Acquisition cost 1 January 2013	**1,126.5**	**55,120.3**	**878.0**	**2,073.8**	**58,072.2**
Increases, new acquisitions	586.9	1,148.3	0.0	159.2	1,307.5
Increases, capitalisation realised later	0.0	0.0	0.0	0.0	
Deductions	0.0	−9,696.6	0.0	−47.7	−9,744.3
Acquisition cost 31 December 2013	**1,713.4**	**46,572.0**	**878.0**	**2,185.3**	**49,635.3**
Accumulated depreciation and impairment losses 1 January 2013	787.9	503.5	43.8	1,817.4	2,364.7
Accumulated depreciation on deductions and transfers	0.0	0.0	0.0	0.0	0.0
Depreciation for the period	186.5	0.0	5.9	69.1	75.0
Impairment losses for the period	0.0	0.0	0.0	0.0	
Accumulated depreciation and impairment losses 31 December 2013	**974.4**	**503.5**	**49.7**	**1,886.5**	**2,439.7**
Revaluation reserve 1 January 2013	0.0	0.0	0.0	0.0	0.0
Adjustments to the revaluation reserve for the period	0.0	0.0	0.0	0.0	0.0
Book value 31 December 2013	**739.1**	**46,068.6**	**828.3**	**298.8**	**47,195.7**
Acquisition cost 1 January 2012	**1,126.5**	**65,417.1**	**912.8**	**2,063.0**	**68,393.0**
Increases, new acquisitions	0.0	4,309.2		52.5	4,361.7
Increases, capitalisation realised later	0.0	0.0	0.0	0.0	
Deductions	0.0	−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	0.0	0.0	0.0	−31.7	**−31.7**
Depreciation for the period	138.2	50.9	0.0	63.8	**114.7**
Impairment losses for the period	0.0	0.0	0.0	0.0	
Accumulated depreciation and impairment losses 31 December 2012	**787.9**	**503.5**	**43.8**	**1,817.4**	2,364.7
Revaluation reserve 1 January 2012	0.0	0.0	0.0		
Adjustments to the revaluation reserve for the period	0.0	0.0			
Book value 31 December 2012	**338.6**	**54,616.9**	**834.2**	**256.4**	**55,707.5**

23 OTHER ASSETS

	2013	2012
Defined benefit pension plans/excess margin of the Pension Foundation	6,172.7	7,141.7
Other receivables	1,345.3	1,421.0
Total	7,518.0	8,562.7

More detailed information on defined benefit pension plans is presented in note 34.

24 DEFERRED INCOME AND ADVANCES PAID

	2013	2012
Interest receivables	2,548.0	1,936.5
Tax receivable based on taxes for the period	0.0	758.3
Other deferred income	192.6	73.6
Total	2,740.6	2,768.3

25 DEFERRED TAX RECEIVABLES AND LIABILITIES

	Tax receivable 2013		Tax liability 2013		
	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				1,234.5	1,234.5
Deferred tax on the old revaluation reserve for property investments			1,019.3	−176.1	843.1
Deferred tax on the fair value reserve	765.4	765.4	50.4		50.4
Deferred tax on credit loss provisions			5,616.2		5,616.2
Total	765.4	765.4	6,685.9	1,058.4	7,744.3

	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				1,497.9	1,497.9
Deferred tax on the 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	1,462.9	8,866.6

26 DEBT SECURITIES ISSUED TO THE PUBLIC

	2013		2012	
	Book value	Nominal value	Book value	Nominal value
Other than those repayable on demand				
Bonds	417,847.3	418,729.6	198,087.9	198,590.0
Certificates of deposit and commercial papers	116,404.0	116,700.0	100,782.7	101,300.0
Total	534,251.3	535,429.6	298,870.7	299,890.0

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

	2013	2012
Other liabilities	7,184.9	5,725.7

28 DEFERRED EXPENSES AND ADVANCES RECEIVED

	2013	2012
Interest liabilities	3,398.9	4,079.7
Advance payments received	58.4	85.1
Tax liability based on taxes for the period	212.3	0.0
Other deferred expenses	821.4	788.8
Total	4,490.9	4,953.6

29 SUBORDINATED LIABILITIES

	2013		2012	
	Balance sheet value	Nominal value	Balance sheet value	Nominal value
Other	21,834.7	21,841.0	680.0	680.0

Debenture loan 7/2013 with book value of €20 million issued by the Mortgage Society of Finland. The loan is denominated in euro, and its interest rate is fixed at 3.750%. The loan will be repaid in five equal annual instalments as of 18 September 2014, and its premature repayment is subject to the permission of 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

2013	← 3 months	3–12 months	1–5 years	5–10 years	→10 years	Total
Receivables from credit institutions	60,847.4					60,847.4
Receivables from the public and public entities	13,788.0	54,820.0	260,817.5	238,262.0	410,206.0	977,893.5
Debt securities	23,583.3	4,032.6	85,682.4	7,977.8		121,222.1
Total	98,173.7	58,843.6	346,499.8	246,239.8	410,206.0	1,159,963.0
Liabilities to credit institutions	39,944.5	42,762.3	104,483.3	3,906.4		191,096.5
Liabilities to the public and public entities	204,224.3	92,663.8	55,108.0	10,467.9		362,464.1
Debt securities issued to the public	38,405.6	113,240.9	382,604.8			534,251.3
Subordinated liabilities		4,300.2	17,534.5			21,834.7
Total	282,574.5	252,967.2	559,730.6	14,374.3	0.0	1,109,646.6

Liabilities to the public and public entities, as well as publicly issued bonds, include items the maturity of which complies with the loans granted to the personnel of partners. At the end of 2013, such loans totalled €64,113,572.

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	238,174.8	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	238,174.8	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

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

	2013			2012		
	Domestic currency	Foreign currency	Total	Domestic currency	Foreign currency	Total
Receivables from credit institutions	60,847.4		60,847.4	10,708.4		10,708.4
Receivables from the public and public entities	977,893.5		977,893.5	725,046.2		725,046.2
Debt securities	121,222.1		121,222.1	107,685.1		107,685.1
Derivative contracts	0.0		0.0	90.5		90.5
Other assets	59,632.1		59,632.1	67,672.8		67,672.8
Total	1,219,595.1	0.0	1,219,595.1	911,203.0	0.0	911,203.0
Liabilities to credit institutions	119,685.9	71,410.6	191,096.5	113,926.3	73,363.4	187,289.7
Liabilities to the public and public entities	362,464.1		362,464.1	323,516.7		323,516.7
Debt securities issued to the public	506,031.7	28,219.6	534,251.3	298,870.7		298,870.7
Derivative contracts and liabilities held for trading	3,266.7	–231.2	3,035.5	–1,875.8	3,409.7	1,533.9
Other liabilities	41,254.8		41,254.8	20,226.0		20,226.0
Equity	87,492.9		87,492.9	79,766.0		79,766.0
Total	1,120,196.1	99,398.9	1,219,595.1	834,429.9	76,773.1	911,203.0

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	2013 Book value	2013 Fair value	2012 Book value	2012 Fair value
Liquid assets	Loans and other receivables		560.0	560.0	0.0	0.0
Receivables from credit institutions	Loans and other receivables	B	60,847.4	60,847.4	10,708.4	10,708.4
Receivables from the public and public entities	Loans and other receivables	B	977,893.5	980,470.0	725,046.2	729,771.5
Debt securities	Financial assets available for sale	B	1,999.4	1,999.4	1,300.0	1,300.0
Shares and holdings	Financial assets available for sale	A	113.4	113.4	113.4	113.4
Derivative contracts		B	0.0	0.0	90.5	90.5
Total			1,041,413.7	1,043,990.3	737,258.5	741,983.8
Liabilities to credit institutions	Other liabilities	B	191,096.5	191,096.5	187,289.7	187,289.7
Liabilities to the public and public entities	Other liabilities	B	362,464.1	362,895.4	323,516.7	323,480.1
Debt securities issued to the public	Other liabilities	B	534,251.3	534,251.3	298,870.7	298,870.7
Derivative contracts		B	3,035.5	3,035.5	1,533.9	1,533.9
Subordinated liabilities	Other liabilities	B	21,834.7	21,834.7	680.0	680.0
Total			1,112,682.0	1,113,113.4	811,891.0	811,854.4

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

30 NETTING OF FINANCIAL ASSETS AND LIABILITIES

31 December 2013	Gross amount of financial liabilities recognised on the balance sheet	Gross amount of offset financial assets recognised on the balance sheet	Net financial liabilities shown on the balance sheet	Amounts not offset on the balance sheet: Financial instruments	Amounts not offset on the balance sheet: Received cash collateral	Net amount
Derivative liabilities	4,630.1	1,594.6	3,035.5	-	-	3,035.5

31 December 2012	Gross amount of financial liabilities recognised in balance sheet	Gross amount of offset financial assets recognised on the balance sheet	Net financial liabilities shown on the balance sheet	Financial instruments	Received cash collateral	Net amount
Derivative liabilities	4,583.9	3,049.9	1,533.9	–90.5	-	1,443.4

The aforementioned derivative contracts subject to an enforceable master netting arrangement or similar agreement involve, in all cases, an agreement between the Group and a counterparty according to which the financial assets and liabilities in question may be settled by net amount if so chosen by both parties. If such a choice is not made, the financial assets and liabilities are settled by gross amount, but both parties to a master netting arrangement are entitled to settle such amounts by net amount, should the other party fail to fulfil its obligations.

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

	2013	2012
Balance sheet		
Receivables from the public and public entities		
Other than those repayable on demand	383.2	396.8
Tangible assets		
Investment properties and investment property shares	5,505.4	6,585.6
Income statement items		
Interest income	6.7	7.3
Net income/maintenance charges from investment properties	–134.6	–209.2

35 BASIC CAPITAL

The basic capital of the parent company of the Mortgage Society of Finland Group is €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.

36 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.

	2013	2012 New accounting policy	2012 Previous accounting policy
Defined benefit pension plans in the income statement			
Expenses based on work performance	23.2	50.4	50.4
Interest expenses	0.0	0.0	280.6
Expected return on plan assets	0.0	0.0	–576.6
Net interest, expense (+) or income (-)	–197.7	–308.7	0.0
Net actuarial profit (-)/loss (+) recognised during the period	–605.7	288.7	0.0
Management expenses	87.9	0.0	0.0
Transfer to Department M	237.6	183.3	183.3
Pension expenses (+)/income (-)	–454.7	213.7	–62.2
Defined benefit pension plans on the balance sheet			
Present value of funded obligations	6,800.8	6,986.6	6,986.6
Fair value of plan assets	–13,373.5	–13,604.6	–13,604.6
Surplus (-)/deficit (+)	–6,572.7	–6,618.0	–6,618.0
Payments from the plan (return of surplus)	400.0	500.0	500.0
Unrecognised actuarial profits and losses	0.0	0.0	–1,028.0
Net liability (+)/receivable (-)	–6,172.7	–6,118.0	–7,146.0
Change in the net liability/receivable recognised on the balance sheet			
Net liability (+)/receivable (-) 1 January	–6,118.0	–6,903.2	–7,655.2
Pension expenses (+)/income (-)	–454.7	213.7	–62.2
Management expenses paid by the pension foundation to the parent company		71.4	71.4
Payments from the plan (return of surplus)	400.0	500.0	500.0
Net liability (+)/receivable (-) 31 December	–6,172.7	–6,118.0	–7,146.0
The Group's own financial instruments included in plan assets			
Deposits in Suomen AsuntoHypoPankki	0.0	414.5	414.5
Most significant actuarial assumptions, %			
Discount rate, %	3.25	3.25	3.25
Expected returns on assets	3.25	3.25	3.25
Future pay rise assumption	3.00	3.00	3.00
Inflation	2.00	2.00	2.00

A defined benefit obligation's sensitivity to changes in weighted key assumptions.

		Effect on defined benefit obligation.	
	Change in assumption	Increase	Decrease
Discount rate, %	0.50%	–5.70%	6.30%
Rate of wage increases	0.50%	0.40%	–0.40%
Rate of pension increases	0.50%	5.30%	4.90%

A one-year increase in life expectancy increases the obligation by 3.2%.

NOTES CONCERNING THE GROUP'S COLLATERAL AND CONTINGENT LIABILITIES

37 COLLATERAL PLEDGED

	Type of collateral	2013	2012
Collateral pledged for own liabilities			
Liabilities to the central bank	Debt securities	40,633.1	40,946.7

38 LEASING AND OTHER RENTAL LIABILITIES

	2013	2012
Minimum rents paid on the basis of leasing and other rental agreements		
Within one year	39.9	26.8
Within more than a year and at most within five years	119.8	107.2
Total	159.7	134.0

39 OFF-BALANCE SHEET COMMITMENTS

	2013	2012
Irrevocable commitments given on behalf of a customer		
Guarantees and other liabilities	2,181.9	2,181.9
Granted but unclaimed loans	107,700.3	88,173.7
Potential redemptions of partially owned housing units	761.6	1,318.2
Total	110,643.7	91,673.9

NOTES CONCERNING THE AUDITOR'S FEE

40 AUDITOR'S FEES

	2013	2012
Fees paid to the auditor for the audit	70.5	42.6
Fees paid to the auditor for tax counselling	0.0	0.0
For other services	52.6	6.9
Total	123.1	49.6

NOTES CONCERNING THE GROUP'S PERSONNEL AND INSIDERS

41 NUMBER OF PERSONNEL

	2013 Average number	2013 At the end of the financial period	2012 Average number	2012 At the end of the financial period
Permanent full-time personnel	35	44	27	30
Managing director and deputy managing director	2	2	2	2
Temporary personnel	1	3	1	1
Total	38	49	30	33

42 SALARIES AND REMUNERATION PAID TO MANAGEMENT

	2013	2012
Total salaries paid to the managing director and deputy managing director	333.8	509.0

In the event of a termination of the employment, the managing director and the deputy managing director are paid a full four-month salary in addition to the salary of the six-month period of notice. The managing director and the members of the Board of Directors are entitled to basic pension security pursuant to the Employees Pensions Act (TyEL). The managing director and the deputy managing director are included in the guidance and incentive plan of the Mortgage Society of Finland, in which they have the possibility of earning at maximum 20 weeks' salary. The total salaries do not include remunerations, because the managing director's remuneration was paid in full as an insurance premium worth 12 weeks' salary to Department M of the Mortgage Society of Finland's pension foundation in accordance with the new guidance and incentive plan. The deputy managing director was not paid any remuneration. 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	2013	2012
Annual remuneration of the chairman	11.7	11.5
Annual remuneration of the vice chairman	10.0	9.8
Attendance allowances	30.1	28.4
Other members, annual remuneration	40.0	39.4
Total	91.8	89.0

Supervisory Board		
Annual remuneration of the chairman	5.8	4.3
Annual remuneration of the vice chairman	3.3	2.2
Other members, annual remuneration	24.2	22.6
Attendance allowances/Auditors	1.6	3.1
Total	35.0	32.2

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 2013, which is published in Finnish on the Mortgage Society of Finland's website at www.hypo.fi/hypo/johtaminen ja hallinnointi.

43 LOANS GRANTED TO MANAGEMENT AND OTHER INSIDERS

	2013	2012	Change
Managing director and deputy managing director	591.1	399.8	191.4
Board of Directors	664.8	688.8	–24.0
Supervisory Board	2,734.1	3,239.4	–505.3
Total	3,990.1	4,328.0	–337.9

44 DEPOSITS BY MANAGEMENT AND OTHER INSIDERS

	2013	2012	Change
Managing director, deputy managing director, Board of Directors and Supervisory Board	962.3	934.3	28.0
The Mortgage Society of Finland's pension foundation	177.4	683.0	–505.6
Total	1,139.7	1,617.3	–477.6

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.

45 LOANS GRANTED TO SUBSIDIARIES AND ASSOCIATED COMPANIES

	2013	2012
Bostadsaktiebolaget Taos	1,263.7	1,396.0
As Oy Vanhaväylä 17	475.9	491.9

The loans have been granted on market terms.

NOTES CONCERNING THE GROUP'S SHAREHOLDINGS

46 INFORMATION ON SUBSIDIARIES AND ASSOCIATED COMPANIES

2013	Domicile	Holding, %	Equity	Result 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	1,031.5	9.9	1,532.1	500.6	38.1
Associated companies							
As Oy Eiran Helmi	Helsinki	26.8	2,363.6	0.0	2,367.7	4.1	73.3
As Oy Kulosaaren Puistotie 40	Helsinki	26.5	497.4	–5.1	860.1	362.7	81.5
As Oy Mäkipellontie 4	Helsinki	30.0	159.5	–0.6	162.6	3.1	31.5
As Oy Hyvinkään Munckinkatu 30	Hyvinkää	25.0	570.0	0.1	573.9	3.9	10.0

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.

2012	Domicile	Holding, %	Equity	Result 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	2,366.8	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	3.4	39.2
As Oy Hyvinkään Munckinkatu 30	Hyvinkää	25.0	569.8	–1.0	573.9	4.0	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.

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 9A, 00120 Helsinki, Finland, or it may be ordered by telephone on +358 (0)9 228 361 or via 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 (hereinafter Hypo Group or the Group) must be risk tolerant in relation to its business operations and the operating environment. Risk tolerance depends on the profitability of business and the quality and quantity of capital, as well as on 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 granted the Group's parent company Hypo an exemption from applying the requirements pertaining to capital adequacy management procedures separately to the bank that is the Group's subsidiary. 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.

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

Due to the phased entry into force of the new regulations pertaining to capital adequacy that began on 1 January 2014, the assessment of capital adequacy now relies solely on core equity (Common Equity Tier 1, CET 1), the amount of which in proportion to risk-weighted receivables has been established an internal minimum target and a monitoring limit.

The Group applies the new Basel III capital adequacy framework in the calculation of capital needs for credit and operative risks. The minimum amount of the Group's own funds for the credit risk is calculated using the standard method. The

47 OWN FUNDS AND CAPITAL ADEQUACY

	2013	2012
Equity according to accounting	87,492.9	80,542.1
Adjustments made to Tier I assets		
Impact of IFRS standards (IAS 19)	–4,660.4	–5,392.0
Intangible assets	–739.1	–338.6
Adjustments made to Tier II assets		
Fair value reserve, from hedging of cash flows	2,964.1	3,664.1
Subordinated liabilities	20,340.0	680.0
Own funds according to capital adequacy calculation	105,397.5	79,155.7
of which Tier I funds		
Basic capital	5,000.0	5,000.0
Reserve fund	22,790.4	22,789.4
Contingency fund	22,923.5	22,923.5
Retained earnings	34,261.1	29,196.3
Old revaluation reserve (FAS)	–4,077.0	–4,457.0
Impact of IFRS standards (IAS 19)	–4,660.4	–5,392.0
Profit for the period	4,889.7	4,082.4
Intangible assets	–739.1	–338.6
Total Tier I funds	80,388.2	73,804.1
of which Tier II funds		
Old revaluation reserve (FAS)	4,077.0	4,457.0
Fair value reserve, financial assets available for sale	592.3	214.6
Subordinated liabilities	20,340.0	680.0
Total Tier II funds	25,009.3	5,351.6
Minimum requirement for own funds		
To cover the credit and counterparty risk	43,905.0	35,627.0
To cover the operational risk	1,622.0	1,622.0
Total minimum requirement of own funds	45,527.0	37,249.0
Surplus of own funds	59,870.5	41,906.7
Risk-weighted receivables and commitments	548,816.0	445,341.0
Capital adequacy, %, Tier I funds	14.0	15.9
Capital adequacy, %	18.4	17.0

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 details concerning own funds and the minimum requirements applicable to them are shown in the table below. On 31 December 2013, capital adequacy stood at 18.4 per cent and the capital adequacy calculated with core equity stood at 14.0 per cent (17.0 per cent and 15.9 per cent, respectively, the year before).

The Group estimates that the surplus of own funds is at a good level both quantitatively and qualitatively so as to also cover the operational and operating environment risks outside the minimum requirement.

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 so that the agreed controls are carried out in business processes and by making the risks related to the operations visible, acknowledging these risks and by 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, the Compliance function and internal auditing

Hypo's Chief Risk Officer is responsible for the organisation and development of risk management, the control of risk-taking and for the related reporting in all areas of business operations. The Chief Risk Officer also serves as the person responsible for compliance operations and as the Group's internal auditor. Internal audits are performed according to the audit plan and with any necessary separate audits. Compliance operations include regular reporting by the risk management director 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.

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 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 and decided on 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 per cent of the fair value of the site is accepted as collateral. This value is estimated independently with the help of Hypo's expertise. 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, a purpose of which is to reinforce Hypo's ability to independently 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, 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.

48 MAXIMUM AMOUNT OF THE CREDIT AND COUNTERPARTY RISK

	2013 Book value	2013 Book value On average during the period	2012 Book value	2012 Book value On average during the period
Lending				
Not fallen due	853,153.6	752,783.8	652,414.0	622,697.1
Overdue by 1–2 days *)	90,253.7	68,988.2	47,722.7	30,801.6
Overdue by 3 days–1 month	28,499.1	22,976.8	17,454.4	11,256.6
Overdue by 1-3 months	4,983.1	5,675.8	6,368.4	4,110.4
Non-performing, overdue by more than 3 months	1,003.9	1,045.2	1,086.6	1,144.1
Total lending	977,893.5	851,469.8	725,046.2	670,018.7
Other				
Receivables from credit institutions				
Not fallen due	60,847.4	35,777.9	10,708.4	10,921.9
Debt securities				
Not fallen due	111,192.6	109,438.8	107,685.1	109,273.4
Shares and holdings	113.4	113.4	113.4	113.1
Derivative contracts				
Not fallen due	0.0	45.3	90.5	252.7
Guarantee receivables and other off-balance sheet receivables	0.0	0.0	0.0	2,848.1
Total other	172,153.5	145,375.4	118,597.4	123,409.2
Non-performing receivables/total lending, %	0.10%		0.15%	

Impaired receivables with zero balance sheet value total €315,857.81 (€295,732.32). Information on recognition of impairment losses related to lending is presented in note 16 and the accounting policies.

*) Overdue by 1–2 days also includes loans the payment of which is delayed due to a delay in payment traffic.

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

	2013	2012
State, municipality or financial collateral, risk weight 0%	2.9%	5.0%
Deposit collateral, risk weight 20%	1.0%	0.6%
Housing collateral, risk weight 35%	73.9%	70.9%
Housing collateral, risk weight 50%	0.4%	0.6%
Housing collateral, risk weight 75%	3.4%	4.8%
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%	18.3%
	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.

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 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 acting management and other 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. Regarding other regions, additional collateral in the form of homes and holiday homes are accepted as collateral to a minor degree. 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 49.98 per cent (51.03 per cent). 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.

49 CONCENTRATION OF LENDING

	2013	%	2012	%
Lending by category				
Households	478,237.7	48.9%	373,468.9	51.5%
Housing companies	409,754.2	41.9%	255,356.3	35.2%
Private companies (housing investors)	84,863.9	8.7%	90,410.0	12.5%
Other	5,037.6	0.5%	5,811.0	0.8%
Total	977,893.5	100.0%	725,046.2	100.0%
Lending by purpose of use				
Permanent dwelling	935,944.8	95.7%	683,255.8	94.2%
Consumer loan	34,389.0	3.5%	33,827.6	4.7%
Holiday home	7,559.7	0.8%	7,962.8	1.1%
Total	977,893.5	100.0%	725,046.2	100.0%
Lending by province				
Uusimaa	809,301.4	82.8%	585,999.3	80.8%
Rest of Finland	168,592.0	17.2%	139,046.8	19.2%
Total	977,893.5	100.0%	725,046.2	100.0%

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 Visa and MasterCard business that the bank engages in, the credit risk is borne by card service companies that do not belong to Hypo Group.

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 2013, non-performing receivables stood at €1.004 million (€1.087 million), which corresponds to 0.10 per cent of the loan portfolio (0.15 per cent). The number of temporary renegotiations of loans carried out due to financial difficulties by the debtor in 2013 was slightly higher than during previous years.

Returns of impairment losses exceeded those recognised, with the net amount of recognitions standing at €0.02 million in 2013 (€-0.03 million). 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. Hypo Group has also confirmed principles of operational risk management in which the control responsibilities for these risks are described and assigned 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. 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. Thanks to the robust growth in the Group's business, the number of personnel also increased in 2013.

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 relying on the expert resources in the reinforced organisation and, whenever necessary, standard agreements and the expertise of reputable industry operators. 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 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 ability to continue lending in the long term is a key target and starting point for the Group's funding and the management of the structural financing risk. 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 that deposit and other funding implemented over the long term represent in terms of total funding was 59.5 per cent (52.0 per cent) on 31 December 2013.

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 payment obligations, regulatory minimum amounts and capital needs 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.

On 31 December 2013, short-term liquidity, which includes cash and cash equivalents, as well as checking account and other binding liquidity limits, totalled €205.6 million (€141.9 million).

Short-term liquidity covered payment obligations related to debt and deposit agreements for the next 5.1 months following the balance sheet date (1.8 months). In addition to short-term liquidity, the payment obligations related to funding and the

50 LIQUIDITY RISK

Cash flows of financial liabilities and derivatives in 2013	← 3 months	3–12 months	1–5 years	5–10 years	→10 years	Total
Liabilities to credit institutions	40,538.8	44,222.6	106,976.3	3,947.0	0.0	195,684.7
Liabilities to the public and public entities	204,966.9	94,950.0	58,635.9	10,577.8	0.0	369,130.6
Debt securities issued to the public	39,591.7	118,163.5	390,828.5	0.0	0.0	548,583.7
Derivative contracts	413.0	399.1	2,515.7	0.0	0.0	3,327.8
Subordinated liabilities	0.0	5,088.2	19,113.2	0.0	0.0	24,201.5
Total liabilities	285,510.4	262,832.5	578,069.5	14,524.8	0.0	1,140,928.2

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	21,134.2	23,266.7	140,222.2	2,666.7	0.0	187,289.7
Liabilities to the public and public entities	165,809.4	83,423.2	51,116.1	23,168.0	0.0	323,516.7
Debt securities issued to the public	57,164.5	130,917.1	110,789.1	0.0	0.0	298,870.7
Derivative contracts	0.0	375.2	153.3	1,005.5	0.0	1,533.9
Subordinated liabilities			680.0	0.0	0.0	680.0
Total liabilities	244,108.1	237,982.1	302,960.7	26,840.1	0.0	811,891.0

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 (see Table 50).

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.

On 31 December 2013, the average maturity based on debt agreements was approximately 2.2 years (2.1 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.

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.

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. An impairment of market value occurring during the holding periods of debt securities decreases the related recoverable cash flows if the investment is realised. 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. An impairment of the market value of interest derivatives is 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 a decreasing effect 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 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 Hypo Group. The negative effect on the financial value of 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 per cent 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. 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

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 Hypo Group's property holdings and comparable loans and guarantees granted to housing property corporations is 13 per cent 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. The maximum amount for internal housing property holdings is kept at a lower limit than what the law requires by means of internal monitoring limits and, in practice, clearly lower than even that.

The total amount of the housing property holdings on the consolidated balance sheet on 31 December 2013 was 3.8 per cent (6.1 per cent).

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.

51 INFORMATION ON INTEREST RATE RISK

Repricing time in 2013 (€ million)	← 3 months	3–12 months	1–5 years	5–10 years	→10 years	Total
With variable interest rates						
Receivables	576.1	651.0	0.0	0.0	0.0	1,227.1
Liabilities	565.0	643.1	0.0	0.0	0.0	1,208.2
Net	11.1	7.9	0.0	0.0	0.0	18.9
With fixed interest rates						
Receivables	10.7	22.6	67.5	13.3	0.9	115.0
Liabilities	3.5	26.3	69.3	2.9		102.1
Net	7.2	–3.7	–1.8	10.4	0.9	12.9
Other						
Receivables		11.2				11.2
Liabilities		11.2				11.2
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. 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 embedded derivatives.

Sensitivity analysis

If market interest rates would have increased by 2 per cent (decreased by 0.25 per cent) on the balance sheet date, the Group's net interest income would increase by €1.2 million (decrease by €0.15 million) over a period of 12 months. A change in net interest income would be mainly the result of the repricing of variable interest rate receivable at higher (lower) interest rates than on the balance sheet date. A two per cent decrease in market rate interest on the balance sheet date would increase the negative value of the fair value reserve by €0.3 million. The financial value of Hypo would correspondingly decrease by €0.1 million due to a rise of 2 per cent in interest rates.

Repricing time in 2012 (€ million)	← 3 months	3–12 months	1–5 years	5–10 years	→10 years	Total
With variable interest rates						
Receivables	479.9	445.1	0.0			925.1
Liabilities	502.9	378.1	0.0	0.0		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 in euros at 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 embedded derivatives.

Sensitivity analysis

If market interest rates would have increased by 2 per cent (decreased by 2 per cent) on the balance sheet date, the Group's net interest income would increase by €0.4 million (decrease by €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 two per cent decrease in the market interest rates on the balance sheet date would increase the negative value of the fair value reserve by €0.3 million. The financial value of the Mortgage Society of Finland would decrease by €0.4 million due to a rise of 2 per cent in interest rates.

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. The fair value of housing unit holdings is verified by making use of statistics and the housing property expertise of Hypo's own personnel every year and, whenever necessary, per unit with the help of an appraisal document. 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 on 31 December 2013 about 78 per cent (82 per cent) of the estimated fair values. 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.

On 31 December 2013, occupancy ratio stood at 95.4 per cent (89.9 per cent).

The net return goal for housing and residential plot investments varies between five and seven per cent, depending on the site. The net return on housing and residential plot investments calculated using book values in 2013 was 6.0 per cent (5.3 per cent). On 31 December 2013, the average monthly rent per square metre in housing units was €18.90 (€18.58).

Concentration risk

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 and they are strictly observed in the business. 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 RISKS

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 competition, on the other hand, are mainly the result of decisions made by competitors, but also of Hypo's own business decisions. 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. Any crises on the capital markets have negative effects on the pricing of funding such as bonds and 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 increases 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 regulatory risk has been allocated its own funds in the Group's internal assessment of capital adequacy, particularly due to the uncertainty pertaining to the interpretations of new regulations caused by the on-going changes in the regulatory environment.

The Group's recognition is increased continuously by means of networking, increasing the Group's visibility in various media in a balanced and cost-effective manner and especially by carrying out individual customer contacts with an active approach. This has clearly increased the number of the Group's customer contacts and partners. 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 2013 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 in office: Markku Koskela, Markus Heino and Tauno Jalonen.

Helsinki, 27 February 2014

Markku Koskela
Chair

Väinö Teperi
Vice Chair

Antti Arjanne
Elina Bergroth
Mikael Englund
Markus Heino
Timo Hietanen
Tauno Jalonen
Kari Joutsa
Markku Koskinen
Kallepekka Osara
Jukka Räihä
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, 2013. 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 28.2.2014

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 27 February 2014, 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 Hypo Group is available at www.hypo.fi, along with the statutory 2013 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, Elina Bergroth, Markku Koskela, Riitta Vahela-Kohonen, Antti Arjanne.
Pictured standing from the left: Kallepekka Osara, Markus Heino, Mikael Englund, Timo Hietanen, Kari Joutsa, Markku Koskinen, Tauno Jalonen, Veikko M. Vuorinen, Jukka Räihä. Hannu Hokka is missing from the picture.

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.

Members of the Supervisory Board as of 18 March 2013

Markku Koskela, chair, Ph.D. (Econ.), Professor
Väinö Teperi, vice chair, LL.M., lawyer
Antti Arjanne, LL.M., managing director
Elina Bergroth, M.A., lecturer
Mikael Englund, M.Sc. (Eng.), MBA, managing director
Markus Heino, LL.M. (trained on the bench), managing director
Timo Hietanen, M.Sc. (Econ.), deputy managing director
Hannu Hokka, M.Sc. (Econ.), managing director
Tauno Jalonen, managing director
Kari Joutsa, LL.M. (trained on the bench, managing director
Markku Koskinen, Construction Engineer, consultant
Kallepekka Osara, Agrologist, farmer
Jukka Räihä, LL.M. (trained on the bench)
Riitta Vahela-Kohonen, M.A., project manager
Veikko M. Vuorinen, managing director

Supervisory Board's auditors as of 18 March 2013

Markku Koskela, chair, Ph.D. (Econ.), Professor
Väinö Teperi, vice chair, LL.M., lawyer
Riitta Vahela-Kohonen, M.A., project manager
Veikko M. Vuorinen, managing director

Auditors' deputies as of 18 March 2013

Antti Arjanne, LL.M., managing director
Elina Bergroth, M.A., lecturer

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 2013

Markku Koskela, chairman, Ph.D. (Econ.), Professor
Jarmo Leppiniemi, vice chair, Ph.D. (Econ.), Professor
Väinö Teperi, LL.M., lawyer
Hannu Hokka, M.Sc. (Econ.), managing director

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 2013

Markku Koskela, chairman, Ph.D. (Econ.), Professor
Väinö Teperi, vice chair, LL.M., lawyer
Riitta Vahela-Kohonen, M.A., project manager
Veikko M. Vuorinen, managing director

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 CEO and another director of the mortgage society shall be members of the Board of Directors." In practice, "another director" refers to the Chief Operating Officer. The CEO and the Chief Operating Officer 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, Teemu Lehtinen and Ari Pauna.
Pictured standing from the left: Hannu Kuusela, Vesa Vihriälä, Tuija Virtanen, Harri Hiltunen and Sari Lounasmeri.

Members of the Board of Directors as of 18 March 2013
Jarmo Leppiniemi(b. 1948), chair, Ph.D. (Econ.), professor, member of the Board since 2000

Sari Lounasmeri (b. 1975) M.Sc (Econ.), managing director, member of the Board since 2011

Harri Hiltunen (b. 1961) M.Sc (Econ.), managing director, member of the Board since 2012

Hannu Kuusela (b. 1956), Ph.D. (Econ.), Professor, member of the Board since 2001

Teemu Lehtinen (b. 1961), Ph.D. (Soc.Sc.), M.Sc (Eng.), managing director, member of the Board since 2005

Ari Pauna (b. 1967), LL.M., Chief Executive Officer, member of the Board since 2006, secretary of the Board 2002–2006

Elli Reunanen (b. 1974), LL.M. (trained on the bench), Chief Operating Officer, member of the Board since 2013

Vesa Vihriälä (b. 1955), Ph.D (Soc.Sc.), managing director, member of the Board since 2012

Tuija Virtanen (b. 1958), Ph.D. (Econ.), Assistant Professor, member of the board since 2009

The Board's secretary was **Elli Reunanen.**

Chief Executive Officer and Management Group

The CEO 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 CEO is also responsible for implementing the decisions made by the Board of Directors.

The Supervisory Board appoints the Chief Executive Officer on the motion of the Nomination Committee. Ari Pauna, LL.M. (b. 1967) took up the position of Chief Executive Officer on 1 January 2013. The CEO's service contract is valid until further notice.

The remunerations paid to the CEO are published in the notes to the financial statements in Hypo's annual report. The Chief Executive Officer is covered by the performance-based remuneration scheme confirmed by the Board of Directors. The Chief Executive Officer is entitled to a normal pension in accordance with Employees Pensions Act.

The Management Group assists Hypo's Chief Executive Officer, operating under his supervision and responsibility. The Board of Directors has confirmed the composition of the Management Group and its charter. 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. The Management Group makes decisions concerning Hypo's internal rules and authorities and the organisation of personnel within the framework of the authorities delegated to the chairperson. The Management Group also has the special task of granting exceptional loans within the framework of the authorities delegated to it.

The Management Group is composed of the Chief Executive Officer, Chief Operations Officer, Chief Risk Officer, Chief Investment Officer and Chief Financial Officer.

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

Ari Pauna (b. 1967), Chief Executive Officer, chair, LL.M., member of the Management Group since 2002

Elli Reunanen (b. 1974), Chief Operating Officer, vice chair, LL.M. (trained on the bench)
member of the Management Group since 2002

Jouni Lehtinen (b. 1961), Chief Investment Officer, diploma in business and administration,
member of the Management Group since 2006

Aija Kontinen (b. 1963), Chief Financial Officer, M.Sc. (Econ.)
member of the Management Group since 2004

Mikko Huopio (b. 1968), Chief Risk Officer, secretary, LL.M. (trained on the bench), member of the Management Group since 2010

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

The Annual General Meeting must select an authorised public accountant or two auditors and their deputies during each financial period for the purposes of auditing the accounts and the financial statements, as well as the administration. All of the aforementioned must be auditors or public accountants authorised by the Finnish Chambers of Commerce.

As of 18 March 2013, PricewaterhouseCoopers Oy, Authorised Public Accountants, were selected to carry out auditing. The chief auditor is Juha Wahlroos (KHT Auditor, M.Sc. (Econ.)) and his deputy is Jukka Mynttinen (KHT Auditor).

Internal auditing

Internal auditor **Mikko Huopio** Chief Risk Officer, (b. 1968), LL.M. (trained on the bench)

Permanent personnel on 28 February 2014

Chief Executive Officer **Ari Pauna**
Chief Risk Officer **Mikko Huopio**
Executive assistant **Joanna Bremer**

LENDING AND CUSTOMER SERVICE

Chief Operating Officer **Elli Reunanen**

Mortgage and consumer loans

Director, Retail Bank **Tom Lönnroth**
Legal counsel, Retail Bank **Kirsti Heikura**
Mortgage loan specialist **Petra Koistinen**
Home financing manager **Pauli Lange**,LKV
Home financing manager **Anu Maliranta**, LKV
Home financing manager **Risto Marila**, LKV
Home financing manager **Hanna Moilanen**, LKV
Mortgage loan specialist **Marjut Nummelin**, LKV
Mortgage loan specialist **Jarkko Perälä**
Home financing manager **Kati Ryhänen**
Home financing manager **Päivi Salo**, LKV
Mortgage loan specialist **Elisa Sunikka**

Hypo OnLine, Services and contract amendments

Director, OnLine Bank **Sami Aarnio**
Mortgage loan specialist **Tommi Häggström**
Sales manager **Mikke Pietilä**
General ledger manager **Irma Könönen**
Home financing manager **Päivi Hietamies**, LKV
Mortgage loan specialist **Anne Hiltunen**, LKV

Specialist financing products and housing companies

Director, Private Bank **Sanna Schoultz**
Legal counsel, Private Bank **Eerika Koivisto**
Home financing manager **Kristiina Aitala**, LKV
Financial manager **Piia Konttinen**, LKV (on maternity leave)
Financial manager **Pekka Nuutinen**
Financial specialist **Teemu Venäläinen**
Home financing manager **Anja Kymäläinen**, LKV
Home financing manager **Martina Lindholm**
Home financing manager **Maarit Valkeajärvi**, LKV
Home financing manager **Ksenia Akkonen**
Home financing manager **Jari Häkkinen**, LKV
Home financing manager **Hannele Nyström**, LKV

HOUSING, LAND TRUSTEE AND HOUSING COMPANIES UNDER CONSTRUCTION SERVICES

Chief Investment Officer **Jouni Lehtinen**, LKV

Legal counsel, RS Services **Heidi Ketolainen**
Legal counsel, Land trustee **Juho Pajari**
Property specialist **Marja Niemelä** LVV, KED

FINANCE AND ADMINISTRATION

Chief Financial Officer **Aija Kontinen**

Treasury and funding

Director, Treasury and funding **Petteri Bollmann**
Treasury manager **Maiju Harava**
Manager, Retail funding **Aki Lakkisto**

Internal and external accounting

Director, Accounting and control **Pekka Kainulainen**
Accountant **Ahti Aalto**
Controller **Marja Ahjopalo**
Controller **Arttu Mönkkönen**
Chief accountant **Netta Sundberg**
Accounting manager **Piia Valtokari**

Services and marketing

Director, Services and marketing **Sami Vallinkoski**
ICT manager **Ari Korkia-Aho**

The first 153 years of Hypo

From Imperial Proclamation of its establishment to having a loan portfolio of nearly a billion euro in 2013. Deposit portfolio €360 million.

21 Dec 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 Sep 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 Oct 1860 Senate ratifies the rules of the Mortgage Society of Finland. **Consul Otto Reinhold Frenckell serves as the first managing director 1860–1867.**

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 Feb 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 per cent issue discount).

21 Jan 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 totals 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 per cent in loans made on urban property in the late 1920s. Slightly less than 70 per cent of these loans went to Helsinki. The bank was eventually toppled by foreign exchange losses.

1929–1942 **Auli Markkula**, LL.M. (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**, LL.M. (trained on the bench), serves as president.

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

1979–1987 **Osmo Kalliala**, LL.M. (trained on the bench), serves as managing director. Lending expands to home building and flat purchasing and to housing co-operatives for renovation projects, as well as to new developments.

1987–2001 **Risto Piepponen**, LL.M. (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 at €280 million. Average number of personnel: 30.

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

Secure way for better living – decade. Under the leadership of Inha, Hypo reawakens and establishes its position as the only bank in Finland specialised in housing and home financing. The Group nearly triples its loan portfolio and balance sheet, to €725 million and €930 million, respectively. AsuntoHypoPankki establishes its position as a group company and achieves a deposit portfolio of €308 million. The number of customers doubles to approximately 25,000 customers during Inha's era, and the Group's own funds increase to nearly €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– The 15th Chief Executive Officer of Hypo, **Ari Pauna**, LL.M., begins his work. His first goal is to raise Hypo's loan portfolio to more than a billion euro in a profitable and risk-conscious manner.

On 28 February 2014, the loan portfolio stood at €1,007,489,141.34.

Design: Kreab Gavin Anderson Pictures: Petri Krook

THE MORTGAGE SOCIETY OF FINLAND
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