HYPO

THE MORTGAGE SOCIETY OF FINLAND

ANNUAL REPORT 2016

CONTENTS

THE MORTGAGE SOCIETY OF FINLAND ANNUAL REPORT 2016

Hypo – Urban bank

Hypo is the only specialized national organisation focusing in home financing and housing in Finland. We offer all types of loan services for home financing: we grant mortgage and consumer loans for first-time and other homebuyers, as well as renovation loans. We continuously develop new ways and models for housing and home financing.

We offer safe, effortless and profitable deposit accounts for customers interested in saving. In addition to senior bonds, Hypo from now on also offers institutional investors an investment opportunity in covered bonds.

Established already 156 years ago, the Mortgage Society of Finland operates in the century-old Hypo House in the heart of Helsinki. Around 50 home financing specialists are at your service in our two-story office. Our customers have access to secure, user-friendly and modern online and telephone banking services.

Our long-term focus on the housing market ensures our in-depth expertise. We know what is going in the market, and we are able to offer our customer services, which meet their financing needs. Mortgage and consumer loans are tailored to our customers' actual needs, case by case.

As a housing market expert, Hypo actively participates in the public discussion on housing. Hypo Housing Market Analysis, published quarterly, explains the market situation and its changes intelligibly from the perspective of all stakeholders. In Economic Review, published biannually, Hypo predicts its outlook on economic development. In addition, our experts update Housing Clinic blog, which regularly discusses topical issues.

Hypo's operations are founded on its strong capital adequacy. Profitable growth over the long term strengthens capital adequacy and enables us to continuously develop our services. Our customer promise –a secure way for better living – guides all of our operations. As many as 27,000 customers, mainly in growth centres, have already taken us up on our promise.

Hypo's consolidated balance sheet stood at EUR 2.3 billion at the end of 2016. Its loan portfolio was EUR 1.81 billion, and its deposits EUR 1.2 billion. Hypo's common equity tier 1 ratio was 13.6, calculated using conservative risk weights. Operating profit totaled EUR 7.3 million.

The Mortgage Society of Finland constitutes the core of Hypo Group. Established in 1860, it is the oldest nationwide private credit institution in Finland. Hypo Group also includes Suomen AsuntoHypoPankki Oy, a deposit bank founded in 2002. Hypo is a member of the Federation of Finnish Financial Services and a founding member of Nordiska Realkredit Samrådet, the federation of Nordic mortgage banks. In addition, Hypo is a member of the International Union for Housing Finance and the Mortgage Bankers Association.

All of Hypo's operations are monitored by the Finnish Financial Supervisory Authority. AsuntoHypoPankki Oy a member of deposit guarantee scheme. Hypo publishes its financial results on a quarterly basis.

Debt free housing property assets to Finland

Hypo is a mutual company governed by its member customers. It is independent of all banking and insurance companies. We provide our customers with full range of home financing services, without a requirement for them to change banks or to concentrate their banking with us.

We have been there for our customers since 1860. Our experts serve our customers today and tomorrow in all aspects of buying a home. We grant loans to our customers, and they can count on our support even in times of trouble.

However, it is prudent to prepare for uncertainties in advance. We tailor each loan and the related services to the customer's individual needs. We help our customers make good decisions that bring stability and security to their life. In addition to financial calculations, we draw up a secure financing solution tailored to the every customer's situation.

We offer a diverse range of easy and flexible financing solutions for housing companies. Our loans take account of the individual needs of housing companies and their shareholders. Hypo's expert may participate in planning a renovation project from its beginning, in order to offer financing solutions tailored for the housing company's resources and needs.

Our profitable and secure deposit accounts offer a flexible choice for continuous saving or for investing excess cash flows for both private and corporate customers as well as for other public entities. On our website, the deposit button has made saving particularly easy and effortless.

Loans

HYPO HOME LOAN

Hypo's experts will tailor a suitable and secure mortgage loan to meet customer's specific needs.

ASP LOAN

Our ASP loan system with upfront savings is a supported way towards buying your first home.

HYPO REVERSE

A reverse mortgage helps you enjoy retirement and make your dreams come true.

LOAN INSURANCE

Loan insurance is a policy that gives you financial protection if you fall ill or lose your job.

CONSUMER LOAN

Make use of your housing property assets by applying for a consumer loan.

HOUSING COMPANY LOAND

We offer flexible and effortless funding for housing companies. Needs of both housing companies and shareholders are always taken into account.

INVESTMENT APARTMENT LOAN

No two apartment investors are alike. Our experts help investors to find the best solution in various financing situations.

– at your service

Hypo serves depositors and investors alike. We offer a profitable deposit account to all of our customers easily and fast. For institutional investors, we offer opportunity to invest in certificates of deposit, in senior bonds as well as in covered.

Home savings accounts intended for children and young people are ideal for parents and grandparents who want to start saving for an nest egg for their children and grandchildren.

Deposits and investments

DEPOSIT ACCOUT

Hypo Deposit Account is a special savings account. It enables you to grow your contingency fund profitably and effortlessly as well as to service your loan.

FIXED-TERM DEPOSIT

An easy form of investment especially for institutional investors for example for investing excess cash flows.

DEPOSIT BUTTON

As a private customer you can open an account and make your first deposit electronically within minutes on Hypo's website .

Cards

HYPO MASTERCARD

Hypo MasterCard is an international debit and credit card which you can use around the world to pay for both small and bigger purchases securely.

Saving for housing

HYPO BABY

Hypo Baby is an account that enables grandparents, godparents and other relatives to start saving for a first home for children.

HYPO TEEN

You can start saving for your first home already at young age. The Hypo Teen account is a fast and effortless way to your first home.

HYPO ASP

First step towards becoming a homeowner. Hypo's experts will draw up a savings plan and provide support when you are buying your first home.

HYPO HOUSING SITE CONCEPT

The original and authentic housing site concept for lowering the purchasing price of a new-built apartment. The price of the apartment itself is separated from the price of the share of the site allocated to that particular apartment, which lowers the threshold for homebuyers to get a hold of a new-built home. The homeowner pays rent for their share of the housing site. In this way, the living expenses can be distributed evenly throughout the upcoming years. The allocated share of the leased site can be purchased once the homeowner so wishes. Buying shares of the site is possible annually. Expenses are transparent and predictable for they can only increase by the amount of inflation.

Hypo's 'AAA' rated covered bonds – best that Finland has to offer

At Hypo we are already aiming at the year 2020 as that is our 160th year of acting as an independent and competitive credit institution at the housing market.

We have earned the trust of our customers and investors and as a result, we are proud to present, beside the strong growth rates, the international credit rating assigned by S&P Global Ratings (S&P): 'BBB' stable to the Mortgage Society of Finland and 'AAA' stable to the Mortgage Society of Finland's covered bonds. Hypo offers investors long-term covered bonds with a slogan: "Best that Finland has to offer."

This is my fifth CEO's review. During this time, Hypo Group's loan portfolio has increased from EUR 615 million to EUR 1.807 million. Growth rate is on average 38 per cent per year, while the market growth has been on average 1.5 per cent per year. Non-performing loans evaluated in more conservative manner are 0.11 per cent of Hypo's loan portfolio while the industry average is 1.4 per cent. Credit losses are practically nonexistent.

We have achieved yet balanced growth and that is exactly what we have done while managing the risks. Loan portfolio has grown significantly with low risk level loans while common equity tier 1 calculated with standard and basic methods has remained at a strong level. At the end of 2016 Hypo's common equity tier 1 (CET1) ratio was 13.6 per cent. At the end of 2011, it was 15.4 per cent. The loan portfolio has grown by nearly 200 per cent over the past five years yet the common equity tier 1 ratio has decreased by only 2 percentage points despite the considerably tightened regulation. Meanwhile, the deposit banking has grown into billion –euro activity. In turn, Hypo's own funds have increased from EUR 69 million to EUR 100 million.

I consider this quite good achievement during these times of uncertainty especially with the single office strategy and employing only about 50 permanent home financing specialists. In terms of both structure and business operations, Hypo has taken significant steps. Hypo's growth remains strong and it has access to both domestic and international funding markets and to nearly all funding sources for bank operations now that we have issued our first covered bonds last year.

We cannot underestimate the significance of this ability at the housing market of today. One would feel lonely without it. Now, on the contrary, one does not. On the contrary. We are ready for increased competition caused by countryside banks storming aggressively into growth centers and leaving their roots behind. We know the limits of healthy lending. We will not brake them but we will adapt into increased competition whilst growing the profit for the period and managing the risks. Time will tell who are the ones to stand.

It would be fundamental that everybody competes by the same rules and requirements. It is about the time to confess that systemically important is nowhere near risk free. The worst thing imaginable is to cause systemic risk concentrations by using artificial group structures. In order to ensure healthy competition in banking industry the group structures should be dismantled and the increasingly complex IFRS regulation should be extended equally to all the operators. The competition takes care of separating the wheat from the chaff among nearly 300 banks.

A whole other question is what is Hypo in 2030 at the time of its 170th birthday. I remain confident about the long-term development. Provided that regulatory requirements are equal to every operator, Finland continues to have room for an expert organization specializing in home financing and housing. It is not a question of loan demand nor Hypo's ability. Hypo continues the determined growth remaining well capitalized, cost efficient and profitable. Capital usage will be optimized, personnel competence enhanced, and new opportunities created by technology will be seized. Besides the profit for the period, the other instruments and solutions must be continuosly considered in order for us to meet the growing demand. The same requirement applies to our operating and business models. There is a demand and special role on the market for Hypo. We do not think that at some point the growth merely stops after which we start maintaining and optimizing our market share. That kind of activity would not impress the credit rating agencies nor the investors. That kind of bank won't tempt the best customers let alone the best experts available. Instead, that kind of bank has it easy for a while but at the same time, it loses its market significance and as a result compromises its independence.

That is not our path. Hypos's story is to grow determinedly while managing the risks and challenging both competitors and other housing market operators to strengthen the accumulation of debt-free housing assets to places in which the homes will retain their values and liquidity at all times – including the bad ones.

Last year we sold for nearly EUR 1,000 million in mortgages and made happen nearly 1,000 house sales and repair projects of nearly 1,000 housing companies. Repair projects cover approximately 40,000 homes. At the same time, our customers repaid mortgages by EUR 600 million consequently saving themselves debt-free housing assets located in growth centers. The Hypo Housing Site Concept and RS funding enabled construction of about 1,000 housing units with total worth EUR 200 million.

This is the core of Hypo's operating principle. We exist to make sure that our customers are able to accrue themselves debt-free and liquid housing property which will retain its value whilst managing the risks. We cannot promise for it to be easy nor fast. Yet what we can promise is that it will be safe and outright reasonable.

I would like to take this opportunity to thank all of our employees and the members of our administrative bodies for their hard work at completing the strategic projects. As the old saying goes "this is the way forward" as Hypo is at its full force.

After our customer promise: "A secure way for better living. Hypo."

Helsinki, 28 February 2017

Ari Pauna, CEO

Funding diversifies and investor base becomes more international

In 2016 a significant strategic project was completed when the sources of funding expanded to covered bonds. As a result, funding diversified and investor base became increasingly international. In May Hypo issued its first covered bonds.

Chief Operating Officer **Elli Reunanen** explains that several years of determined work has been put into developing and growing the core business operations.

”Hypo’s competitiveness improves as the price of funding decreases. We offer covered bonds for investors and even better service and more competitive alternatives for home financing for loan customers”, she describes.

Hypo continues to act as mortgage society which now, however, has a license to engage in mortgage credit banking operations. Lending has always been property-secured, hence the lending operations do not change and there will be no changes in customers’ loans or collaterals. Covered bond investors’ investment is secured. At the beginning of 2017, the Financial Supervisory Authority formally supplemented Hypo’s licence and an extraordinary annual general meeting of the Mortgage Society of Finland refined the bylaws.

Hypo’s covered bonds are secured with mortgage loans registered in the cover pool. In an extreme situation, Hypo’s covered bond investors will receive their bond related payments from the amortizations and redemptions of the registered loans. This does not differ from practice of other domestic banks: approximately half of the Finnish housing loans are used for securing covered bonds issued by different banks.

Hypo's lending policy continues to be conservative in nature and operations are mainly located in Helsinki Metropolitan and growth centers, that is, the most crucial areas when it comes to the housing markets. The very low amount of non-performing receivables proves that Hypo's loan portfolio is healthy; a synonym for high quality in banking terminology.

"We make sure that our loan portfolio continues to be the absolute best", Reunanen says.

Hypo's strategic focus on growth centers is natural as all the signs point at the fact that the migrations to cities continues. Finnish housing markets can no longer be considered as one or two ensembles; rather the country is divided in several different areas in regards to price and market development. Finland is catching up with the urbanization trend of Sweden and regional segregations seems to be here to stay.

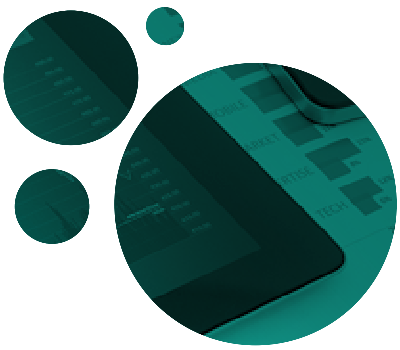
At the turn of the year, Hypo had covered bonds in outstanding circulation worth EUR 400 million. In the future, issuances will take place regurlarly.

"Our goal is that half of our funding comes from deposits. The other half is so called wholesale funding, out of which the covered bonds constitute the most significant part."

"We offer covered bonds for investors and even better service and more competitive alternatives for home financing for loan customers", Chief Operating Officer Elli Reunanen describes.

Increase of covered bonds in banks' funding follows the movement of banking regulations. Following the economic crisis, regulation has become more rigorous and has then guided behavior of both banks and investors.

Hypo has an excellent reputation among both international and domestic investors. In November 2016, S&P Global Ratings (S&P) raised raised Hypo's rating outlook to 'BBB/A3' stable. S&P has affirmed a 'AAA' rating, a best possible, to the Mortgage Society of Finland's mortgage covered bonds.



The original and authentic Hypo Housing Site Concept – 6,000 housing units, 150 housing companies and counting

”The original and authentic Hypo Housing Site Concept is a transparent and trustworthy model. It has established itself as the Finnish blueprint for residential construction on leased land”, Hypo’s Investment Director Juho Pajari says.

The Hypo Housing Site Concept has established itself as the Finnish blueprint for residential construction on leased land. At the end of 2016, the total assets involved in the concept were approximately EUR 400 million. Some 6,000 housing units and 150 housing companies have already been constructed using Hypo’s concept. Construction is set to begin, or is already under way on multiple new projects, including new residential buildings in the Kalasatama district of Helsinki and the Ranta-Tampella area of Tampere.

As Hypo’s Investment Director **Juho Pajari** tells it, Hypo, as a specialist operator in the housing market, developed the original and authentic housing site concept in 2004. The idea was to lower the threshold for homebuyers to get a hold of a brand new home.

“The idea behind the concept is that the purchasing price of a new-built apartment is lower once the price of the apartment itself is separated from the price of the share of the site allocated to that particular apartment. The buyer gets to live in their very own apartment, but pays rent for a portion of the land which the building is built on i.e. the housing site”, Pajari explains.

The owner of an apartment may purchase the share allocated to their apartment whenever they feel the timing is right. In

The seal of quality of the Hypo Housing Site Concept is a guarantee of excellence and quality. The original and authentic housing site concept is a transparent and trustworthy model for all involved parties.

HYPON TONTTIKONSEPTI

this way, the cost of the site can be distributed evenly over a time as long as 50 years through a site leasehold agreement.

"For a homebuyer the model is secure and easy to understand, because one can constantly be aware of the price for which to purchase their share of the land. The original price only increases over time by the amount of inflation. There are no hidden expenses or predetermined appreciations", Pajari says.

Transparent and trustworthy

The Hypo Housing Site Concept is a transparent and trustworthy model for all involved parties. The buyer gets a home with a lower purchasing price and can rest assured that when it comes to purchasing their share of the land, the whole process of the housing company purchasing a portion of the site is as easy and quick as possible. Hypo offers assistance and guidance to the property manager when necessary.

The construction companies' own capital is not tied up in land ownership and the rented out land does not add to the company's debts. The well-established, financially solvent investors involved get themselves a secure and well taken care of investment. Hypo's experts alleviate the work of housing companies and property managers by assisting with all matters related to leased land and purchasing portions of it for the housing company.

As the developer of the original housing site concept Hypo has the interests of all involved parties at heart. Hypo is responsible for making sure that everything is handled in a sustainable, precise and swift manner. The Hypo Housing Site Concept does not compete with municipal leased housing sites because Hypo's concept includes the possibility for purchasing apartment specific portions of the housing site. The municipal model does not include this option, which in practice means that the entire housing site remains permanently on lease.

"In 2016, we developed a seal of quality for the Hypo Housing Site Concept to indicate Hypo's guarantee of excellence and quality. Our partners may rely on our trustworthy and persistent long-term collaboration", Pajari accentuates.

Construction companies can use the Hypo Housing Site Concept seal of quality when marketing new building projects consistent with the model. The concept is also suitable for housing site arrangements for older, already built housing companies. One such arrangement could be the financing of pipe repair in the building.

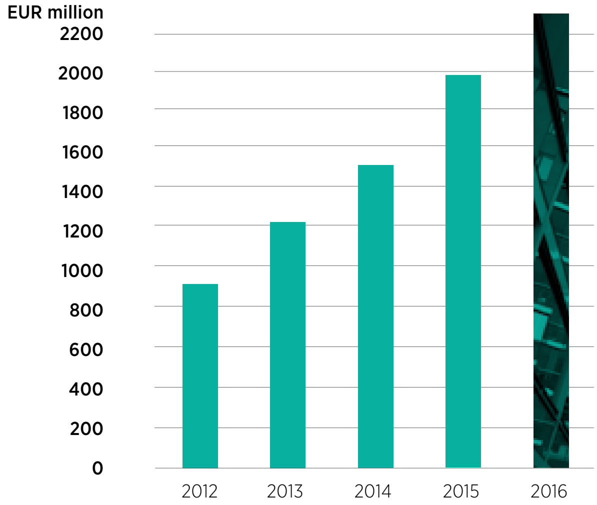
Hypo Housing Site Concept in practice

A residential land fund, managed by Hypo and owned mostly by pension organizations, buys a residential housing site. The fund will then rent out the site to a housing company on a long-term lease. The shareholders of the housing company will pay a site leasehold charge to the housing company; then the housing company will use that money to pay rent to the residential land fund.

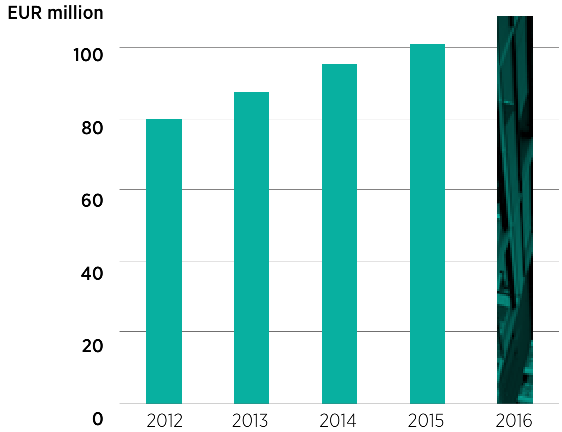
A housing company has the right to purchase the desired amount of shares of the site annually. The shareholders inform the housing company about their desire to buy the share allocated to their own apartment and then the housing company buys those shares from the landowner. Once the transaction is complete, the shareholder is from there on exempt from paying the site leasehold charge.

The investors get a steady profit from the residential land funds. The investors own the funds, so they are in control of the fund and its decisions.

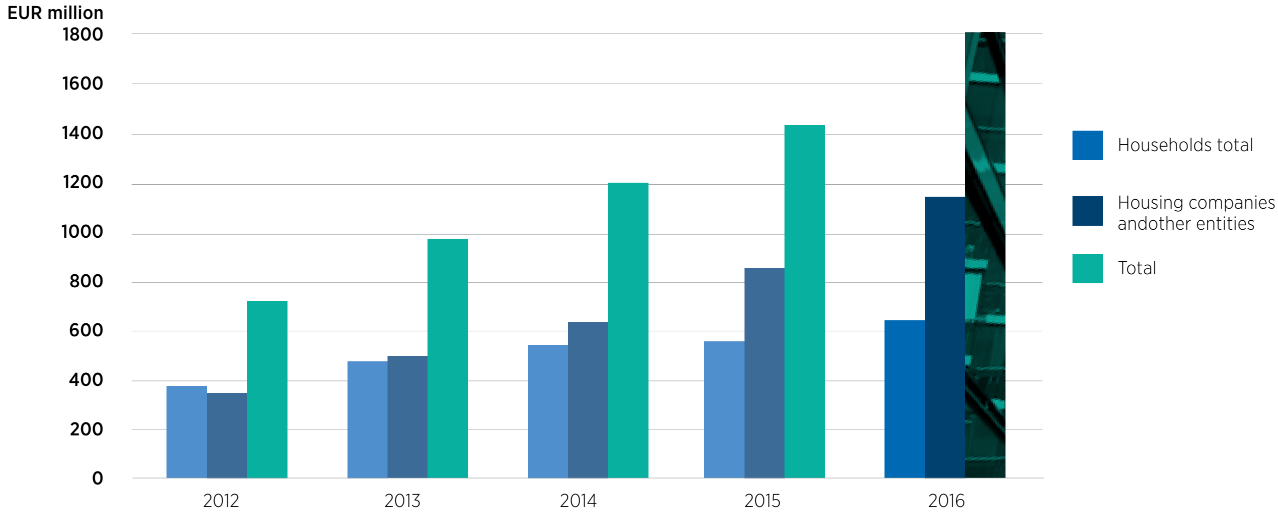
BALANCE SHEET TOTAL



EQUITY



LOAN PORTFOLIO



1

January

Extraordinary general meeting of the Mortgage Society of Finland. The meeting approves the change of Hypo Bylaws, new rules applied

Finnish Financial Supervisory Authority approved the extension of licence, activity in accordance with the Act on Mortgage Credit Bank Activity may begin.

Hypo Financial Statements Release Full Year 2015

Hypo Economic Review 1/2016

2

February

Credit Update event for investors

Hypo Housing Market Analysis 1/2016

3

March

The Supervisory Board of the Mortgage Society of Finland and its auditors hold a meeting

Financial Statements Full Year 2015

Annual general meeting of the Mortgage Society of Finland. Timo Kaisanlahti, Juha Metsälä, Anni Sinnemäki, Liisa Suvikumpu and Ira Van Der Pals were appointed as new members of the Supervisory Board of the Mortgage Society of Finland.

The Supervisory Board of the Mortgage Society of Finland hold a meeting

4

April

Interim report Q1

5

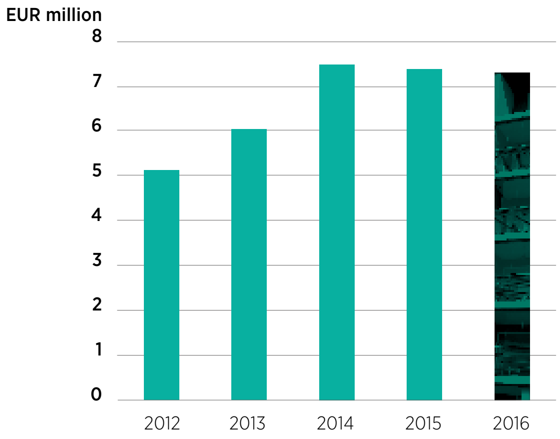
May

Hypo issues its first covered bond with a total of EUR 250 million. S&P Global Ratings (S&P) assigned a 'AAA' rating, the best rating possible, to The Mortgage Society of Finland's covered bonds and cover assets pool.

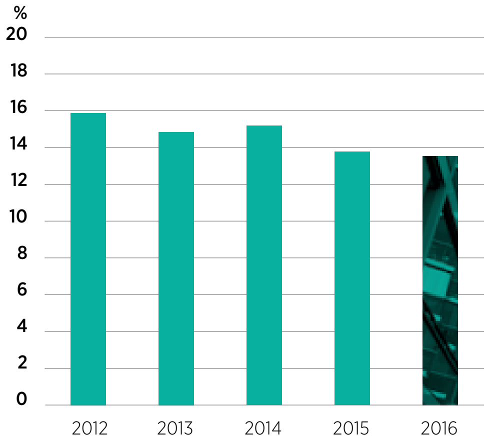
Hypo Housing Markets Analysis 2/2016

Hypo Housing Site Concept and Residential Land Funds administered by Hypo participate in land development of lots for the residential towers in Kalasatama Helsinki, totaling nearly EUR 100 million

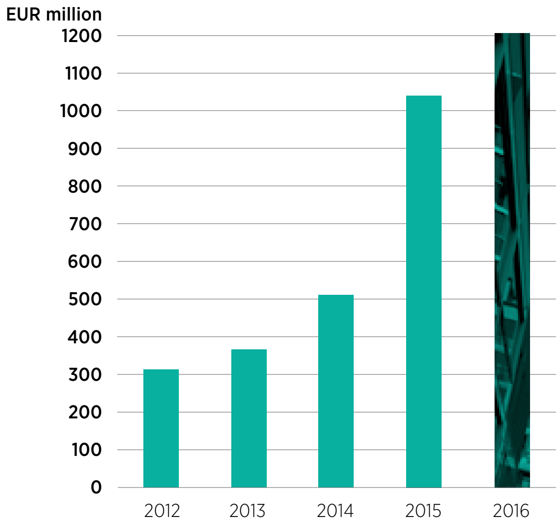
OPERATING PROFIT



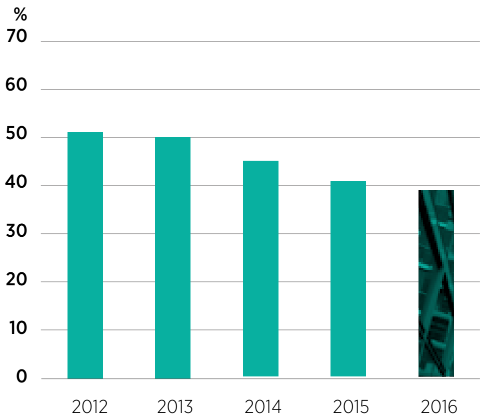
CAPITAL ADEQUACY own funds



DEPOSITS



LOAN-TO-VALUE RATIO



7

July

Hypo Economic Review 2/2016

Hypo attended SuomiAreena's housing discussion in Pori

8

August

Interim report Q2

The Supervisory Board of the Mortgage Society of Finland and its auditors hold a meeting

Hypo Housing Market Analysis 3/2016

9

September

Deposit Button feature is introduced in Hypo's website. With the Deposit button, customers can establish customership electronically, open a deposit account and make first deposit.

Capital increase of Hypo's first covered bond to EUR 300 million

The credit rating of The Mortgage Society of Finland remains unchanged when S&P Global Ratings (S&P) affirms its rating 'BBB/A3' S&P with negative outlook.

10

October

Interim report Q3

11

November

Rating agency S&P Global Services increases the outlook of Hypo's 'BBB/A3' rating to stable.

Hypo Housing Market Analysis 4/2016

Credit Update event for investors

Live chat function to Hypo's website in order to facilitate customers' transactions

12

December

The issuance of Hypo's second covered bond as an EUR 100 million private placement, S&P Global Ratings (S&P) affirms a 'AAA' rating to The Mortgage Society of Finland.

FINANCIAL STATEMENTS 2016

BOARD OF DIRECTOR'S REPORT

THE MORTGAGE SOCIETY OF FINLAND GROUP

The Mortgage Society of Finland Group (hereinafter "Hypo Group") is an expert organization specializing in home financing and housing in Finland. The Mortgage Society of Finland (hereinafter "Hypo") has its domicile and administrative headquarters in Helsinki. Hypo operates in the entire country of Finland, but its operations focus on Helsinki, the Helsinki Metropolitan Area, the Uusimaa region and other growth centers. Hypo, the parent of company of the Group, is a mutual company governed by its member customers. The company is an authorized credit institution. In January 2016 Hypo's license extended as the Financial Supervisory Authority authorized Hypo to engage in mortgage credit bank operations.

Hypo Group's consolidated financial statements include Hypo (the parent company), Suomen AsuntoHypoPankki (hereinafter "AsuntoHypoPankki"), a wholly-owned subsidiary of the parent company, and the housing company subsidiary Bostadsaktiebolaget Taos (hereinafter "Taos"), of which the parent company owns 54.6 per cent. The Mortgage Society of Finland grants loans to households and housing companies against housing or residential property collateral situated in Finland. AsuntoHypoPankki is a deposit bank that offers its customers deposit products, credit cards and trustee services. Taos owns and manages the land and property where Hypo's customer service facilities are located and also rents out office premises from the property. Hypo Group's business operations constitute a single segment, retail banking. Group has around 27.000 customers.

The operations of Hypo and AsuntoHypoPankki are supervised by the Financial Supervisory Authority. Group's both credit institutions endow the Financial Stability Fund by contribution payments to the Financial Stability Authority. In addition Suomen Asuntohypopankki, acting as a deposit bank, pays deposit guarantee contributions to the Deposit Guarantee Fund besides being a member of Investors' Compensation Fund

S&P Global Ratings has assigned a 'BBB/A-3' issuer credit ratings with stable outlook to Hypo. Rating for Hypo's covered bonds is 'AAA' (S&P Global Ratings).

GROUP STRATEGY AND GOALS

Hypo Group aims at steady and profitable growth in its secured loan portfolio and customer relationships while managing risks. Hypo Group aims to offer a competitive and genuine alternative for financing private customers' and housing companies' need for repairs as well as strengthen its market position in the core business of lendings for the benefit of customer. Profits will be used to maintain a high capital adequacy and to improve competitiveness. In accordance with Group's strategy, the Board of Directors sets business targets for Hypo Group. These targets are confirmed, entered onto scorecards and monitored annually, with a focus on a strong common equity tier 1 ratio and low credit losses.

OPERATING ENVIRONMENT

During Hypo's 156th year of operation, housing prices increased slightly and rents continued to increase. The 12-month Euribor, the most common reference rate for lending, turned negative for the first time in the history.

During 2016, the prices of old apartments in housing companies increased by 1.0 per cent across the country. Thev increase of prices between different regions diverged due to urbanization in Finland. The prices of apartments increased by 2.0 per cent in the Helsinki Metropolitan Area but decreased slightly elsewhere in Finland. Increase of Rents for privately financed apartments slowed down and was 2.5 per cent during the year. The 12-month Euribor rate, which is the most common reference rate for mortgage loans, decreased by 0.68 percentage points during the year and was -0.082 per cent on 31 December 2016. (Source: Prices of dwellings in housing companies, 27 January 2016, and Rents of dwellings, 7 November 2016, Statistics Finland. Interest rate statistics of the Bank of Finland for 2016).

The annual growth of Finnish housing loans remained over 2 per cent during 2016. In December, the growth was 2.4 per cent in comparison to the previous year. The stock of household deposits grew strongly in December, the annual growth being as much as 3.9 per cent. The average interest rate of the stock of deposits in Finland stood at 0.18 per cent in December 2016 (Source: MFI balance sheet and interest rates, 31 January 2017, Bank of Finland.) Hypo Prime, the reference rate for Hypo Avista on-demand deposits, decreased from 0.5 per cent to 0.4 per cent during the year.

Hypo continued to publish the Hypo Housing Market Analysis, a quarterly report. The report provides concise information about the housing market, market changes and other topical issues for those operating in the housing market. Besides the housing market analysis, Hypo publishes twice a year an economic review Hypo Economic Outlook, which discusses the Finnish and global economy more extensively.

ASSETS AND FUNDING

Most of Hypo's assets are invested in lending. Some of its assets are invested in liquid assets, homes, residential land and car parks. Funding is acquired on market terms. During the Finacial year, Hypo's international issuer credit rating improved, and was 'BBB/A3' with stable outlook (S&P).

Lending

Hypo has an entirely property-secured loan portfolio. Its loan-to-value (LTV) ratio was 38.4 per cent (41.1 per cent on 31 December 2015). The total amount of non-performing loans, which describes the quality of the loan portfolio, was low at EUR 2.1 million (EUR 2.3 million), representing only 0.11 per cent (0.16) of the total loan portfolio.

At the end of the year, Hypo's loan portfolio stood at EUR 1,806.4 million (EUR 1,420.7 million). Granted but undrawn loans totaled EUR 301.0 million (EUR 218.0 million). The majority of the lending and collateral is focused on growth centers, particularly the Helsinki Metropolitan Area. Borrowers primarily consist of households and housing companies.

Liquidity

Group continued to strengthen its liquidity during the financial year. Its liquidity, including cash and cash equivalents registered in the cash flow statement together with committed credit facilities, totaled EUR 421.0 million (EUR 458.6 million) at the end of the review period. Cash and cash equivalents totaled EUR 417.3 million and consisted of well-diversified deposits and debt securities tradable on the secondary market, of which 92 per cent were at least 'AA'- rated and 100 per cent were eligible as ECB collateral. LCR-ratio was 144.3 per cent (128.0 per cent).

In addition to cash and cash equivalents and committed credit facilities, Hypo has domestic programs for issuing covered bonds, senior unsecured bonds and certificates of deposit.

Other assets

Homes and residential land owned and rented out by Hypo enables Group to offer its customers a more comprehensive selection of housing products and services. Hypo's properties are located in growth centers, mainly in the Helsinki Metropolitan Area, distributed across key residential areas. These properties mainly consist of apartments that have been rented out as well as residential land that has been rented for the long term to housing companies, which will purchase it gradually. Group's housing, residential land and car park holdings decreased to EUR 61.7 million (67.8 million). At the end of the financial year, the fair value of property holdings was EUR 6.1 million (EUR 8.8 million) higher than their book value. Property investments constituted 2.7 percent (3.5 per cent) of the balance sheet total, which is clearly less than the 13 per cent maximum allowed in the Act on Credit Institutions.

Prior to engaging in mortgage credit bank operations, a project relating to information systems and request for authorization took place. The costs of the project caused an increase in long-term expenditures.

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 totaled EUR 5.7 million (EUR 7.4 million), has been entered into Group's other assets and into equity after deferred tax liabilities. Surplus returned by Department A returned to the parent company amounted to EUR 1.8 million.

Derivative contracts

On 31 December 2016, the balance sheet value of derivative receivables was EUR 0.1 million (EUR 0.5 million), and that of derivative liabilities was EUR 4.5 million (EUR 5.6 million).

Deposits

Group's funding operations benefit from a high CET 1 ratio and a strong liquidity position, both of which are valued by investors, and an entirely property-secured credit portfolio, as well as Hypo's investment grade credit rating. Group's financing position remained stable, and deposit funding was increased in comparison to the previous year. The deposits grew to EUR 1,203.1 million (EUR 1,040.0 million), representing 56.9 per cent (56.9 per cent) of total funding. The ratio between deposits and loans increased to 150.2 per cent (136.6 per cent).

Covered bonds

In January 2016, the Financial Supervisory Authority granted Hypo an authorization to conduct mortgage bank operations. The license enables the issuance of covered bonds. Hypo's covered bonds have a 'AAA' rating with stable outlook from S&P Global Ratings (S&P).

Hypo's EUR 1,500 million program for the issuance of notes was updated on 1 April 2016 to enable also the issuance of the covered bonds. Furthermore, the program was supplemented following the publication of each interim report to sustain Hypo's issuance capabilities.

During the financial year, Hypo carried out three covered bond issues with total nominal amount of EUR 400.0 million. In May, the Mortgage Society of Finland issued its first covered bond with a nominal amount of EUR 250.0 million. In September a EUR 50.0 tap issue followed increasing the issue's nominal amount. Furthermore, another covered bond was issued as a private placement in December with a nominal amount of EUR 100.0 million. The nominal amount of mortgages in the cover pool is EUR 550.5 million.

The proceeds were used for Hypo's general lending purposes and for refinancing of existing senior debt and other maturing funding. During 2016, Hypo repurchased its own bonds to the nominal amount of EUR 53.5 million. The share of long-term funding of total funding was 39.9% on 31 December 2016 (39.5 %).

The outstanding amount of bonds and certificates of deposits on 31 December 2016 was EUR 810.5 million (EUR 591.3 million). Hypo Group's funding totaled EUR 2,169.1 million (EUR 1,829.2 million).

CHANGES IN EQUITY

Equity stood at EUR 108.8 million at the end of the financial year (EUR 101.5 million). The changes in equity are presented in more detail in the financial statements for 2016 under "Statement of changes in equity between 1 January and 31 December 2016."

HYPO GROUP'S RESULT, PROFITABILITY AND CAPITAL ADEQUACY

Group's operating profit for the financial period 1 January to 31 December 2016 was EUR 7.3 million (EUR 7.4 million for 1 January to 31 December 2015).

The inauguration of covered bond issues during the financial year decreased the funding costs which was clearly reflected in the improvement in Hypo's net interest income.

Fee income totaled EUR 4.4 million (EUR 3.3 million), consisting of fees related to lending, trustee services and credit cards.

Net profits from investment properties (housing units and residential land) amounted to EUR 4.9 million (EUR 6.8 million). This included EUR 2.4 million of capital gains (EUR 4.0 million).

Administrative expenses totaled EUR 8.7 million (8.0 million). Salaries and indirect employee costs increased by EUR 0.4 million in comparison to the previous year, constituting 67.5 per cent (68.1 per cent) of total administrative expenses. Other administrative expenses increased slightly to EUR 2.8 million (EUR 2.6 million).

Depreciation amounted to EUR 0.3 million (EUR 0.4 million), consisting mainly of items related to the deposit banking system and to the new treasury system introduced during 2016.

Other operating expenses totaled EUR 1.1 million (EUR 0.7 million) as a result of growing contribution payments to the Financial Stability Fund and other regulatory fees.

Group's cost-to-income ratio increased to 57.1 per cent (55.2 per cent).

Loan impairments during the financial period totaled EUR -0,3 million (EUR -0.01 million) and were due to two problem loans.

Group's profit for the period remained at the previous year's level, totaling EUR 6.1 million (EUR 6.1 million). Group's comprehensive income was EUR 7.4 million (EUR 6.0 million), including changes in the fair value reserve included in equity totaling EUE 1.4 million (EUR -0.3 million), revaluation of benefit pension plans totaling EUR 0.2 million (EUR 0.3 million), effect of changes in the ownership of a Group company totaling EUR -0.3 million (EUR 0.0 million) and retained earnings adjustment totaling EUR 0.0 million (EUR -0.1 million). The changes in the fair value reserve were caused by unrealized changes in the value of interest rate swaps and available-for-sale financial assets.

Group's Common Equity Tier, CET 1 in relation to total risk was 13.6% on 31 December 2016 (13.8% on 31 December 2015). Credit and counterparty risk is calculated using the standard method. Group's leverage ratio at the end of the year was 4.2% (4.3%).

KEY FINANCIAL INDICATORS 2012 – 2016

Group	IFRS 2012	IFRS 2013	IFRS 2014	IFRS 2015	**IFRS 2016**
Turnover, EUR million	28.3	27.1	32.7	33.0	**32.4**
Operating profit/profit before appropriations and taxes, EUR million	5.2	6.0	7.5	7.4	**7.3**
Operating profit/turnover, %	18.4	22.2	22.9	22.5	**22.6**
Return on equity (ROE), %	5.2	5.8	6.7	6.2	**5.8**
Return on assets (ROA), %	0.5	0.5	0.5	0.4	**0.3**
Equity ratio, %	8.8	7.2	6.4	5.2	**4.7**
Cost-to-income ratio, %	55.0	57.4	56.4	55.2	**57.1**
Non-performing loans, % of loan portfolio	0.16	0.14	0.23	0.16	**0.11**
Loan-to-value ratio (average LTV), %	51.0	50.0	44.9	41.1	**38.4**
Loans/Deposits, %	235.0	271.8	237.3	136.7	**150.2**
Key figures as set out in EU's Capital Requirements regulation and in national legislation					
Leverage Ratio, %			5.2	4.3	**4.2**
Common Equity Tier 1 (CET1) ratio, %	15.9	14.7	15.1	13.8	**13.6**
Capital adequacy, %	17.0	14.7	15.2	13.8	**13.6**
LCR-ratio, %				128.0	**144.4**
Other key figures					
Receivables from the public and public sector entities	725.0	977.9	1204.0	1420.7	**1806.4**
Deposits (incl. deposits of financial institutions)	308.6	359.77	507.4	1040.0	**1203.0**
Balance sheet total, EUR million	911.2	1219.6	1499.9	1959.5	**2305.2**
Average number of personnel	28	36	52	55	**57**
Salaries and remuneration, EUR million	2.0	2.9	4.1	3.8	**3.9**

Key indicators and alternative performance measures are reported together with indicators defined and named in the IFRS standards in order to give useful additional information on the business operations. Key indicators and alternative performance measures describe the economic profit, financial standing or cash flows from business operations, but are other than the indicators defined and named in the IFRS standards. The indicators defined in the Capital Requirements Regulation (EU 575/2013) CRR, describe the risk-absorbing capacity of a credit institution.

DEFINITIONS OF ALTERNATIVE PERFORMANCE MEASURES

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 + net income from hedge accounting + income from investment properties + other operating income

Operating profit/profit before appropriations and taxes, EUR million

Interest income + income from equity investments + fee income + net income from available-for-sale financial assets + net income from currency operations and securities trading + net income from hedge accounting + income from investment properties + other operating income – (administrative expenses + depreciation and impairment losses on tangible and intangible assets + other operating expenses+ impairment losses on loans and other commitments)

Operating profit/Turnover, %

$$\frac{\text{Operating profit}}{\text{turnover}} \times 100$$

Return on equity % (ROE)

$$\frac{\text{Operating profit - income taxes}}{\text{Equity + accumulated appropriations less deferred tax liabilities (average total at the beginning and end of the year)}} \times 100$$

Return on assets % (ROA)

$$\frac{\text{Operating profit - income taxes}}{\text{Average balance sheet total (average total at the beginning and end of the year)}} \times 100$$

Equity ratio, %

$$\frac{\text{Equity + accumulated appropriations less deferred tax liabilities}}{\text{Balance sheet total}} \times 100$$

Cost-to-income ratio, %

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

LTV-ratio (Loan to Value, average), %

$$\frac{\text{Receivables from the public and public sector entities}}{\text{Fair value of collateral received against the receivables from the public and public sector entities}} \times 100$$

Loan-to-value ratio is calculated by dividing the outstanding loan balance with the fair value of the total amount of the collaterals allocated to the loan. Only housing and residential property collaterals are taken into account. The average LTV ratio is the weighted average of individual loan-to-value ratios.

Loans/deposits %

$$\frac{\text{Receivables from the public and public sector entities}}{\text{Deposits}} \times 100$$

Deposits out of total funding, %

$$\frac{\text{Deposits}}{\text{Total funding}} \times 100$$

Total funding includes liabilities to credit institutions, liabilities to the public and public sector entities, debt securities issued to the public as well as subordinated liabilities

Long-term funding out of total funding, %

$$\frac{\text{Total funding with a remaining maturity of 12 months}}{\text{Total funding}} \times 100$$

Total funding includes liabilities to credit institutions, liabilities to the public and public sector entities, debt securities issued to the public as well as subordinated liabilities.

Average number of personnel

Number of personnel includes those in employment relationship during the financial year (excl. The CEO and the COO). Average number of personnel is calculated by dividing the sum of the number of permanent full-time personnel at the end of each month by the total number of months.

Salaries and remuneration, EUR million

are presented on an accrual basis. The sum describes the expenses related to personnel resources incurred to the company.

DEFINITIONS OF KEY FINANCIAL INDICATORS SET OUT IN EU'S CAPITAL REQUIREMENTS REGULATION

Non-performing assets, % of the loan portfolio

$$\frac{\text{Receivables from the public and public sector entities deemed unlikely to be paid + receivables past due and unpaid over 90 days}}{\text{Receivables from the public and public sector entities}} \times 100$$

Non-performing assets are presented in accordance with the EU's Capital Requirements Regulation (575/2013).

LCR-ratio, %

$$\frac{\text{Liquid assets}}{\text{Outflow of liquidity – Inflow of liquidity (within 30 days)}} \times 100$$

LCR-ratio is calculated in accordance with the EU's Capital Requirement Regulation CRR (EU 575/2013).

Leverage Ratio, %

$$\frac{\text{Tier 1 Capital}}{\text{Total exposure}} \times 100$$

Leverage Ratio, % is calculated in accordance with the EU's Capital Requirement Regulation CRR (EU 575/2013).

Common Equity Tier 1 (CET1) ratio %

$$\frac{\text{Common Equity Tier 1, CET1}}{\text{Total risk}} \times 100$$

The capital requirement for total risk is calculated using the standard method. The capital requirement for operational risk is calculated using the basic method.

DESCRIPTION OF ALTERNATIVE PERFORMANCE MEASURES

Turnover describes the volume of business operations. By comparing the turnover between different financial years, gives information on the increase or decrease of business volumes.

Operating profit, profit before appropriations and taxes is an indicator of profitability in the financial statement describing the net revenues from business operations after taking into account expenses, impairment losses and depreciations.

Operating profit / turnover, % describes the profitability of business operations. By comparing the value of the ratio between different financial years, gives information on the development of profitability.

Return on equity % (ROE) measures profitability of business operations by revealing how much profit is generated in relaton to the equity accrued over a financial period. The Mortgage Society of Finland is a mutual company and thus it does not pay dividends.

Return on assets, % (ROA) measures profitability of business operations through the ratio of operating profit to total assets during the financial period.

Leverage ratio, % the ratio of own funds to total assets. Describes risk-absorbing capacity.

Cost-to-income ratio, % describes business performance by comparing total costs to total income. The less input is used to accumulate revenue, the better the efficiency.

LTV-ratio (Loan to Value, average), % compares the outstanding balance of credit owed by a customer to the fair value of the collaterals provided by the customer. The ratio reflects a credit institution's lending in relation to its collateral position.

Loans / deposits, % describes the relation of lending to deposit funding. A ratio exceeding 100 per cent indicates that in addition to deposit funding, wholesale funding and equity are used as funding sources.

Average number of personnel describes the personnel resources available.

Salaries and remuneration, EUR million are presented on an accrual basis. The sum describes the expenses related to personnel resources incurred to the company.

Deposits out of total funding, % indicator describes the structure of funding.

Long-term funding out of total funding, % the ratio describes the structural funding risk of a credit institution. Long-term funding extends the planning and implementation horizon of the credit institution's funding therefore reducing the risk of having to raise funds under disadvantageous market conditions.

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

KEY EVENTS SINCE THE END OF THE FINANCIAL YEAR

There have been no significant changes in in Hypo's or Group's future prospects nor financial position since the end of the review period from 1 January 2016 to 31 December 2016.

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

FUTURE OUTLOOK

The positive development of Finnish economic growth will continue during 2017. The positive development would be hindered should the uncertainties in the European and world economies realize. The urbanization in Finland continues and supports the housing and mortgage markets in the biggest growth centers. Group management estimates that the net interest income continues its positive development in 2017 and the 2017 operating profit will reach the 2016 levels.

BOARD'S PROPOSAL FOR THE DISPOSAL OF PROFITS

According to section 26 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 EUR 3,235.42 of Hypo's result for 2016 (EUR 6,470.84) be transferred to the reserve fund and the rest remain unused.

RISK MANAGEMENT

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

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

Group's risk management policy is discussed in more detail in the notes to the Financial Statements.

CORPORATE GOVERNANCE

Hypo's operations are governed by general laws and regulations concerning credit institutions and by the Act on Mortgage Societies. 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.

Corporate Governance Statement of the Mortgage Society of Finland, as well as on its internal auditing and risk management systems related to financial reporting process, have been published on its website (http://www.hypo.fi/tietoa-hyposta/johtaminen-ja-hallinnointi/hallinnointi-ja-ohjausjarjestelmat) in conjunction with this annual report.

The Financial Supervisory Authority monitors the operations of Hypo and the Group.

PERSONNEL, INCENTIVES, COMPETENCE PROGRAM AND PENSION PLAN ASSETS AND LIABILITIES

The average number of permanent employees was 50 (51) during the financial year. At the end of the financial year, permanent employees numbered 48 (51) of which two were on parental leave. These figures do not include the CEO and the COO. The average number of fixed-term employees was 7 (4) during the financial year. At the end of the financial year, the number of temporary employees was 10 (5). All employment contracts were full-time contracts.

No permanent employees were hired during the financial year, one temporary employment relationship was made permanent and four employment relationships ended. Group continued to cooperate with Perho Tourism, Culinary and Business College by offering internships to students pursuing a diploma in business and administration.

Of Group's personnel, 69 per cent work in direct customer service duties and 31 per cent in administration. The average age of employees is 44.7 years. At the end of the year, the youngest employee was 24.1 years of age and the oldest was 59.9. The average length of an employment relationship is 7 years. Of all employees, 42 per cent are men and 58 per cent are women. Three of the four members of the Management Group are men and one is a woman. In addition, the secretary to the Management Group is a woman. Of Group's employees, 38 per cent hold a higher education degree and 48 per cent have graduated from a university of applied sciences (polytechnic) or completed upper secondary education. Of the women employed by Hypo Group, 24 per cent hold a higher education degree and 48 per cent have graduated from a university of applied sciences (polytechnic) or completed upper secondary education. For the men, the proportions are 52 and 39 per cent, respectively.

All permanent employees are included in 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 its highest, can equal 16 weeks' pay. The Board of Directors decides on rewards for employees and middle management at the proposal of the CEO. Decisions about rewards for the CEO and the COO are made by Hypo's Compensation Committee at the proposal of the Board of Directors. The scheme also takes account of the content of current regulations, particularly with regard 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.

In line with its HR policy, which supports its strategic targets, Hypo is a learning, efficient and profitable organization and a community of experts passionate about housing and home financing. The continuous development of employees' competence, management and the workplace community is an integral part of Group's business strategy. During the financial year, each employee attended at least one personal performance and development discussion.

The determined fostering of competence throughout the organization has laid a solid foundation not only for business growth, but also for an effective response to the requirements of constantly changing and increasing regulation. Through organizational solutions, Group has been able to ensure that each employee's best competence is utilized to reach strategic targets. Almost all of our customer service employees have completed their real estate agent diplomas (LKV).

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 sports 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 three employees in total. Through Department M, the pension foundation covers a total of 74 people.

Helsinki, 27 February 2017

Board of Directors

CONSOLIDATED INCOME STATEMENT, IFRS

€ 1,000	Note	2016	2015
Interest income	1	19,951.7	20,960.0
Interest expenses	1	-14,565.5	-16,386.2
NET INTEREST INCOME		**5,386.2**	**4,573.8**
Fee income	2	4,517.1	3,397.0
Fee expenses	2	-77.6	-53.0
Net income from currency operations and securities trading			
Net income from securities trading	3	-522.2	-569.5
Net income from currency operations	3	0.1	0.5
Net income from available-for-sale financial assetst	4	3,634.5	2,474.2
Net income from hedge accounting	5	-53.7	0.0
Net income from investment properties	6	4,881.3	6,769.1
Other operating income	7	-16.0	-6.8
Administrative expenses			
Personnel expenses			
Salaries and remuneration		-4,513.4	-4,390.0
Indirect personnel expenses			
Pension expenses		-1,054.2	-982.9
Other indirect personnel expenses		-308.2	-95.7
Other administrative expenses		-2,825.1	-2,556.6
Total administrative expenses		-8,700.9	-8,025.3
Depreciation and impairment losses on tangible and			
intangible assets	9	-328.0	-375.1
Other operating expenses	8	-1,105.0	-746.5
Impairment losses on loans and other commitments	10	-268.7	6.0
OPERATING PROFIT		**7,346.9**	**7,444.2**
Income taxes	11	-1,228.9	-1,314.9
PROFIT FROM OPERATIONS AFTER TAXES		**6,118.0**	**6,129.3**
PROFIT FOR THE PERIOD		**6,118.0**	**6,129.3**

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT, IFRS

€ 1,000	2016	2015
Profit for the period	6,118.0	6,129.3
Other comprehensive income		
Items that may in the future be recognised through profit or loss		
Change in fair value reserve		
Hedging of cash flows	822.5	1,241.3
Financial assets available for sale	580.5	-1,557.0
	1,403.0	-315.7
Items that may not be included in the income statement at a later date		
Revaluation of defined benefit pension plans	185.6	324.5
Effect of the change in the ownership of Bostads Ab Taos Oy	-299.5	3.1
Adjustment made to retained earnings	34.9	-131.8
	-79.0	195.7
Total other comprehensive income	1,324.0	-120.0
COMPREHENSIVE INCOME FOR THE PERIOD	**7,442.0**	**6,009.3**

CONSOLIDATED BALANCE SHEET, IFRS

€ 1,000	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Cash	13, 14, 33	120,200.0	170,000.0
Debt securities eligible for refinancing with central banks			
Other	14, 17 ,31 ,32 ,33	291,927.8	270,650.5
		291,927.8	270,650.5
Receivables from credit institutions			
Payable on demand	14, 15, 31, 32, 33	5,153.3	11,404.9
Other	14, 15, 31, 32, 33	17.9	786.4
		5,171.2	12,191.3
Receivables from the public and public sector entities			
Other than those payable on demand	16, 31, 32, 33	1,806,439.8	1,420,711.2
Debt securities			
From others	14, 17, 31, 32, 33		2,051.5
		0.0	2,051.5
Shares and holdings	18, 32, 33	132.4	132.4
Derivative contracts	19, 32, 33, 34	138.4	510.4
Intangible assets			
Other long-term expenditure	20, 22, 32	2,812.6	1,927.8
Tangible assets			
Investment properties and shares and holdings in investment properties	21, 22, 32	61,691.4	67,784.8
Other properties and shares and holdings in housing property corporations	21, 22, 32	864.7	939.2
Other tangible assets	22, 32	336.7	330.5
		62,892.8	69,054.5
Other assets	23, 32	9,239.5	8,029.7
Deferred income and advances paid	24, 32	5,964.4	3,640.7
Deferred tax receivables	25, 32	299.5	577.8
TOTAL ASSETS		**2,305,218.4**	**1,959,477.6**
LIABILITIES			
LIABILITIES			
Liabilities to credit institutions			
To central banks		80,000.0	20,000.0
To credit institutions			
Other than those payable on demand	31, 32, 33	38,086.5	131,385.7
		118,086.5	151,385.7
Liabilities to the public and public sector entities			
Deposits			
Payable on demand	31, 32, 33	641,954.6	516,063.0
Other than those payable on demand	31, 32, 33	561,087.8	522,879.5
		1,203,042.4	1,038,942.5
Other liabilities			
Other than those payable on demand	31, 32, 33	28,476.9	34,028.9
		1,231,519.3	1,072,971.4
Debt securities issued to the public			
Bonds	26, 31, 32, 33	699,076.2	521,878.6
Other	26, 31, 32, 33	111,433.3	69,451.3
		810,509.6	591,329.9
Derivative contracts	19, 32, 33, 34	4,536.3	5,627.4
Other liabilities			
Other liabilities	27, 32	8,660.0	7,862.4
Deferred expenses and advances received	28, 32	4,640.3	6,209.3
Subordinated liabilities			
Other	29, 31, 32, 33	8,980.1	13,469.7
Deferred tax liabilities	25, 32	9,442.4	9,219.9
EQUITY			
Basic capital	36	5,000.0	5,000.0
Other restricted reserves			
Reserve fund		22,796.7	22,794.7
Fair value reserve		,	,
From cash flow hedging		-591.2	-1,413.8
From valuation at fair value		-168.6	-749.1
Defined benefit pension plans			
Actuarial gains/losses		1,717.4	1,531.8
Unrestricted reserves		,	,
Other reserves		22,923.5	22,923.5
Retained earnings		51,048.1	45,185.4
Profit for the period		6,118.0	6,129.3
	32	108,843.9	101,401.9
TOTAL LIABILITIES AND EQUITY		**2,305,218.4**	**1,959,477.6**

CHANGE IN EQUITY

€ 1,000	Basic capital	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
Equity 1 Jan 2015	**5,000.0**	**22,793.8**	**-639.8**	**22,924.5**	**45,315.1**	**95,392.6**
Profit for the period					6,129.3	6,129.3
Other comprehensive income						
Adjustment made to retained earnings					-131.9	-131.9
Effect of the change in the ownership of Bostads Ab Taos Oy		0.0			3.1	3.1
Distribution of profits		0.9			-0.9	0.0
Hedging of cash flow						
Amount recognised in equity			51.9			51.9
Amount transferred to the income statement			1,499.7			1,499.7
Change in deferred taxes			-310.3			-310.3
Financial assets available for sale						
Change in fair value			527.9			527.9
Amount transferred to the income statement			-2,474.2			-2,474.2
Change in deferred taxes			389.3			389.3
Defined benefit pension plans						
Actuarial gains/losses			405.6			405.6
Change in deferred taxes			-81.1			-81.1
Total other comprehensive income	0.0	1.0	8.7	0.0	-129.7	-120.0
Equity 31 Dec 2015	**5,000.0**	**22,794.7**	**-631.0**	**22,923.5**	**51,314.7**	**101,401.9**

€ 1,000	Basic capital	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
Equity 1 Jan 2016	**5,000.0**	**22,794.7**	**-631.0**	**22,923.5**	**51,314.7**	**101,401.9**
Profit for the period					6,118.0	6,118.0
Other comprehensive income						
Adjustment made to retained earnings					34.9	34.9
Effect of the change in the ownership of Bostads Ab Taos Oy					-299.5	-299.5
Distribution of profits		2.0			-2.0	0.0
Hedging of cash flow						
Amount recognised in equity			-480.2			-480.2
Amount transferred to the income statement			1,508.4			1,508.4
Change in deferred taxes			-205.6			-205.6
Financial assets available for sale						
Change in fair value			4,360.1			4,360.1
Amount transferred to the income statement			-3,634.5			-3,634.5
Change in deferred taxes			-145.1			-145.1
Defined benefit pension plans						
Actuarial gains/losses			232.0			232.0
Change in deferred taxes			-46.4			-46.4
Total other comprehensive income	0.0	2.0	1,588.6	0.0	-266.6	1,324.0
Equity 31 Dec 2016	**5,000.0**	**22,796.7**	**957.6**	**22,923.5**	**57,166.1**	**108,843.9**

CONSOLIDATED CASH FLOW STATEMENT

€ 1,000	2016	2015
Cash flow from operating activities		
Interest received	19,143.7	20,866.3
Interest paid	-15,477.1	-15,750.1
Fee income	4,073.2	3,367.3
Fee expenses	-77.6	-53.0
Net income from currency operations and securities trading	-522.1	-569.1
Net income from available-for-sale financial assets	3,634.5	2,474.2
Net income from hedge accounting	-53.7	
Net income from investment properties	3,856.0	7,911.9
Other operating income	-16.0	-6.8
Administrative expenses	-10,804.6	-6,837.3
Other operating expenses	-1,225.8	-844.7
Credit and guarantee losses	-268.7	6.0
Income taxes	-1,150.1	-1,272.6
Total net cash flow from operating activities	**1,111.4**	**9,292.0**
Operating assets increase (-) / decrease (+)		
Receivables from customers (lending)	-384,886.1	-214,610.2
Cash collaterals, derivatives	-46.1	
Investment properties	7,814.4	-16,645.8
Operating assets increase (-) / decrease (+) total	**-377,117.8**	**-231,255.9**
Operating liabilities increase (+) / decrease (-)		
Liabilities to the public and public sector entities (deposits)	164,101.1	570,878.8
Operating liabilities increase (+) / decrease (-) total	**164,101.1**	**570,878.8**
NET CASH FLOWS ACCRUED FROM OPERATING ACTIVITIES	**-211,905.3**	**348,914.9**
Cash flows from investments		
Change in fixed assets	-1,144.5	-1,508.1
Equity investments increase (-) / decrease (+)		-18.9
NET CASH FLOWS ACCRUED FROM INVESTMENTS	**-1,144.5**	**-1,527.1**
Cash flows from financing		
Bank loans, new withdrawals	131,830.4	40,608.5
Bank loans, repayments	-165,129.7	-89,597.3
Other liabilities increase (+) / decrease (-)	-6,303.7	-7,185.6
Bonds, new issues	429,857.5	180,569.8
Bonds, repayments	-252,291.5	-178,226.3
Certificates of deposit, new issues	180,965.7	208,286.5
Certificates of deposit, repayments	-138,983.7	-268,863.9
Subordinated liabilities, new withdrawals	59.0	35.9
Subordinated liabilities, repayments	-4,548.6	-4,528.3
NET CASH FLOWS ACCRUED FROM FINANCING	**175,455.5**	**-118,900.8**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**-37,594.3**	**228,487.1**
Cash and cash equivalents at the beginning of the period	454,893.2	226,406.2
Cash and cash equivalents at the end of the period	417,299.0	454,893.2
CHANGE IN CASH AND CASH EQUIVALENTS	**-37,594.3**	**228,487.1**

GROUP'S DEVELOPMENT PER QUARTER

€ 1.000	10-12/2016	7-9/2016	4-6/2016	1-3/2016	10-12/2015
Interest income	4,991.4	4,991.5	4,903.9	5,064.9	5,301.1
Interest expenses	-3,215.4	-3,430.0	-3,636.9	-4,283.1	-4,340.4
NET INTEREST INCOME	**1,776.0**	**1,561.5**	**1,267.0**	**781.8**	**960.7**
Fee income	906.3	1,072.3	1,462.9	1,075.6	780.5
Fee expenses	-16.4	-21.7	-25.4	-14.2	-16.8
Net income from currency operations and securities trading					
Net income from securities trading	500.4	-139.7	41.9	-924.9	279.4
Net income from currency operations	0.0	0.0	0.0	0.1	0.2
Net income from available-for-sale financial assets	439.8	692.8	955.2	1,546.7	728.4
Net income from hedge accounting	-11.2	-27.8	-14.7	0.0	0.0
Net income from investment properties	692.4	609.0	1,577.5	2,002.4	1,789.1
Other operating income	-9.6	-1.7	-1.8	-2.9	0.2
Administrative expenses					
Personnel expenses					
Salaries and remuneration	-1,275.7	-906.3	-1,153.2	-1,178.2	-1,185.7
Indirect personnel expenses					
Pension expenses	-379.8	-199.0	-223.5	-251.9	-308.8
Other indirect personnel expenses	-94.0	-129.1	8.7	-93.9	-25.1
Other administrative expenses	-849.3	-601.6	-738.6	-635.6	-796.0
Total administrative expenses	-2,598.8	-1,836.0	-2,106.5	-2,159.6	-2,315.6
Depreciation and impairment losses on					
tangible and intangible assets	-90.9	-82.8	-81.1	-73.2	-93.0
Other operating expenses	-231.4	-177.4	-523.1	-173.1	-414.8
Impairment losses on loans and other commitments	-266.7	1.9	-5.3	1.4	-7.3
OPERATING PROFIT	**1,090.0**	**1,650.4**	**2,546.5**	**2,060.0**	**1,691.0**
Income taxes	-145.2	-283.0	-437.8	-363.0	-305.1
PROFIT FROM OPERATIONS AFTER TAXES	**944.8**	**1,367.4**	**2,108.7**	**1,697.1**	**1,385.9**
PROFIT FOR THE PERIOD	**944.8**	**1,367.4**	**2,108.7**	**1,697.1**	**1,385.9**

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT, IFRS

€ 1.000	10-12/2016	7-9/2016	4-6/2016	1-3/2016	10-12/2015
Profit for the period	944.8	1,367.4	2,108.7	1,697.1	1,385.9
Items that may be included in the income statement later					
Change in fair value reserve					
Hedging of cash flows	211.3	356.9	312.1	-57.7	1.3
Financial assets available for sale	-101.2	348.6	194.8	138.3	-300.9
	110.1	705.5	506.9	80.5	-299.6
Items that may not be included in the income statement at a later date					
Revaluation of defined benefit pension plans	-563.2		748.8		147.0
Effect of the change in the ownership of Bostads Ab Taos Oy			-299.5		-166.8
Adjustment made to retained earnings				34.9	-131.8
	-563.2	0.0	449.2	34.9	-151.7
Total other comprehensive income	-453.1	705.5	956.1	115.4	-451.3
COMPREHENSIVE INCOME FOR THE PERIOD	**491.8**	**2,072.9**	**3,064.8**	**1,812.5**	**934.6**

ACCOUNTING POLICIES

GENERAL INFORMATION

The Mortgage Society of Finland Group (hereinafter "Hypo Group") is the only national expert organization specializing in home financing and housing in Finland. The Mortgage Society of Finland (hereinafter "Hypo") has its domicile and administrative headquarters in Helsinki. Hypo, the parent of company of the Group, is a mutual company governed by its member customers. The company is an authorized credit institution. In January 2016 Hypo's license extended as the Financial Supervisory Authority authorized Hypo to engage in mortgage credit bank operations. AsuntoHypoPankki is a deposit bank that offers its customers deposit products, credit cards and trustee services. Taos owns and manages the land and property where Hypo's customer service facilities are located and also rents out office premises from the property.

Hypo Group's business operations constitute a single segment, retail banking. The operations of Hypo and AsuntoHypoPankki are supervised 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 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 the EU Capital Requirements Regulation (CRR, EU 575/2013). Part of the information is included in the annual report and part in the notes to the consolidated financial statements.

Adjustments have been made to certain fee and commission income and expenses related to them. Net effect of the adjustment to the 2016 operating profit is EUR -78.8 thousand. Similar adjustment made to Group Operating Profit for years 2013-2014, totaling EUR -131.8, have been presented as a correction in the Equity.

NEW STANDARDS AND INTERPRETATIONS

No new standards or interpretations with an effect on the preparation of the consolidated financial statements came into effect during the financial year 2016.

New standards and interpretations that have not yet been adopted but may have an effect on Group's financial statements in the future include the following:

- IFRS 9 "Financial Instruments" will come into effect on 1 January 2018 and will result in amendments to the financial statements, with regard to i.a. defining and calculating the impairment losses through profit or loss. Amendment is not expected to significantly affect the consolidated financial statements as collateral is always required and counterparties to liquidity investments are chosen in accordance with conservative counterparty limits.

  As of coming into effect of the standard the recognized impairment losses are based on estimate of expected credit losses of loan agreements and liquid assets. Prior to coming into effect of the amendment the impairment loss is recognized through profit or loss when there is evidence that receivable amount based on estimate of future cash flows, is evaluated to be lower than the book value.

  Moreover, application of the standard results in minor changes in classification of funding instruments i.a. classification of debt securities which might change the presentation of change in fair value. The impact of changes in hedge accounting is likely to remain marginal. Group prepares and tests the expected credit loss calculation models as 2017 progresses and reports the progress on the implementation of the standard and when necessary, specifies the impact assessment in the future Interim reports.
- IFRS 15 Revenue from Contracts with Customers will apply to annual reporting periods after January 2018. It includes amendments related to revenue recognition and will not have significant effects on Group's future financial statements.
- IFRS 16 Leases, which was published in 2016, will come into effect on 1 January 2019. It mainly includes amendments to lessees' accounting policies and will not significantly affect Group's future financial statements.

GROUP

Hypo Group's consolidated financial statements include Hypo (the parent company), Suomen AsuntoHypoPankki (hereinafter "AsuntoHypoPankki"), a wholly-owned subsidiary of the parent company, and the housing company subsidiary Bostadsaktiebolaget Taos (hereinafter "Taos"), of which the parent company owns 54.6 per cent.

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 Group's result and financial position. The accounting principles applied to property investments are explained later in this document.

FINANCIAL INSTRUMENTS
Financial assets

Receivables from credit institutions, the public and public sector entities are classified under "Loans and receivables", recognized initially at fair value and subsequently at amortized cost. At least once every quarter, the company evaluates whether there is objective evidence that a single receivable or a group of receivables is impaired. If the receivable amount, which is based on an estimate of future cash flows, is evaluated to be lower than the book value, an impairment loss is recognized. Impairment losses on receivables, as well as any reversals of recognized impairment losses, are presented under "Impairment losses on credits and other commitments".

Debt securities, as well as equity investments (excluding shares in subsidiaries) that are classified under "Financial assets available for sale", are recognized at fair value. Unrealized changes in fair value have been recognized, after adjustment for deferred tax liabilities, in the fair value reserve included in equity. If the security is sold, the valuation recognized in the fair value reserve is recognized in the income statement. Debt securities held to maturity were sold during the financial year, and the remaining debt securities were reclassified as available-for-sale. The option to designate financial assets as at fair value through profit or loss is applied to some of the debt securities in the investment portfolio. These debt securities are measured at fair value through profit or loss. Equity instruments for which no market price is quoted and the fair value of which cannot be reliably determined are recognized at acquisition cost. At least once every quarter, the company evaluates whether there is objective evidence 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, an impairment loss is recognized through profit or loss. Dividend income from equity instruments is recognized once the dividend has become vested.

The purchases and sales of debt securities and shares are recognized using trade date accounting.

Designation of financial assets or financial liabilities as at fair value through profit or loss (fair value option)

In accordance with IAS 39, Hypo applies the fair value option to some of the debt securities included in its investment portfolio, as this serves to reduce the accounting mismatch that results from valuation gains and losses on debt securities and derivatives being treated differently for accounting purposes. Debt securities and the derivatives used to hedge them are exposed to the same risk (interest rate risk) that causes opposite changes in value in the items mentioned above. However, if the fair value option was not applied, only some of these changes in value would be recorded in profit or loss because of the different IFRS classification of items. Hence, the application of the fair value option gives a more accurate picture of the change in the value of the investment portfolio, as it eliminates the mismatch caused by the classification of the above-mentioned financial instruments. Hypo applies the fair value option only to debt securities for which a reliable market price is available. The decision to apply the fair value option is made case by case in conjunction with the acquisition of debt securities, with the goal of providing more relevant information by reducing the accounting mismatch mentioned above. Hypo does not apply the fair value option to financial liabilities.

For items to which the fair value option is applied, the change in value resulting from the credit risk is calculated based on asset swap spreads.

Cash and cash equivalents

Cash and cash equivalents in the cash flow statement consist of cash, debt securities eligible for refinancing with central banks, receivables from credit institutions and other debt securities.

Financial liabilities

Group's liabilities are classified under "Other financial liabilities", recognized initially at fair value and subsequently at amortized cost. If the principal paid or received for a liability is more or less than the nominal value of the liability, the liability is recognized at the amount received. The difference between the nominal value and the amount initially recognized on the balance sheet is amortized over the term of the loan. It is recognized as either an expense or an expense deduction 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 amortized using the effective interest method over the term of the liability.

Liabilities denominated in foreign currencies are converted into euros at the currency rate on the balance sheet date. Liabilities are recognized in, or derecognized from, the balance sheet using trade date accounting.

Gains or losses from the repurchase of own liabilities are recognized in interest expenses.

Financial derivatives

Accounting of derivative cash flows

Interest income and interest expenses from interest rate derivatives are recognized at contract level net amounts in interest expenses or interest income, and accrued interest is included in deferred income or accrued expenses to the balance sheet.

Derivative collateral

Cash collateral delivered by a derivative counterparty is recognized in derivative receivables, in which case the derivative receivable is shown on the balance sheet as the net amount of fair value and collateral received.

Cash collateral delivered to a derivative counterparty is recognized in derivative liabilities, in which case the derivative liability is shown on the balance sheet as the net amount of fair value and delivered collateral.

Cash flow hedge accounting

Cash flow hedge accounting is applied to derivate contracts used to hedge liabilities issued by Hypo. The purpose of cash flow hedge accounting is to allocate the profit or loss impact of the cash flows related to hedged items and hedging instruments to the same accounting period.

The hedging instruments are interest rate swaps that are used to change the hedged items' variable cash flows to fixed-rate cash flows or to floating-rate cash flows with longer maturity reference rates. The future interest payments of the floating-rate liabilities are designated as hedged items.

Hedge effectiveness is verified in two stages. At the beginning of the hedge and during the term of the hedge relationship, the hedge relationship is assumed to be effective if the principals, due dates, re-pricing dates, interest periods and reference rates of the hedged item and the hedging instrument are identical or very similar. In the retrospective verifications, which are carried out at least four times a year, the effectiveness of the hedging instruments and the hedged items is verified to be between 80 and 125 per cent. Any ineffectiveness of the hedging instruments is recognized through profit or loss. If the hedge relationship becomes ineffective because of e.g. changed conditions, the related hedge accounting is discontinued prospectively.

Derivative contracts are recognized at fair value. The fair values of derivatives in cash flow hedge accounting are recognized in "Receivables and liabilities" on the balance sheet, and the offset entries are recognized, after adjustment for deferred taxes, in the fair value reserve included in equity. The unrealized changes in their fair value are included in the comprehensive income statement. Changes in fair value of currency and interest rate swaps resulting from currency revaluation are recognized through profit or loss.

Fair value hedge accounting

Fair value hedge accounting is applied to some of derivate contracts used to hedge liabilities issued by Hypo. The purpose of fair value hedge accounting is to allocate the profit or loss impact of change in fair of hedged items and hedging instruments to the same accounting period.

The hedging instruments are interest rate swaps that are used to change the hedged items' fixed-rate cash flows to variable cash flows.

Hedge effectiveness is verified in two stages. At the beginning and during the term of the hedge relationship, the hedge relationship is assumed to be highly effective if the principals, due dates, re-pricing dates, interest periods and reference rates of the hedged item and the hedging instrument are identical or very similar.

Hedge effectiveness is tested with hypothetical derivatives. Hypothetical derivatives are identical in their terms to the hedged item, excluding the credit risk. In monthly retrospective tests, the hedge effectiveness is verified when the ratio is between 80 and 125 per cent. Should hedge relationship become ineffective, the related hedging relationship is discontinued.

In fair hedge accounting derivative contracts are recognized at fair value and their offsetting entries are recognized in the net operating income from hedge accounting. The fair value of hypothetical derivatives are recognized as an adjustment of the balance sheet value of the hedged instrument and the offset entry is recognized in the net operating income from hedge accounting.

Accounting principles of financial instruments' fair value measurement of financial instruments

The fair value hierarchy is applied to determining fair values. Quoted prices are used primarily (Level 1), but if quoted prices are not available, observable input information other than quoted prices is used instead (Level 2).

The fair values of derivative contracts, most of which consist of plain vanilla interest rate swaps, as well as unquoted 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.

The book value of unquoted 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 recognized in "Intangible assets" consist of IT projects, start-up costs related to deferred debit cards as well as strategic development and system project in order to obtain a license for mortgage credit bank operations and issuing covered bonds. On the balance sheet, intangible assets are recognized in acquisition costs less accrued depreciation and possible impairment losses. The useful life of assets is limited, ten years at the most. Depreciation begins when the asset is deemed to have materially been put into service, and the depreciation is calculated as a straight-line deprecation. In the income statement, depreciation is recognized under "Amortization and impairment on tangible and intangible assets."

TANGIBLE ASSETS
Investment properties and other 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 land 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 Group.

Investment properties and other properties are recognized 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 property investments is evaluated at least once a year. If an asset item is recognized 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 recognized in "Net profits from investment properties". Costs and depreciation related to properties in Hypo Group's own use are recognized in "Other operating expenses".

Hypo has long-term leases with housing companies on the residential land it owns. Once a year, the housing company has the opportunity to purchase a share of the land 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. The partial ownership agreement enables customers to purchase the entire home or sell their share to Hypo. The purchase price has been agreed in advance between parties with binding effect. Moreover, Hypo has concluded so called umbrella agreements with separate construction companies. Hypo has agreed on buying certain housing units at a predetermined price from new buildings at the construction stage

The notes to the consolidated financial statements present a sum that describes the amount Hypo would need for purchasing the partially owned homes and meeting its commitments under partial ownership agreements related to umbrella agreements shall all the housing units fall deemed under the agreements. A provision will be made in accordance with IAS 37 if it becomes likely that Hypo will have to purchase the shares and this results in a loss.

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 2015, 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 land is its acquisition cost adjusted for the increase in the cost of living, which equals the land's redemption price.

Other tangible assets

Other tangible assets include machines, equipment and works of art. These are recognized 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 amortized systematically.

VOLUNTARY PENSION BENEFITS

Statutory pension insurance for Hypo's personnel has been set up with a pension insurance company and it is recognized as a defined contribution plan in accordance with IFRS accounting practice. Voluntary supplementary pension security is arranged through Department A of the pension foundation (closed in 1991) and recognized as a defined benefit pension plan. The wealth of the A-section exceeds the amount of liabilities. During the IFRS transition, the assets are recognized on Group's balance sheet in the items "Other assets" and correspondingly entered into Group's accumulated profits after deferred tax liabilities. In accordance with the IAS 19 standard actuarial gains and losses are recognized in other comprehensive income for the period during which they arise. Any surplus returned by department A of the pension foundation to the parent company will not affect Hypo Group's overall result, but it will improve Group's capital adequacy ratio.

Department M of the Hypo's pension foundation is utilized as a part of performance and incentive scheme, under which incentives are paid partly as insurance premiums to the defined contribution-based Department M of Hypo's pension foundation and which will therefore increase the personnel's pension security. Department M is recognized as a defined contribution pension plan. Transfers from Department A of the pension foundation to Department M increase Group's pension expenses.

TAXES

Taxes in the financial year

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

Deferred tax receivables and liabilities

The financial statements of the parent company includes, in accordance with section 46 of the Business Income Tax Act, a credit loss provision and the revaluation reserves based on revaluations related to properties, as well as 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, which are all recognized at values adjusted for deferred taxes on the consolidated balance sheet. The offset entries are recognized 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 recognized in fee income. Substantial fee income and expenses that are regarded as an integral part of the effective interest rate for a financial instrument are allocated as net interest income or expenses as part of the instrument's effective interest rate.

SEGMENT REPORTING

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

NOTES TO THE CONSOLIDATED INCOME STATEMENT

€ 1.000. unless otherwise indicated.

1. BREAKDOWN OF INTEREST INCOME AND EXPENSES BY BALANCE SHEET ITEM	2016	2015
Receivables valued at allocated acquisition cost		
Receivables from credit institutions	1.8	-3.2
Receivables from the public and public sector entities	18,011.7	19,333.1
Debt securities held to maturity		73.6
Total	18,013.4	19,403.6
Debt securities available for sale	537.1	706.3
Derivative contracts	710.9	170.9
Negative interest expenses of finacial liabilities	76.4	
Other interest income	613.9	679.1
Total interest income	19,951.7	20,960.0
Liabilities valued at allocated acquisition cost		
Liabilities to credit institutions	-793.1	-1,332.7
Liabilities to the public and public sector entities	-5,609.9	-5,941.2
Debt securities issued to the public	-5,025.0	-6,561.1
Subordinated liabilities	-454.6	-616.5
Total	-11,882.6	-14,451.5
Derivative contracts	-2,468.3	-1,499.7
Negative interst income of cash and cash equivalents	-213.7	
Other interest expenses	-0.9	-435.0
Total interest expenses	-14,565.5	-16,386.2

2. FEE INCOME AND EXPENSE	2016	2015
From lending and deposits	1,856.4	1,418.5
From legal assignments	296.1	199.1
From residential property trustee service	2,011.8	1,279.0
From other operations	352.8	500.3
Total fee income	4,517.1	3,397.0
Other fee expenses	-77.6	-53.0
Total fee expenses	-77.6	-53.0

3. NET INCOME FROM CURRENCY OPETARIONS AND SECURITIES TRADING	2016	2015
Gains and losses from disposals of financial instruments (net)		
Net income arising from items recognised based on the fair value option	-71.1	37.3
Non-hedging derivative contracts	-113.2	
Gains and losses arising from measurement at fair value (net)		
Net income arising from items recognised based on the fair value option	-211.7	-606.9
Non-hedging derivative contracts	-126.3	
Net income from securities trading	-522.2	-569.5
Net income from currency operations	0.1	0.5
Total net income from currency operations and securities trading	-522.1	-569.1

4. NET INCOME FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS	2016	2015
Capital gains from debt securities	3,634.5	2,474.2

5. NET INCOME FROM HEDGE ACCOUNTING	2016	2015
Change in fair value, hedging items	59.5	
Change in fair value, hedging instruments	-113.2	
Total	-53.7	0.0

6. NET INCOME FROM INVESTMENT PROPERTIES	2016	2015
Rental income	2,612.1	3,175.5
Capital gains (losses)	2,446.9	3,981.2
Other income	777.1	317.5
Maintenance charges and other maintenance costs paid		
From investment properties that have accrued rental income during the period	-849.3	-611.4
Other expenses	-46.8	-20.4
Depreciation according to plan	-58.7	-73.2
Total	4,881.3	6,769.1

€ 1.000. unless otherwise indicated.

7. OTHER OPERATING INCOME	2016	2015
Rental income, property assets in own use	9.1	7.1
Other income	-25.2	-14.0
Total	-16.0	-6.8

8. OTHER OPERATING EXPENSES	2016	2015
Rental expenses	-132.8	-144.2
Expenses from properties in own use	-52.3	-55.6
Other expenses	-919.9	-546.7
Total	-1,105.0	-746.5

Contribution of EUR 362,027.41 (EUR 195,752.47) to Finacial Stability Authority are included in Other expenses.

9. DEPRECIATION AND IMPAIRMENT LOSSES ON TANGIBLE AMD INTANGIBLE ASSETS	2016	2015
Depreciation according to plan	-328.0	-375.1

10. IMPAIRMENT LOSSES ON LOANS AND OTHER COMMITMENTS AND OTHER FINANCIAL ASSETS	2016	2015
On receivables from the public and public sector entities		
Agreement-specific impairment losses	-290.0	-35.5
Deductions	21.3	41.4
Total	-268.7	6.0

11. INCOME TAXES	2016	2015
Breakdown of taxes in the income statement		
Tax expense based on taxable income for the financial period	-1,025.8	-814.5
Change in deferred taxes	-202.8	-506.5
Taxes from previous periods	-0.3	6.1
Taxes in the income statement	**-1,228.9**	**-1,314.9**
Reconciliation of taxes		
Profit before taxes	7,346.9	7,444.2
Tax-free income	-1,029.6	-851.0
Non-deductible expenses	50.4	32.2
Adjustment made to previous period	-148.1	16.2
Recognition of previously unrecorded tax losses	-61.6	-36.7
Total	**6,158.0**	**6,604.9**
Taxes calculated using the tax rate of 20 %	-1,231.6	-1,321.0
Taxes from previous periods	-0.3	6.1
Other items	3.0	
Taxes in the income statement	**-1,228.9**	**-1,314.9**

12. INFORMATION CONCERNING PRODUCT GROUPS ASN GEOGRAPHICAL MARKET AREAS

The Mortgage Society of Finland Group has only one segment, retail banking. By product group, 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 Hypo's customers and products (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 land. Group's operating area is Finland. Other operations mainly consist of marketing and sales operations for MasterCard charge cards issued by card partners and services provided to a company outside Group.

2016	Combined amount of income	Operating profit	Total assets	Total liabilities	Personnel
Lending and deposits and other housing products and services	19,072.7	7,089.0	2,304,982.0	2,196,330.3	59
Other operations	285.1	257.8	236.4	44.2	
	19,357.8	**7,346.9**	**2,305,218.4**	**2,196,374.5**	**59**

2015	Combined amount of income	Operating profit	Total assets	Total liabilities	Personnel
Lending and deposits and other housing products and services	16,825.1	7,028.4	1,959,077.2	1,857,680.0	58
Other operations	468.2	415.7	400.4	247.7	
	17,293.3	**7,444.2**	**1,959,477.6**	**1,857,927.6**	**58**

NOTES TO THE CONSOLIDATED BALANCE SHEET

13. LIQUID ASSETS	2016	2015
Receivables from central bank	120,200.0	170,000.0

14. CASH AND CASH EQUIVALENT IN THE CASH FLOW STATEMENT	2016	2015
	balance sheet value	balance sheet value
Liquid assets	120,200.0	170,000.0
Debt securities eligible for refinancing with central banks	291,927.8	270,650.5
Receivables from credit institutions	5,171.2	12,191.3
Debt securities		2,051.5
	417,299.0	454,893.2

15. REVEIVABLES FROM CREDIT INSTITUTIONS (LOANS AND RECEIVABLES)

	2016			2015		
	Payable on demand	Other than those payable on demand	Total	Payable on demand	Other than those payable on demand	Total
From the central bank		17.9	17.9		786.4	786.4
From domestic credit institutions	5,150.4		5,150.4	8,631.9		8,631.9
From foreign credit institutions	2.9		2.9	2,772.9		2,772.9
Total	5,153.3	17.9	5,171.2	11,404.9	786.4	12,191.3

Receivables payable 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 payable 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 floating interest rate. There are restrictions for its use as part of liquidity.

16. RECEIVABLES FROM THE PUBLIC AND PUBLIC SECTOR ENTITIES (LOANS AND RECEIVABLES)	2016	2015
Companies and housing corporations	1,154,978.6	849,024.2
Households	635,213.9	552,877.6
Financial and insurance institutions	8,620.0	11,640.0
Non-profit organisations serving households	870.9	982.3
Foreign countries	6,756.4	6,187.0
Total	1,806,439.8	1,420,711.2
Subordinated receivables	642.6	686.2
Non perfoming loans	2,050.9	2,271.5

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

Impairment losses on receivables recognised during the period	2016	2015
Impairment losses at the beginning of the year	354.8	349.7
Receivable-specific impairment losses recognised during the period	290.0	29.9
Receivable-specific impairment losses reversed during the period	-21.3	-24.9
Impairment losses at the end of the year	623.5	354.8

No group-specific impairment losses have been recognised.

	2016	2015
Final credit losses on receivables recognized during the period	158.7	112.7

17. DEBT SECURITIES	2016			2015		
	Publicly quoted	Other	Total	Publicly quote	Other	Total
Issued by public sector entities						
Available for sale						
Government bonds	27,235.3		27,235.3	57,182.3		57,182.3
Other bonds issued by public sector entities	82,841.1		82,841.1	14,575.8		14,575.8
Recognised based on the fair value option						
Government bonds	80,827.4		80,827.4	60,815.5		60,815.5
Other bonds issued by public sector entities	6,053.7		6,053.7	6,006.8		6,006.8
Those issued by other than public sector entities						
Recognised based on the fair value option						
Bonds issued by banks	23,599.7		23,599.7	40,181.3		40,181.3
Available for sale						
Bonds issued by banks	65,328.8		65,328.8	83,855.4		83,855.4
Other debt securities	6,041.8		6,041.8	10,084.8		10,084.8
Total debt securities	291,927.8	0.0	291,927.8	272,701.9	0.0	272,701.9
Subordinated receivables			0.0			0.0
Receivables eligible for refinancing with central banks			291,927.8			270,650.5

Debt securities are investments in various credit counterparties with a remaining maturity of one to ten years.

18. SHARES AND HOLDINGS (FINANCIAL ASSETS AVAILABLE FOR SALE)

	2016			2015		
	Publicly quoted	Other	Total	Publicly quoted	Other	Total
Shares and holdings, available for sale		132.4	132.4		132.4	132.4
Of which at acquisition cost		132.4	132.4		132.4	132.4
Of which in credit institutions		108.5	108.5		108.5	108.5

19.DERIVATIVE CONTRACTS

	2016		2015	
	Book value		Book value	
	Assets	Liabilities	Assets	Liabilities
Hedging derivatives				
Interest rate swaps, cash flow hedge accounting model, fair value		714.5		1,822.1
Interest rate swaps, fair value hedge accounting model, fair value	0.5	622.1		
Interest retae and currency swaps, cash flow hedge accounting model, fair value				2,900.4
Non-hedging derivatives				
Interest rate swaps, fair value	137.9	3,199.7	510.4	904.9
	138.4	4,536.3	510.4	5,627.4
Interest rate and currency swaps, interest carried forward	380.9	668.0		890.4
Total	519.3	5,204.4	510.4	6,517.8

2016				
Remaining maturity	Less than one year	1-5 years	>5 years	Total
Nominal values of the underlying instruments	40,000.0	320,000.0	190,634.5	550,634.5
Fair value, assets		96.3	42.1	138.4
Fair value, liabilities	392.0	1,218.1	2,926.2	4,536.3

2015				
Remaining maturity	Less than one year	1-5 years	>5 years	Total
Nominal values of the underlying instruments	79,427.7	125,000.0	61,000.0	265,427.7
Fair value, assets			510.4	510.4
Fair value, liabilities	3,096.8	1,838.6	692.1	5,627.4

In cash flow hedge accounting, the periods during which the cash flows related to the hedged items are expected to occur do not significantly differ from the periods during which the cash flows related to the hedging instruments are expected to occur.

20. INTANGIBLE ASSETS

	2016	2015
IT programs and projects	1,814.0	1,630.3
Other intagible assets	998.6	297.5
	2,812.6	1,927.8
Amount of agreement-based commitments concerning acquisition of intangible assets	0.0	368.2

21. TANGIBLE ASSETS

	2016	2015
Investment properties and investment property shares, balance sheet value		
Land and water areas	11,549.1	26,632.0
Buildings	1,028.5	1,184.4
Shares and holdings in housing property corporations	49,113.7	39,968.3
Total balance sheet value	**61,691.4**	**67,784.8**
Total fair value of investment properties	65,085.0	73,894.0
of which share based on assessments of a qualified third-party valuer	10,803.7	17,733.5
Non-cancellable land lease agreementst		
Rental receivables within one year	339.0	1,201.1

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

	2016	2015
Agreement-based obligations of investment properties		
Potential redemptions of partially owned housing units and those to be completed	563.2	809.2
Liabilities related to construction	2,181.9	2,181.9
Total	2,745.1	2,991.1

Agreement-based obligations of investment properties are included in the off-balance sheet commitments presented in Note 41. Liabilities related to construction consist of potential construction and defect liabilities.

	2016	2015
Other properties and shares in housing property corporations, balance sheet value		
In own use		
Land and water areas	687.0	734.6
Buildings	177.7	204.6
Total balance sheet value	**864.7**	**939.2**
Total fair value of other properties	3,536.5	3,611.0

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 2016	**3,429.6**	**70,016.7**	**1,006.5**	**2,359.3**	**73,382.5**
Increases, new acquisitions	1,315.7	12,600.5		106.9	12,707.3
Deductions	-198.4	-18,120.1	-74.6	-14.2	-18,208.9
Acquisition cost 31 December 2016	**4,545.8**	**64,497.0**	**932.0**	**2,451.9**	**67,880.9**
Accumulated depreciation and impairment losses 1 Jan 2016	1,501.8	503.5	67.3	2,028.8	2,599.5
Accumulated depreciation of deductions and transfers	-0,6				0.0
Depreciation for the period	232.0	10.1		86.4	96.6
Accumulated depreciation and impairment losses 31 December 2016	**1,733.2**	**513.6**	**67.3**	**2,115.2**	**2,696.1**
Revaluation reserve 1 December 2016		-1,728.5			-1,728.5
Adjustments to the revaluation reserve for the period		-563.6			-563.6
Book value 31 December 2016	**2,812.6**	**61,691.4**	**864.7**	**336.7**	**62,892.8**
Acquisition cost 1 January 2015	**2,170.2**	**55,237.7**	**897.3**	**2,219.8**	**58,354.8**
Increases, new acquisitions	1,259.3	18,331.8	109.2	206.2	18,647.3
Deductions		-3,552.9		-66,8	-3,619.6
Acquisition cost 31 December 2015	**3,429.6**	**70,016.7**	**1,006.5**	**2,359.2**	**73,382.4**
Accumulated depreciation and impairment losses 1 Jan 2016	1,221.7	503.4	54.6	1,946.4	2,504.5
Depreciation for the period	280.1		12.65	82.4	95.0
Accumulated depreciation and impairment losses 31 December 2016	**1,501.8**	**503.5**	**67.3**	**2,028.8**	**2,599.5**
Revaluation reserve 1 December 2016		-37.4			-377.4
Adjustments to the revaluation reserve for the period		-1,351.1			-1,351.1
Book value 31 December 2015	**1,927.8**	**67,784.8**	**939.2**	**330.5**	**69,054.5**

23. OTHER ASSETS

	2016	2015
Defined benefit pension plans/surplus	5,660.0	7,350.3
Other receivables	3,579.5	679.4
Total	9,239.5	8,029.7

More detailed information about defined benefit pension plans is presented in Note 37.

24. DEFERRED INCOME AND ADVANCES PAID

	2016	2015
Interest receivables	3,933.7	3,125.6
Other deferred income	2,030.8	515.1
Total	5,964.4	3,640.7

25. DEFERRED TAX RECEIVABLES AND LIABILITIES

	Tax receivable in 2016		Tax liability in 2016		
	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		0.0		1,132.0	1,132.0
Deferred tax on the old revaluation reserve for property investments		0.0	560.8	-274.7	286.2
Deferred tax on the fair value reserve	299.5	299.5	109.6		109.6
Deferred tax on credit loss provisions		0.0	7,914.7		7,914.7
Total	299.5	299.5	8,585.1	857.3	9,442.4

	Tax receivable in 2015		Tax liability in 2015		
	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		0.0		01,470.1	1,470.1
Deferred tax on the old revaluation reserve for property investments		0.0	673.6	-175.5	498.1
Deferred tax on the fair value reserve	577.8	577.8	37.0		37.0
Deferred tax on credit loss provisions		0.0	7,214.7		7,214.7
Total	577.8	577.8	7,925.3	1,294.6	9,219.9

26. DEBT SECURITIES ISSUED TO THE PUBLIC

	2016		2015	
	Book value	Nominal value	Book value	Nominal value
Other than those payable on demand				
Bonds	699,076.2	700,155.0	521,878.6	522,330.0
Certificates of deposit and commercial papers	111,433.3	111,500.0	69,451.3	69,500.0
Total	810,509.6	811,655.0	591,329.9	591,830.0

The bonds are unsecured debt obligations and issue coverd bonds issued by the Mortgage Society of Finland. 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	2016	2015
Other liabilities	8,660.0	7,862.4

28. DEFERRED EXPENSES AND ADVANCES RECEIVED	2016	2015
Interest liabilities	2,500.9	3,412.1
Advance payments received	64.8	66.0
Tax liability based on taxes for the period	436.4	357.6
Other deferred expenses	1,638.2	2,373.5
Total	4,640.3	6,209.3

29. SUBORDINATED LIABILITIES	2016		2015	
	Book value	Nominal value	Book value	Nominal value
Debenture loans	8,980.1	8,983.6	13,469.7	13,475.4

Debenture loan 7/2013, with a balance sheet value of EUR 7,999 million, will mature on 18 September 2018 and be repaid in equal instalments. Its interest rate is fixed at 3.750%. Debenture loan 1/2014, with a balance sheet value of EUR 0,981 million, will mature on 2 February 2018 and be repaid in equal instalments. Its interest rate is 2.00% + 12-month Euribor. Premature repayment of the loans is subject to the permission of the Financial Supervisory Authority. The loans are not included in own funds in capital adequacy calculations.

30. LIABILITIES ACCORDING TO THE ACT ON RESOLUTION OF CREDIT INSTITUTIONS AND INVESTMENT FIRMS	2016	2015
Unsecured libilities	517,924.8	755,732.4
of which the remaining maturity is less than one year	243,681.6	457,251.1
Unsecured subordinated libilities ecl. liabilities recognized in own funds	8,980.1	13,469.7
of which the remaining maturity is less than one year	4,488.8	8,978.5
Common Equity Tier 1 (CET1) capital	87,802.6	98,102.9
Liabilities according to the Act on Resolution of Credit Institutions and Investment Firms total	335,973.0	564,332.6

31. MATURITY DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES

2016	<3 months	3–12 months	1–5 years	5–10 years	>10 years	Total
Receivables from credit institutions	5,171.2					5,171.2
Receivables from the public and public sector entities	23,472.0	72,354.0	463,666.9	476,564.0	770,382.9	1,806,439.8
Debt securities			203,469.8	88,458.0		291,927.8
Total	28,643.2	72,354.0	667,136.7	565,022.0	770,382.9	2,103,538.8
Liabilities to credit institutions	6.8	22,658.2	85,438.9	9,982.6		118,086.5
Liabilities to the public and public sector entities	873,078.6	318,983.4	38,592.6	864.7		1,231,519.3
Debt securities issued to the public	58,148.4	193,424.4	499,049.5	59,887.3		810,509.6
Subordinated liabilities		4,491.3	4,488.8			8,980.1
Total	931,233.8	539,557.2	627,569.8	70,734.6	0.0	2,169,095.4

Liabilities to the public and public sector entities, as well as debt securities issued to the public, include items the maturity of which complies with the loans granted to the personnel of partners. At the end of 2016, such loans totalled EUR 33,432,038.10

2015	<3 months	3–12 months	1–5 years	5–10 years	>10 years	Total
Receivables from credit institutions	12,191.3					12,191.3
Receivables from the public and public sector entities	14,619.0	62,256.0	387,334.0	361,038.0	595,464.2	1,420,711.2
Debt securities			149,231.0	123,470.9		272,701.9
Total	26,810.3	62,256.0	536,565.0	484,508.9	595,464.2	1,705,604.4
Liabilities to credit institutions	1,012.1	48,824.6	91,571.5	9,977.5		151,385.7
Liabilities to the public and public sector entities	753,574.9	282,982.1	35,262.0	1,152.4		1,072,971.4
Debt securities issued to the public	69,078.1	180,453.0	341,798.8			591,329.9
Subordinated liabilities			13,469.7			13,469.7
Total	823,665.1	512,259.6	482,102.1	11,129.9	0.0	1,829,156.7

32. BREAKDOWN OF BALANCE SHEET ITEMS TO THOSE DENOMINATED IN DOMESTIC AND FOREIGN CURRENCY

	2016			2015		
	Domestic currency	Foreign currency	Total	Domestic currency	Foreign currency	Total
Receivables from credit institutions	5,171.2		5,171.2	12,191.3		12,191.3
Receivables from the public and public sector entities	1,806,439.8		1,806,439.8	1,420,711.2		1,420,711.2
Debt securities	291,927.8		291,927.8	272,701.9		272,701.9
Derivative contracts	138.4		138.4	510.4		510.4
Other assets	201,541.3		201,541.3	253,362.8		253,362.8
Total	2,305,218.4	0.0	2,305,218.4	1,959,477.6	0.0	1,959,477.6
Liabilities to credit institutions	118,086.5		118,086.5	112,561.2	38,824.6	151,385.7
Liabilities to the public and public sector entities	1,231,519.3		1,231,519.3	1,072,971.4		1,072,971.4
Debt securities issued to the public	810,509.6		810,509.6	564,124.9	27,205.0	591,329.9
Derivative contracts and liabilities held for trading	4,536.3		4,536.3	2,727.0	2,900.4	5,627.4
Other liabilities	31,722.8		31,722.8	36,761.3		36,761.3
Equity	108,843.9		108,843.9	101,550.0		101,550.0
Total	2,305,218.4	0.0	2,305,218.4	1,890,695.8	68,929.9	1,959,625.7

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

33. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

	Classification	Fair value determination principle	2016 Book value	2016 Fair value	2015 Book value	2015 Fair value
Liquid assets	Loans and receivables		120,200.0	120,200.0	170,000.0	170,000.0
Receivables from credit institutions	Loans and receivables		5,171.2	5,171.2	12,191.3	12,191.3
Receivables from the public and public sector entities	Loans and receivables		1,806,439.8	1,808,096.7	1,420,711.2	1,422,965.5
Debt securities	Financial assets available for sale	1	181,447.0	181,447.0	165,698.3	165,698.3
Debt securities	Items recognised based on the fair value option	1	110,480.8	110,480.8	107,003.6	107,003.6
Shares and holdings	Financial assets available for sale	2	132.4	132.4	132.4	132.4
Derivative contracts		2	138.4	138.4	510.4	510.4
Total			2,224,009.5	2,225,666.4	1,876,247.2	1,878,501.5
Liabilities to credit institutions	Other liabilities		118,086.5	118,086.5	151,385.7	151,385.7
Liabilities to the public and public sector entities	Other liabilities		1,231,519.3	1,233,565.5	1,072,971.4	1,074,580.9
Debt securities issued to the public	Other liabilities		810,509.6	810,509.6	591,329.9	591,329.9
Derivative contracts		2	4,536.3	4,536.3	5,627.4	5,627.4
Subordinated liabilities	Other liabilities		8,980.1	8,980.1	13,469.7	13,469.7
Total			2,173,631.8	2,175,678.0	1,834,784.1	1,836,393.7

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 floating interest rates with various counterparties. Liabilities to the public and public sector entities consist of deposits from the public and long-term financing contracts concluded with certain counterparties. In the table above, fair value determination principles are presented only with regard to items that, after their initial recognition, are measured at fair value on the balance sheet on a recurring or non-recurring basis. The principles are as follows:
1: Quoted prices in active markets
2: Verifiable price, other than quoted
3: Unverifiable market price

34. NETTING OF FINANCIAL ASSETS AND LIABILITIES

				Amounts not offset on the balance sheet		
2016	Gross amounts	Netted on the balance sheet	Amounts shown on the balance sheet	Financial instruments	Cash collateral received/paid	Net amount
Derivative liabilities	4,582.4	-46.1	4,536.3			4,536.3
Derivative receivables	138.4		138.4			138.4

				Amounts not offset on the balance sheet		
2015	Gross amounts	Netted on the balance sheet	Amounts shown on the balance sheet	Financial instruments	Cash collateral received/paid	Net amount
Derivative liabilities	5,627.4		5,627.4			5,627.4
Derivative receivables	510.4		510.4			510.4

The aforementioned derivative contracts subject to an enforceable master netting arrangement or similar agreement involve, in all cases, an agreement between 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. net amount, should the other party fail to fulfil its obligations.

35. NON-ELIMINATED ITEMS INCLUDED IN THE CONSOLIDATED FINACIAL STATEMENTS WHERE THE COUNTERPARTY IS A SUBSIDIARY OR ASSOCIATED COMPANY OF THE GROUP	2016	2015
Balance sheet items		
Receivables from the public and public sector entities		
Other than those payable on demand		442.8
Tangible assets		
Investment properties and investment property shares	6,787.7	6,908.7
Income statement items		
Interest income		9.4
Net income/maintenance charges from investment properties	-54.8	-92.4

36. BASIC CAPITAL

The basic capital of the parent company of the Mortgage Society of Finland Group is EUR 5 million in accordance with its rules. The Board of Directors of the Mortgage Society of Finland decides on the amount, interest rate and repayment and other terms and conditions of additional capital made up of funds raised externally.

37. 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 the A-section exceeds the amount of liabilities. Department M, a new department of the pension foundation, was established at the end of 2010. This offered the opportunity to use insurance premiums to improve employees' pension security. Department M is recognised as a defined contribution pension plan.

Defined benefit pension plans in the income statement	2016	2015
Service cost	25.1	20.7
Net interest, expense (+) or income (-)	-182.8	-222.7
Net actuarial profit (-)/loss (+) recognised during the period	-232.0	-405.6
Adminstration cost	80.0	75.5
Transfer to Department M	143.5	75.7
Pension expenses (+)/income (-)	**-166.2**	**-456.5**
The changes due to the amendments to the Employees Pensions Act, amount of EUR 60,441, have been accounted for a change in actuarial assumptions and are presented through comprehensive income		
Defined benefit pension plans on the balance sheet		
Present value of obligations	6,688.0	6,489.1
Fair value of plan assets	-14,204.5	-13,839.4
Surplus (-)/deficit (+)	-7,516.5	-7,350.3
Payments from the plan (return of surplus)	1,856.5	
Net liability (+)/receivable (-)	**-5,660.0**	**-7,350.3**
Change in the net liability/receivable recognised on the balance sheet		
Net liability (+)/receivable (-) on 1 January	-7,350.3	-6,893.8
Pension expenses (+)/income (-)	-166.2	-456.5
Payments from the plan (return of surplus)	1,856.5	
Net liability (+)/receivable (-) on 31 December	**-5,660.0**	**-7,350.3**
Group's own financial instruments included in plan assets		
Deposits in Suomen AsuntoHypoPankki	579.4	1,525.3
Most significant actuarial assumptions, %		
Discount rate	1,75	2,50
Expected returns on assets	1,75	2,50
Future pay rise assumption	2,10	2,50
Inflation	1,10	1,50

Sensitivity of the projected benefit obligations to changes in the principal assumptions	Year 2016		
		Effect on defined benefit obligation	
	Change in assumption	Increase	Decrease
Discount rate	0.50%	-5.79%	6.40%
Rate of wage increases	0.50%	0.37%	-0.36%
Rate of pension increases	0.50%	6.00%	-5.66%

A one-year increase in life expectancy increases the obligation by 3.76%.

Sensitivity of the projected benefit obligations to changes in the principal assumptions	Year 2015		
		Effect on defined benefit obligation	
	Change in assumption	Increase	Decrease
Discount rate	0.50%	-5.60%	6.17%
Rate of wage increases	0.50%	0.39%	-0.37%
Rate of pension increases	0.50%	5.17%	-4.77%

A one-year increase in life expectancy increases the obligation by 4.1%.

NOTES CONCERNING GROUP'S COLLATERAL AND CONTINGENT LIABILITIES

38. COLLATERAL PLEDGED	2016	2015
Collateral pledged for own liabilities	Other collaterals	Other collaterals
Liabilities to the central bank	106,943.5	20,031.6
Debt securities issued to the public	494,070.0	
Derivative contracts	1,419.5	
Encumbered assets total	602,433.0	20,031.6

39. INFORMATION CONCERNING ASSET ENCUMBRANCE

	2016			
(€ million)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
A - Assets	455.9	52.9	1735.3	237.5
Equity instruments			0.1	0.1
Debt securities	52.9	52.9	237.4	237.4
Other assets, including lending	397.9	-	1510.6	-

B - Collateral received

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

C - Encumbered assets and associated liabilities	Liabilities associated with encumbered assets	Encumbered assets
Book value of selected financial liabilities	52.5	57.7
Debt securities issued to the public	301.7	420.4
Derivative contracts	0.2	0.3
Total	328.7	455.9

D - Information on the importance of encumbrance

All amounts are reported based on median values of quarterly data on a rolling basis over the previous twelve months. Sums presented in the tables have been calculated as median values from the source data. The amount of assets reported under items A and C above does not include excess collateral except for coverd bonds. Group's encumbered assets consist of debt securities,cover asset pool and cash collateral for derivative contracts that are tradable on the secondary market and eligible as ECB collateral and that have been pledged against a loan from the central bank. Group's encumbered assets increased due to issuance of covered bonds. Encumbered assets totaled EUR 602.4 million, out of which of coverde bonds was EUR 550.5 million. Unencumbered debt securities that are tradable on the secondary market and eligible as ECB collateral and that can be used as collateral in monetary policy operations totalled EUR 240.0 on 31 December 2016.

	2015			
(€ million)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
A - Assets	21.9	22.0	1730.7	232.1
Equity instruments			0.1	0.1
Debt securities	21.9	22.0	232.0	232.0
Other assets, including		-	1498.6	-

B - Collateral received

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

C - Encumbered assets and associated liabilities	Liabilities associated with encumbered assets	Encumbered assets
Book value of selected financial liabilities	35.0	21.9

D - Information on the importance of encumbrance

The amount of assets reported under items A and C above does not include excess collateral. All amounts are reported based on median values of quarterly data on a rolling basis over the previous twelve months. Group's encumbered assets consist of debt securities that are tradable on the secondary market and eligible as ECB collateral and that have been pledged against a loan from the central bank. There has been no significant changes in the group's encumbered assets during the past year. Around 90 per cent of unencumbered other assets are not eligible as collateral. In this context, cash is regarded as an asset eligible as collateral. Unencumbered debt securities that are tradable on the secondary market and eligible as ECB collateral and that can be used as collateral in monetary policy operations totalled EUR 246.3 million on 31 December 2015.

40. LEASING AND OTHER LIABILITIES	2016	2015
Minimum rents paid on the basis of leasing and other rental agreements		
Within one year	107.0	107.1
Within more than a year and at most within five years	19.5	46.8
Total	126.5	153.9

41. OFF-BALANCE SHEET COMMITMENTS	2016	2015
Commitments given on behalf of a customer for the benefit of a third party		
Guarantees and other liabilities	2,181.9	2,181.9
Irrevocable commitments given on behalf of a customer		
Granted but unclaimed loans	301,014.8	218,022.7
Potential redemptions of partially owned housing units and those to be completed	563.2	809.2
Total	303,759.8	221,013.8

NOTES CONCERNING THE AUDITOR'S FEE

42. AUDITOR'S FEES	2016	2015
Fees paid to the auditor for the audit	48.2	47.0
Fees paid to the auditor for tax counselling		
For other services	17.1	13.1
Total	65.3	60.1

NOTES CONCERNING GROUP'S PERSONNEL AND INSIDERS

43. NUMBER OF PERSONNEL	2016	2015
	Average number	Average number
Permanent full-time personnel	50	52
CEO and COO	2	2
Temporary personnel	7	4
Total	59	58

44. SALARIES AND REMUNERATION PAID TO MANAGEMENT	2016	2015
Total salaries paid to the CEO and COO	433.4	424.2

In the event of a termination of the employment, the CEO and the COO are paid a full four-month salary in addition to the salary of the six-month period of notice. The CEO and the members of the Board of Directors are entitled to basic pension security pursuant to the Employees Pensions Act (TyEL). The CEO and the COO are included in Hypo's guidance and incentive plan, in which they have the possibility of earning a maximum of 20 weeks' salary. The total salaries do not include remunerations, as they were not paid in in 2016.

Board of Directors	2016	2015
Annual remuneration of the chairman	23.0	21.7
Annual remuneration of the vice chairman	19.4	18.5
Other members, annual remuneration	82.7	82.5
Other members, annual remuneration	125.1	122.7
Supervisory Board		
Annual remuneration of the chairman	6.0	5.9
Annual remuneration of the vice chairman	3.0	3.4
Other members, annual remuneration	30.2	27.6
Total	39.2	36.8

Information about the salaries and remuneration paid to individual members, as well as the type of remuneration, is available in the salary and remuneration statement for 2016, which is published on Hypo's website at www.hypo.fi/tietoa-hyposta/johtaminen-ja-hallinnointi/saannot-ja-sisainen-valvonta/palkitseminen

45. LOANS GRANTED TO MANAGEMENT AND OTHER INSIDERS	2016	2015	Change
CEO and COO	483.0	530.8	-47.9
Board of Directors	290.8	156.0	134.8
Supervisory Board	1,664.3	3,108.8	-1,444.5
Total	2,438.0	3,795.6	-1,357.6

46. DEPOSITS BY MANAGEMENT AND OTHER INSIDERS	2016	2015	Change
CEO, COO, Board of Directors and Supervisory Board	685.2	717.3	-32.1
The Mortgage Society of Finland's pension foundation	927.9	1,801.7	-873.9
Total	1,613.1	2,519.1	-906.0

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.

47. LOANS GRANTED TO SUBSIDIARIES AND ASSOCIATED COMPANIES	2016	2015
Bostadsaktiebolaget Taos	2,102.5	2,291.7
As Oy Kauniaisten Kokka	0.0	1,950.8
Total	2,102.5	4,242.5

The loans have been granted on market terms.

NOTES CONCERNING GROUP'S SHAREHOLDINGS

48 INFORMATION ABOUT SUBSIDIARIES AND ASSOCIATED COMPANIES

2016	Domicile	Holding, %	Equity	Result for the period	Assets	Liabilities	Income
Subsidiaries							
Suomen AsuntoHypoPankki Oy	Helsinki	100.0	21,394.5	4,060.9	1,228,189.1	1,206,794.6	6,845.9
Bostadsaktiebolaget Taos	Helsinki	54.6	5,922.5	257.1	8,048.6	2,126.1	747.6
Associated companies							
As Oy Vanhaväylä 17	Helsinki	48.2	1,546.8	7.4	1,548.1	1.4	53.6
As Oy Eiran Helmi	Helsinki	32.4	2,360.4	3.6	2,368.3	7.9	84.6
As Oy Hyvinkään Munckinkatu 30	Hyvinkää	25.0	571.1	0.0	573.4	2.3	12.3
As Oy Helsingin Lauttasaarenranta	Helsinki	22.8	*)				

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 Bostadsaktiebolag Taos include a provision that a shareholder may have 20 per cent of the votes at a maximum.
*) Company has just been completed 2016 and it has no consolidated financial statements.

2015	Domicile	Holding, %	Equity	Result for the period	Assets	Liabilities	Income
Subsidiaries							
Suomen AsuntoHypoPankki Oy	Helsinki	100.0	17,333.5	3,288.6	1,063,445.9	1,046,112.3	5,605.8
Bostadsaktiebolaget Taos	Helsinki	59.5	5,665.4	-1,017.1	7,994.1	2,328.7	753.3
Associated companies							
As Oy Vanhaväylä 17	Helsinki	48.2	1,539.3	20.6	1,544.7	5.4	55.9
As Oy Eiran Helmi	Helsinki	33.8	2,356.8	-6.8	2,363.3	6.5	80.9
As Oy Hyvinkään Munckinkatu 30	Hyvinkää	25.0	571.1	0.0	572.4	1.3	11.3
As Oy Kauniaisten Kokka	Kauniainen	22.7	4,218.7	0.0	6,173.2	1,954.5	62.2
As Oy Helsingin Lauttasaarenranta	Helsinki	22.6	*)				

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 Bostadsaktiebolag Taos include a provision that a shareholder may have 20 per cent of the votes at a maximum.
*) Company has just been completed and it has no consolidated financial statements.

NOTES CONCERNING CONTROLLED ENTITIES OF THE GROUP

49. NOTES CONCERNING CONTROLLED ENTITIES OF THE GROUP

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

NOTES CONCERNING THE CAPITAL ADEQUACY OF THE GROUP AND RISK MANAGEMENT

RISK TOLERANCE

The Mortgage Society of Finland Group ("Hypo Group" or "Group") must be risk tolerant in relation to the risks in its business operations and its 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 MANAGEMENT

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

CAPITAL ADEQUACY MANAGEMENT

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

Capital adequacy and risk management procedures at AsuntoHypoPankki have been integrated into capital adequacy management at the Group. In the internal capital adequacy assessment process (ICAAP), Group's own funds are allocated at the group level, considering both Hypo's and AsuntoHypoPankki's business operations.

Capital adequacy of the Group is evaluated and guided with legal obligations as well as with requirements from external credit assessment institution Standard & Poor's. Besides the compulsory minimum quantity, an internal minimum targets and monitoring limits have been set for the key indicators.

The minimum amount of Group's own funds allocated to the credit and counterparty risk is calculated using the standard method.

The minimum amount of Group's own funds allocated to the operational risk is calculated using the basic method.

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 relevant areas of the latter are market risks and the risk of decreasing housing prices.

The details concerning own funds and the minimum requirements applicable to them are shown in the table 50.

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 liquidity management and deposit funding in accordance with Group's growth strategy are considered, as are certain potential changes in the operating environment. The sufficiency of 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.

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

RISK MANAGEMENT AND INTERNAL AUDITING

Risk management and internal audit refer to risk management and other controls carried out by business units as well as measures performed by risk management, compliance and internal auditing, i.e. functions that are independent of business operations.

Group's risk management work and monitoring of risk-taking have been organized at the group level in accordance with principles confirmed the Board of Directors. I.a. the following areas have been specified:

- Responsibilities and organizing of risk management
- Preparation and minimum content of risk area specific principles in risk management
- Processes related to Identification, measuring managing and monitoring of risks at business operations
- Relationships and frequency of risk reporting

Regular risk report is given to the Management Group, to the boards of directors of Group's companies and to the auditors selected by the Supervisory Board of the parent company.

Need for updating the risk management principles as well as the risk area specific principles is assessed regularly on the Board of Directors.

The Board of Director's Risk Management Committee has been established in order to assess Group's risk position. The Committee assembled four times in 2016.

Business units' controls

The operational management and personnel of Hypo are responsible for the practical implementation of risk management and internal auditing in accordance with performance targets, risk authorizations and guidelines confirmed by the management. In addition, the various operations of the Group carry out self-assessments of operational risks. The boards of directors of the Group's companies actively participate in business operations, carrying out internal auditing on their part.

The objective of risk management within Group is to maintain healthy business operations in a way that the agreed controls are carried out in business processes and by making the risks related to the operations visible by acknowledging these risks and by preventing significant risks and preventing losses. In addition, the purpose of risk management is to ensure that all significant risks that may hinder the realization of Group's strategy and goals are identified, measured and assessed regularly and that sufficient risk buffers are maintained.

Independent control functions

Hypo's Chief Risk Officer is responsible for risk management within Group. This includes responsibility for the organization of risk management and the development of risk management principles, as well as the monitoring and evaluation and reporting of risk-taking, in all areas of Group's operations.

The monitoring of compliance is performed by a compliance organization, in accordance with confirmed compliance principles. An independent Compliance Officer, whose other duties include product, service and process development, is in charge of Group's Compliance operations. Employees working as legal counsels serve as compliance contact persons for business operations and are responsible for ensuring that the products and services offered by Group comply with the current legislation and regulation given by the authorities.

Internal audit is an independent unit within Group, with the Chief Auditing Officer being responsible for its operations.

Internal and compliance audits carried out within Group are based on separate action plans. If necessary, audits can also be conducted outside these plans. The Chief Risk Officer, the Compliance Officer and Chief Auditing Officer regularly report their observations directly to the boards of directors of the Group companies and to the auditors selected by the Supervisory Board of the parent company.

ASSESSMENT OF SUFFICIENCY OF RISK MANAGEMENT

The boards of directors of the Group's companies have assessed that the risk management systems used are sufficient in relation to profiles and strategies of the Group and Group's companies.

RISK STATEMENT

In light of the figures concerning Group's risk position presented in these notes, Group's overall risk profile is regarded as moderate. Risk-taking within the Group is cautious. The management of various risk areas is based on separately confirmed risk management principles in each risk area. Lending is Group's most important business area. Lending is carried out only against individually valued collateral, and other credit and counterparty risk counterparties are selected carefully within confirmed limits. The probability of the continuity of Group's business operations being jeopardized in a negative development scenario has been determined to be small through stress testing. Compliance with the limits set for risk-taking is actively monitored. The limited scope of the services offered by Group enables it to maintain a favorable risk position. Taken into account the risk profile of Group's companies, the risk tolerance in different risk areas have been assessed to be reasonable and sufficient in relation to one another.

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

CREDIT RISK

The credit risk refers to the risk of loss arising from a counterparty of the Group not being able to meet its agreed payment obligations. In such a situation, the credit risk materializes if the collateral for the credit is not sufficient to cover Group company's receivables. The counterparty risk is processed as part of the credit risk. If materialized, the credit risk results in an impairment loss. The credit risk is the key risk among Group's business risks, as lending is by far its largest business area. Within Group, lending is carried out by Hypo, the parent company.

Within Group, the credit risk management and reporting are based on General Terms in lending, Principles of Credit Risk Management and supplemental operational instructions.

Lending

Group's lending focuses on loans granted to households (private customers) and housing companies against housing or residential property collateral. Loans are not granted without collateral. Lending is based on the customer's creditworthiness, sufficient ability to service the loan, and securing housing collateral. 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 mortgage deeds registered in 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. As a rule, fair value refers to market value, that is, the price received in a voluntary sale between parties that are independent of each other. Almost all of Hypo's personnel working in lending are certified real estate agents, which serves to reinforce Hypo's ability to independently assess the fair value of collateral. With regard to residential property collateral, the provider of the collateral 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. Collateral for lending by Hypo must be located in Finland. In addition to housing collateral, guarantees and deposit collateral are mainly used as techniques to reduce the credit risk.

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 internal guidelines. The personnel's awareness is ensured through training and compliance controls. Lending authorizations are adjusted according to the employee and their duties. In addition, Group makes use of intensive participation by operational 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.

Group's loan portfolio is distributed across loans with housing collateral throughout Finland. In these loans, the debtor is usually a household (private customer) or a housing company or a corresponding housing corporation. The majority of the customers and collateral is focused on the Helsinki Metropolitan Area. Customers and collateral are also located in other parts of the Uusimaa region and in regional growth centers where the development of housing prices and population growth are estimated to be sufficient. Regarding other regions, additional collateral in the form of homes and holiday homes is accepted as collateral to a minor degree. The emergence and existence of risk concentrations are monitored continuously.

Calculations and measurements describing the risk related to credit risk have been presented in Notes 51 to 54 and 57.

Credit exposure limits of large connected customer groups are kept at a lower level than the maximum limit prescribed by the credit institution legislation and monitored regularly.

The credit risk is continuously measured and reported using factors that anticipate credit risks and factors that describe the quality and distribution of the loan portfolio.

Loan-to-value ratio has developed positively.

The calculation of LTV ratios only takes the residential property collateral into account, which here refers to mortgage deeds registered in property or lease rights, buildings, shares in housing companies or similar as well as rights of residence. Other types of collateral, such as guarantees, have not been taken into account.

The amount of non-performing loans has remained on an excellent level with respect to industry average. A non-performing loan means a credit which, according to creditor's estimate, is deemed unlikely to be paid without recovery measures such as realization of collateral or the payment obligation has been past due and unpaid over 90 days.

Furthermore, the amount of forbearances has developed moderately during 2016. A forbearance is a credit whose payment scheme or terms have been temporary modified with e.g. amortization-free periods (primary method), lengthening of the loan maturity, or other arrangement, due to the debtor's existing or anticipated financial difficulties.

In addition, the net amount of impairment losses has remained at a very low level.

Liquidity investments and derivatives

Those countries, credit institutions and companies for which the management has confirmed a country and counterparty limit are accepted as counterparties for the liquidity investments and plain vanilla derivative agreements of Group companies. The maximum amounts of the limits are kept lower than those prescribed by the credit institution legislation. The setting and monitoring of the limits have been described and are based on separately confirmed principles of liquidity risk management.

In derivative agreements, in accordance with the EMIR regulation, Group will apply Central Counterparty Clearing to derivative contracts other than those related to the covered bonds or cross currency swaps.

Other credit risk counterparties

Of other counterparties, the credit information of lessees is checked, as is any other information that is essential in evaluating lessees for flats owned by Group, in compliance with legislation. As a rule, at the construction stage, residential land is 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 MasterCard business that AsuntoHypoPankki engages in, the credit risk is borne by a card service company that does not belong to Hypo Group.

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

Realized losses

No significant losses related to credit risks were recognized in Hypo's business operations during the financial year.

Impact on capital adequacy

The capital adequacy requirement for the credit risk is calculated using the standard method in accordance with capital adequacy regulations. In capital adequacy calculations, the counterparty risk related to derivative contracts is processed as part of the credit risk inasmuch Hypo has a minor trading book hedging permitted by the law (usually EUR 15 million or 5 per cent of total assets at most and always EUR 20 million or 6 per cent of total assets at most.

In Group's internal capital adequacy assessment procedure, the minimum capital calculated for the credit risk using the standard method has been deemed sufficient to cover the capital need for the credit risk, even in a negative scenario.

OPERATIONAL RISKS

The operational risk refers to the risk of loss due to insufficient or failed internal processes, employees, information systems or external factors. Operational risks also include legal risks. Continuity planning for business operations and preparedness for exceptional circumstances are part of operational risk management.

Operational risk management and reporting within Group are based on separately confirmed operational risk management principles.

Operational risks related to Group's business operations are identified, measured and assessed by means of continuous monitoring and event reports on which the corrective measures are also based. In business operations, operational risks are assessed by supervisors, the management team and operational management as a part of operational activities.

Group's key operational risks include personal, IT and single-office risks as well as legal risks. The Mortgage credit bank operations, initiated by the parent company Hypo in 2016, have added some characteristics in Groups operational risks.

Personnel

The entire personnel of Group are employed by Hypo, the parent company. Operational risks related to employees are managed through regularly updated job descriptions, personal goals derived from the company's targets, training, and substitute arrangements. In addition to business goals, the personnel incentive and commitment system takes account of risk management. Group's operational policies are maintained actively. Breaches of policies are addressed.

Information systems

For the purpose of operational risk management, the key information systems have been outsourced to recognized companies or acquired as software packages. The key information systems have also been duplicated, and they are mainly located outside Group's facilities. Group has prepared for risks related to information system malfunctions through service agreements and continuity planning. IT related development projects are carried out systematically and in documented manner. The operations, situation and pricing of the key information system partner, as well as its ability to provide services, are monitored as part of strategic risk management. Group pays special attention to the management of access rights and controls by means of identity and access management as well as internal auditing. Information security is paid attention to both in guidelines and training. Information security principles have been confirmed within Group and are complemented by operational instructions.

Facilities

Single-office risks related to Group's facilities are managed through fire, water and burglary protection in particular. Group maintains up-to-date insurance coverage in case of various business operations disturbances, such as the possibility of office facilities becoming unusable.

Legal risks

Legal risks are managed by relying on the expert resources in the organization and, whenever necessary, standard agreements and the expertise of reputable industry operators. In addition, new products and services are assessed in advance in terms of operational risks

In Hypo Group, one legal risk related to value added tax (VAT) actualized during 2016 and was recognized through profit or loss. Investigation is ongoing and expected to be legally completed during 2018.

Mortgage credit bank operations

Parent company Hypo has been authorized to engage in mortgage credit bank operations and accordingly issued the first covered bonds.

Special requirements related to the mortgage credit banking operations, such as limits set for operations, forming a cover pool, requirements concerning the separation of assets and related operational risks and their management, monitoring and reporting have been separately instructed and have commenced well during the financial year.

Realized losses

During the financial period within Group's companies' business operations, the legal risk related to above mentioned value added tax was the most significant single loss among operational risks

Impact on capital adequacy

In Hypo Group, the capital adequacy requirement for operational risks is calculated using the basic method in accordance with capital adequacy regulations. Group's own funds allocated to operational risks in the basic method have been established as sufficient in Group's internal capital adequacy assessment also considering the stress scenario.

LIQUIDITY RISKS

The liquidity risk refers to the probability of Group not being able to meet its payment obligations due to the weakening of its financial position. If the liquidity risk is materialized, it may jeopardize the continuity of Group's business operations.

Liquidity risk management and reporting within Group are based on confirmed principles of liquidity risk management. Within Group, liquidity coverage ratio regulations are applied.

Group's liquidity risks comprise various financing risks related to the whole of its operations – that is, its banking book, 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.

Calculations and measurements describing the risk related to liquidity risk have been presented in Notes 55 and 57.

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

The long-term financing risk, also known as the structural financing risk, on the balance sheet refers to the temporal imbalance that is related to the financing of long-term lending and results from funding on market terms. If the risk is materialized, it jeopardizes the continuance of growth-orientated lending as well as Group's financing position. The existing programs and authorizations for arranging long-term funding and securing the financing position are kept at a sufficient level in relation to Group's business goals and the uncertainty caused by its operating environment. The share of deposit funding of the total funding is maintained in accordance with 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 and liquidity investments are regularly reported to the management.

The Net Stable Funding Ratio (NSFR), an indicator introduced as part of new regulations, has been taken into account in the principles of liquidity risk management.

Short-term liquidity risk

The short-term liquidity risk refers to a quantitative and temporal imbalance of Group's short-term cash flow. If the risk is materialized, it means that 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 assets in accordance with the confirmed country and 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 payable on demand by AsuntoHypoPankki would be withdrawn over a short period of time.

The Liquidity Coverage Ratio (LCR), a liquidity requirement describing 30-day liquidity, became effective at 67 per cent in 2016 and has been taken into account in the principles and processes of liquidity risk management.

Group's management monitors the sufficiency of liquidity as part of Group's scorecard objectives and as part of risk reporting in accordance with the principles of liquidity risk management.

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, at which time funding matures to be refinanced several times during the term resulting from the contracts related to the loan portfolio. The share of long-term funding of the total 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 the management.

Realized losses

No significant losses related to liquidity risks were recognized in Hypo's business operations during the financial year.

Impact on capital adequacy

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

MARKET RISKS

The market risk refers to the risk of loss arising from the fluctuation of market prices.

A change in the market value of interest-bearing contracts related to 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. Group aims to maintain the changes in the market value of balance sheet items measured at fair value – that is, debt securities and interest rate derivatives – as well as the net interest rate risk of interest-bearing receivables and liabilities at such levels that they do not jeopardize the achievement of profitability and capital adequacy goals. Items on the balance sheet other than interest-bearing receivables related to lending are held for liquidity purposes. An impairment of market value during the holding period of debt securities decreases the related collectable returns if the investment is realized. The management monitors the impact of market valuations on Group's operations and key indicators, such as comprehensive income and fair value reserve, and regularly assesses the management and realization of market risks.

Group does not have a trading book. However, a small trading book may be generated as a result of trading in bonds issued by Hypo on the secondary market.

Group does not have a securitization position.

Market risk management and reporting within the Group are based on separately confirmed market risk management principles.

Calculations and measurements describing the risk related to market risk have been presented in Notes 50 and 51.

Interest rate risk

Interest rate risk refers to a decreasing effect in the annual net interest income (net interest income risk) and the present value of interest rate-sensitive balance sheet items (present value risk) caused by variation in the amounts, reference rates and interest rate fixing dates of interest-bearing receivables and liabilities.

The net interest income risk is measured by calculating the impact of e.g. a parallel interest rate shift of one (1) percentage points on the Group's net interest income over one year. The objective of net interest income risk management is to maintain such amounts of, and reference rates and repricing dates for, receivables and liabilities in the banking book that the effects of fluctuations in market interest rates on the Group's net interest income are as slight and temporary as possible. 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 interest rate used is either a floating rate or a fixed rate. The most common reference rate for deposits is Hypo Prime, of which the pricing is adjusted to changes in the general interest rate level based on Hypo Group's decisions.

The present value risk is measured by calculating the impact of e.g. a parallel shift of one (1) percentage points on the present value of interest-sensitive balance sheet items. The negative effect on the financial value of Hypo Group of the discounted net cash flows from the interest-sensitive receivables and liabilities on the balance sheet must not exceed a maximum limit that is set in proportion to the Group's own funds.

In Hypo Group, derivatives are used for hedging receivables and liabilities as well as their cash flows against credit and currency risks. Derivative contracts are used in funding, which includes mortgage credit bank activities, solely for hedging purposes. As a rule, the market risks related to the Group's banking book are not increased by entering into derivative contracts. Decrease in the market value of interest rate derivatives during the term diminishes both Hypo's own funds (fair value reserve) and comprehensive income until the hedging instrument, i.e. the interest rate swap, is recognized through profit or loss simultaneously with the hedged item. A decrease in the market value of the interest rate derivatives in the liquidity portfolio is reflected in the income statement.

Currency risk

The currency risk refers to the possibility of loss that results from the fluctuation of currency rates and has an effect on the Group's result. Hypo Group operates in euros or its operations are contractually converted into euros. It does not engage in foreign exchange trading on its own account. In foreign currency funding, the currency risk is managed with cross currency swaps contracted with internally approved counterparties.

Realized losses

No significant losses related to market risks were recognized in Group companies' business operations during the financial year.

Impact on capital adequacy

A sufficient amount of own funds have been allocated to market risks in Group's Internal Capital Adequacy Assessment Process.

RISKS RELATED TO OWNERSHIP OF HOUSING UNITS AND RESIDENTIAL LAND

Group companies' residential land holdings 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 land 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.

Calculations and measurements describing the risk related to ownership of housing units and residential land have been presented in Note 57.

Impairment risk

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

Group's housing and residential land holdings consist of leased-out sites. The majority of the sites are distributed across Finland's largest growth centers, mainly in the Helsinki Metropolitan Area. Sites located abroad are not acquired. The value of the housing units and residential land 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 annually by making use of statistics and the certified housing property expertise of Hypo's employees and, whenever necessary, with the help of an external appraisal. In residential land holdings, the impairment risk has been eliminated by agreements.

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 land holdings is relatively high. Sales and acquisitions of sites are always adjusted to the prevailing market situation. Group strives to avoid selling at a loss. Loss-making sales are very rare, even over the long term. The annual capital gains may vary because the site and time of the transaction are usually determined by the customer. In addition, the chosen accounting method, in which the properties 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.

No impairment losses related to holdings were recognized during the financial year.

Return risk and damage risk

Return risks refer to decreases in the returns on holdings. The return risk is materialized if the occupancy rate of the sites decreases or the level of returns generally decreases on the rental market. The rental contracts 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 land 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 centers. Damage risks are covered by requiring sufficient insurance coverage for the sites and rent collateral from the lessees.

Concentration risk

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

Realized losses

No significant losses related to ownership of housing units and residential were recognized in Hypo's business operations during the financial year.

Impact on capital adequacy

In Group's Internal Capital Adequacy Assessment Process, an amount of own funds deemed sufficient has been allocated to the price risk related to housing units. The value of the housing units serving as collateral for the loan portfolio and its effect on capital adequacy were also considered during the allocation process.

STRATEGIC RISKS

Strategic risks are identified, assessed and documented regularly as part of the strategy work carried out by Group's management and operational management.

The nature of risks related to cyclical and other changes in the operating environment, as well as those affecting the availability of funding, is such that they materialize due to significant changes in the macroeconomy and cause requirements for change in Group's business operations. In addition, risks related to changes in the operations of the key information system supplier may have a material effect on Group's operations. Risks related to the competition are mainly the result of decisions made by competitors. Changes in credit institutions' regulation and supervision environment create a regulation risk that affects resourcing in the Group over the short term. This risk is managed as part of strategic risks. Any decrease in public visibility and recognizability of Group is also regarded as strategic risks.

Changes in the operating environment

Unfavourable changes in the operating environment, such as strong changes in economic cycles, cause a risk that Group does not achieve its business goals. An economic downturn may weaken the quality of the loan portfolio and simultaneously decrease the value of the property collateral thus intensifying the overall effect. Crises in the capital markets have negative effects on the availability and price of refinancing. Adjusting business operations to the prevailing situation is a key method of managing the risk related to changes in the operating environment. This can be done by limiting lending, for example.

Competition

The competition is expected to intensify. This is particularly evident in competitors' pricing solutions. However, Group aims to maintain its good competitive position in the market with its special products, high quality service and home financing focused strategy.

Regulation risk

Regulation risks refer to such changes in the regulatory and supervisory environment of credit institutions which are implemented in a short period of time. Rapid regulatory changes increase costs related to governance and information technology. Considering the size of the Group, these costs may be higher in proportion than those of competitors and weaken the profitability of its operations over the short term. Potential problems also include the fact that the special legislation pertaining to Hypo will not be sufficiently considered 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 functional 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 institution operations in general are on a healthy and profitable basis.

Funds have been allocated to strategic risks in the Group's Internal Capital Adequacy Assessment Process, particularly due to changes anticipated in the operations of the key system supplier.

Group's recognisability

Group's recognisability is continuously increased by means of networking, increasing Group's visibility in various media in a balanced and cost-effective manner and particularly by carrying out individual customer contacts with an active approach. This has clearly increased the number of 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.

Realized losses

No significant losses related to strategic risks were recognized in Hypo Group's business operations during the financial year.

Impact on capital adequacy

An amount of Group's own funds considered sufficient have been allocated to strategic risks in the Group's Internal Capital Adequacy Assessment Process.

50. OWN FUNDS AND CAPITAL RATIOS	2016	2015
Equity	108,843.9	101,401.9
Fair value reserve	591.2	1,413.8
Revaluation of defined pension plans	-1,717.4	-1,531.8
Surplus from defined pension plans	-4,528.0	-5,880.2
Common Equity Tier 1 (CET1) capital before regulatory adjustments	103,189.8	95,403.6
Intangible assets	-2,250.1	-1,542.2
Common Equity Tier 1 (CET1) capital	100,939.6	93,861.4
Additional Tier 1 (AT1) capital	0.0	0.0
Tier 1 capital (T1 = CET1 + AT1)	100,939.6	93,861.4
Tier 2 (T2) capital	0.0	0.0
Total Capital (TC = T1 + T2)	100,939.6	93,861.4
Total risk-weighted items	743,003.7	682,150.8
of which credit risk	714,038.8	653,785.3
of which market risk	0.0	2.4
of which operational risk	28,964.9	28,363.1
of which other risks	0.0	0.0
Common Equity Tier 1 (CET1) in relation to risk-weighted items (%)	13.59	13.76
Tier 1 capital (T1) in relation to risk-weighted items (%)	13.59	13.76
Total capital (TC) in relation to risk-weighted items (%)	13.59	13.76
Minimum capital	5,000.0	5,000.0
Capital conservation buffer in relation to risk-weighted items (%)	2.5	2.5
Countercyclical capital buffer in relation to risk-weighted items (%)	0.0	0.0

The own funds and capital adequacy are presented in accordance with the EU's Capital Requirements Regulation (575/2013). The capital requirement for credit risk is calculated using the standard method.The capital requirement for operational risk is calculated using the basic method.
As of 1.1.2015 the unrealised gains and losses are included in CET1.
Until 31.12.2014 the unrealised losses were included in CET1 and the unrealised gains in T2.

51. CREDIT AND COUNTERPARTY RISKS, BALANCE SHEET AND OFF-BALANCE SHEET ITEMS ACCORDING TO THE STANDARD METHOD

2016	Original exposure pre conversion factors	Exposure value	Risk weighted exposure amount after SME-supporting factor	Own funds requirement
Exposures to central governments or central banks	229,020.1	277,958.3		
Exposures to regional governments or local authorities	82,866.6	93,894.0		
Exposures to public sector entities	13,515.5	13,515.5	2,703.1	216.2
Exposures to credit institutions	65,147.8	84,149.3	26,356.1	2,108.5
Exposures to corporates	144,735.4	80,940.0	76,275.9	6,102.1
Retail exposures	65,075.2	27,480.6	19,330.8	1,546.5
Exposures secured by mortgages on immovable property	1,902,052.4	1,734,863.3	514,426.5	41,154.1
Exposures in default	2,059.7	1,675.1	1,716.4	137.3
Exposures in the form of covered bonds	33,845.1	33,845.1	3,384.5	270.8
Other items	66,604.7	66,604.7	66,604.7	5,328.4
Total	2,604,922.4	2,414,925.7	710,798.0	56,863.8

2015	Original exposure pre conversion factors	Exposure value	Risk weighted exposure amount after SME-supporting factor	Own funds requirement
Exposures to central governments or central banks	289,817.4	324,751.1		
Exposures to regional governments or local authorities	11,074.2	11,074.2		
Exposures to public sector entities	17,566.2	17,566.2	1,903.8	152.3
Exposures to credit institutions	109,598.6	130,579.9	44,486.0	3,558.9
Exposures to corporates	160,212.3	122,013.7	117,129.2	9,370.3
Retail exposures	68,870.5	31,263.6	22,154.9	1,772.4
Exposures secured by mortgages on immovable property	1,415,396.3	1,302,461.0	391,999.6	31,360.0
Exposures in default	2,312.1	1,955.7	2,001.0	160.1
Exposures in the form of covered bonds	28,244.4	28,244.4	2,824.4	226.0
Other items	69,866.2	69,866.2	69,866.2	5,589.3
Total	2,172,958.2	2,039,776.0	652,365.2	52,189.2

Risk-weighting of the following exposures: sovereigns, regional governments, local authorieties, public sector entities, institutions and companies; is based on the ratings assigned by S&P, Fitch and Moody's where applicable.

NOTES CONCERNING THE CAPITAL ADEQUACY OF THE GROUP AND RISK MANAGEMENT

52. MAXIMUM AMOUNT OF CREDIT AND COUNTERPARTY RISK

2016	Book values, gross	Book value	Average book value during the period	Interest receivables	Impaired receivables
Lending					
Not fallen due	1,735,061.1	1,732,624.5	1,484,261.2	2,436.7	
Past due by 1–2 days*	50,262.3	50,091.9	102,639.8	170.4	
Past due by 3 days–1 month	17,144.6	17,115.0	17,684.3	29.7	
Past due by 1–3 months	4,900.3	4,891.2	7,107.5	9.1	
Non-performing, past due by less than 3 months**	81.9	81.9	40.9		74.2
Non-performing, past due by more than 3 months	1,969.0	1,709.6	1,878.8	26.4	233.0
Total lending	**1,809,419.3**	**1,806,514.0**	**1,613,612.6**	**2,672.3**	**307.2**
Other					
Receivables from credit institutions					
Not fallen due	5,171.2	5,171.2	8,681.2		
Debt securities					
Not fallen due	292,784.7	291,927.8	282,314.9	856.9	
Shares and holdings	132.4	132.4	132.4		
Derivative contracts					
Not fallen due	138.4	138.4	324.4		
Total other	**298,226.6**	**297,369.7**	**291,452.8**	**856.9**	**0.0**
Non-performing loans/total lending, %	0.11,%	0.10,%			

Information concerning recognition of impairment losses related to lending is presented in Notes 10 and 16 and the accounting policies.
*) Past due by 1–2 days also includes loans the payment of which is delayed due to a delay in payment traffic.
**) Includes loans that have not fallen due or are past due and that are likely not to be repaid

2015	Book values, gross	Book value	Average book value during the period	Interest receivables	Impaired receivables
Lending					
Not fallen due	1,237,414.3	1,235,898.0	1,138,149.7	1,516.4	
Past due by 1–2 days*	155,853.9	155,187.8	148,345.4	666.1	
Past due by 3 days–1 month	18,307.7	18,253.7	15,464.5	54.0	
Past due by 1–3 months	9,361.0	9,323.8	8,210.8	37.2	
Non-performing, past due by less than 3 months**			108.9		
Non-performing, past due by more than 3 months	2,271.5	2,048.0	2,097.1	18.6	204.9
Total lending	**1,423,208.3**	**1,420,711.2**	**1,312,376.5**	**2,292.2**	**204.9**
Other					
Receivables from credit institutions					
Not fallen due	12,191.3	12,191.3	23,718.2		
Debt securities					
Not fallen due	273,493.3	272,701.9	194,431.5	791.4	
Shares and holdings	132.4	132.4	122.9		
Total other					
Non-performing loan/total lending, %	512.3	510.4	255.2	2.0	,
Total other	**286,329.3**	**285,536.0**	**218,527.8**	**791.4**	**0.0**
Non-performing loans/total lending, %	0.16,%	0.14,%			

Information concerning recognition of impairment losses related to lending is presented in Notes 10 and 16 and the accounting policies.
*) Past due by 1–2 days also includes loans the payment of which is delayed due to a delay in payment traffic.
**) Includes loans that have not fallen due or are past due and that are likely not to be repaid

53. FORBEARANCES

2016	Performing and past due receivables			Non-performing loans		
	Receivables with modified terms	Refinancing	Total	Receivables with amended terms	Refinancing	Total
Forbearances 1 Jan 2016	3,154.9	562.0	3,717.0	61.6	62.1	123.6
Changes during the financial period	284.9	-73.0	211.9	165.2	-3.0	162.2
Book value of forbearances 31 dec 2016	3,439.8	489.0	3,928.8	226.8	59.0	285.8
Interest income recognised from receivables during the financial period	46.5	9.8	56.3	2.1	1.2	3.3
Impairment recognised on receivables during the financial period			0.0			0.0

Loan renegotiations were not carried out related to non-performing loans, and impairment was not recognised on forbearances during the financial period.

53. FORBEARANCES

	2015					
	Performing and past due receivables			Non-performing loans		
	Receivables with modified terms	Refinancing	Total	Receivables with amended terms	Refinancing	Total
Forbearances 1 Jan 2015	2,064.5	400.1	2,464.7			0.0
Changes during the financial period	1,090.4	161.9	1,252.3	61.6	62.1	123.6
Book value of forbearances 31 dec 2015	3,154.9	562.0	3,717.0	61.6	62.1	123.6
Interest income recognised from receivables during the financial period	46.8	10.6	57.4	0.6	0.8	1.4
Impairment recognised on receivables during the financial period			0.0			0.0

Loan renegotiations were not carried out related to non-performing loans and impairment was not recognised on forbearances during the financial period.

54. CONCENTRATION OF LENDING

	2016	%	2015	%
Lending by category				
Households	641,087.3	35.5%	559,064.6	39.4%
Housing companies	1,067,885.9	59.1%	764,338.9	53.8%
Private companies (housing investors)	86,908.0	4.8%	83,374.7	5.9%
Other	10,558.7	0.6%	13,932.9	1.0%
Total	1,806,439.8	100.0%	1,420,711.2	100.0%
Lending by purpose of use				
Permanent dwelling	1,738,057.8	96.2%	1,346,069.4	94.7%
Consumer loan	34,346.4	1.9%	36,081.6	2.5%
Holiday home	7,969.6	0.4%	7,285.4	0.5%
Other	26,066.1	1.4%	31,274.8	2.2%
Total	1,806,439.8	100.0%	1,420,711.2	100.0%
Lending by province				
Uusimaa	1,436,803.6	79.5%	1,160,995.2	81.7%
Rest of Finland	369,636.3	20.5%	259,716.0	18.3%
Total	1,806,439.8	100.0%	1,420,711.2	100.0%

Lending by province is based on the debtor's place of residence.

55. LIQUIDITY RISK

Cash flows from financial liabilities and derivatives 2016	<3 months	3-12 months	1-5 years	5-10 years	Total
Liabilities to credit institutions	2,205.6	22,331.1	91,717.8	1,119.1	117,373.5
Liabilities to the public and public sector entities	874,047.7	324,367.9	33,722.7	379.5	1,232,517.8
Debt securities issued to the public	58,342.6	196,958.1	504,731.6	60,150.0	820,182.3
Derivative contracts	438.5	647.0	3,331.2	298.3	4,714.9
Subordinated liabilities		4,811.1	4,650.8		9,461.8
Guarantees, granted but undrawn loans, rental liabilities and potential redemptions of partially owned housing units	303,759.8				303,759.8
Total liabilities	1,238,794.2	549,115.2	638,153.9	61,946.8	2,488,010.2

Cash flows from financial liabilities and derivatives 2015	<3 months	3-12 months	1-5 years	5-10 years	Total
Liabilities to credit institutions	4,711.8	52,856.0	92,473.8	3,787.7	153,829.3
Liabilities to the public and public sector entities	755,192.7	288,791.8	30,369.5	547.2	1,074,901.2
Debt securities issued to the public	69,559.5	185,092.4	346,757.8		601,409.8
Derivative contracts	206.0	4,714.2	2,136.4	-1,114.9	5,941.7
Subordinated liabilities		4 972 519,8	9 463 695,6		14 436 215,4
Guarantees, granted but undrawn loans, rental liabilities and potential redemptions of partially owned housing units	223,928.5	76.4			224,004.9
Total liabilities	1,053,598.5	536,503.4	481,201.2	3,220.1	2,074,523.2

NOTES CONCERNING THE CAPITAL ADEQUACY OF THE GROUP AND RISK MANAGEMENT

56. INFORMATION CONCERNING INTEREST RATE RISK

Repricing time in 2016 (EUR million)	<3 months	3-12 months	1-5 years	5-10 years	Total
Floating-rate items					
Receivables	794.4	1,274.2			2,068.6
Liabilities	425.2	731.0			1,156.1
Net	369.2	543.3	0.0	0.0	912.5
Fixed-rate items					
Receivables	0.5	0.8	370.3	200.0	571.6
Liabilities	482.5	460.5	461.1	140.9	1,545.0
Net	-482.0	-459.7	-90.8	59.1	-973.4

Group's interest rate risks are related to the whole of its operations and are measured, monitored and managed by examining Group's banking book. Lending, liquidity investments, derivative contracts and deposits and other funding involve interest risk. In the table describing the interest rate risk, derivative contracts are shown in euros at nominal value, other receivables and liabilities at balance sheet values. Derivative contracts are also shown in each group describing interest rate tying, combined with either the receivable or the liability group. Floating-rate liabilities include items that are by nature payable on demand, and are assumed to be reprised within less than three months. Contractual maturity assumptions are applied to the lending portfolio. The interest rate risk is measured at least once a month with regard to the investment portfolio and at least once a quarter with regard to the entire banking book.

Sensitivity analysis
If market interest rates would have increased by 2 per cent (decreased by 0.25 per cent) on the balance sheet date, Group's net interest income would decrease by EUR 3.7 million (increase by EUR 0.5 million) over a period of 12 months. The change in net interest income would mainly be caused by the repricing of floatingt-rate receivables and liabilities at higher (lower) interest rates than on the balance sheet date. An increase of two percentage points in market interest rates on the balance sheet date would decrease the value of items measured at fair value by EUR 6.0 million. The financial value of Hypo would decrease by EUR 3.2 million due to a rise of 2 per cent in interest rates.

Changes in repricing dates and sensitivity analysis
Deposits payable on demand are revised to reprice within 6 months, previously 3 months. Data in table 2015 is revised accordingly.

Repricing time in 2015 (EUR million)	<3 months	3-12 months	1-5 years	5-10 years	Total
Floating-rate items					
Receivables	926.8	823.5			1,750.3
Liabilities	697.7	435.7			1,133.4
Net	229.0	387.8	0.0	0.0	616.9
Fixed-rate items					
Receivables	2.8	12.9	120.1	91.4	227.2
Liabilities	663.4	141.5	100.5	61.0	966.5
Net	-660.6	-128.7	19.6	30.4	-739.2

Group's interest rate risks are related to the whole of its operations and are measured, monitored and managed by examining Group's banking book. Lending, liquidity investments, derivative contracts and deposits and other funding involve interest risk. In the table describing the interest rate risk, derivative contracts are shown in euros at nominal value, other receivables and liabilities at balance sheet values. Derivative contracts are also shown in each group describing interest rate tying, combined with either the receivable or the liability group. Floating-rate liabilities include items that are by nature payable on demand, and are assumed to be reprised within less than three months. Contractual maturity assumptions are applied to the lending portfolio. The interest rate risk is measured at least once a month with regard to the investment portfolio and at least once a quarter with regard to the entire banking book.

Sensitivity analysis
If market interest rates would have increased by 2 per cent (decreased by 0.25 per cent) on the balance sheet date, Group's net interest income would decrease by EUR 5.9 million (increase by EUR 0.7 million) over a period of 12 months. The change in net interest income would mainly be caused by the repricing of floatingt-rate receivables and liabilities at higher (lower) interest rates than on the balance sheet date. An increase of two percentage points in market interest rates on the balance sheet date would decrease the value of items measured at fair value by EUR 10.8 million. The financial value of Hypo would decrease by EUR 11.0 million due to a rise of 2 per cent in interest rates.

57. OTHER INFORMATION DESCRIBING CAPITAL ADEQUACY AND RISK POSITION

Risk type	Indicator	2016	2015
Credit risk	LTV-ratio (Loan to Value, average), %	38.4	41.1
Credit risk	Non-performing loans, % of loan portfolio	0.11	0.16
Credit risk	Net impairment losses, EUR million	-0.27	0.01
Liquidity risk	Long-term funding out of total funding, %	39.9	39.5
Liquidity risk	Average maturity of liabilities, in years	2.6	1.6
Liquidity risk	LCR-ratio, %	144.3	128.0
Liquidity risk	Short-term liquidity, EUR million	421.0	458.6
Liquidity risk	Short-term liquidity, months	23	22
Liquidity risk	Share of short -term liquidity of the balance sheet total, %	18.3	23.4
Interest rate risk	Interest rate risk in the banking book, EUR million	-1.8	-2.9
Interest rate risk	Net Present Value risk, EUR million	-1.6	-5.5
Risk related to ownership of housing units and residential land	Book values of investemnt properties, % out of estimated fair values	2.7	3.5
Risk related to ownership of housing units and residential land	Book values of investemnt properties, % out of estimated fair values	95.0	90.0
Risk related to ownership of housing units and residential land	Occupancy rate, %	95.5	82.2
Risk related to ownership of housing units and residential land	Net profit of investment properties calculates by book value	3.8	4.6
Risk related to ownership of housing units and residential land	Average monthly rent per square metre in housing units EUR per square meter	19.2	22.4

Risk indicator	**Description**
LTV-ratio (Loan to Value, average), %	Remaining amount of credit divided by total amount of collaterals allocated to the credit. Only housing collaterlas are taken into account. LTV average is calculated by weighting the loant-to-value ratio of the credit by the remaining amount of credit.
Non-performing lonas, % of loan portfolio	Receivables from the public and public sector entities deemed unlikely to be paid + receivables past due and unpaid over 90 days
Net impairment losses, EUR million	Net amount of final credit losses and impairment loss recognized through profit or loss.
Long-term funding out of total funding, %	Original maturity including a funding of over a year divided by total funding.
Average maturity of liabilities, in years	The average maturity weighted with cash flow of liabilities in years (divider 365)
Short-term liquidity, EUR million	Cash and cash equivalents in the cash flow statement added with unused current account facilities and other binding credit facilities.
Short-term liquidity, months	Coverage of short-term liquidity to funding cash flows (difference of days multplied with 356 (days in a year)multiplied with 12 (months in a year)
Share of short -term liquidity of the balance sheet total, %	Cash and cash equivalents in the cash flow statement added with available current account facilities and other binding credit facilities divided by balance sheet total.
Interest rate risk in the banking book, EUR million	Annual change in net interest income if interest rates increase parallely 1% on the reporting date.
Present value risk, EUR million	Change in present value of banking book if interest rates increase parallely 1% on the reporting date.
Total amount of housing property holdings of the balance sheet total, %	Total of owned investment properties and properties in own use set in proportion with the balance sheet total.kokonaistaseeseen.
Book values of investemnt properties, % out of estimated fair values	Book values of investment properties out of estimated fair values
Occupancy rate, %	Relation of amounts of square meters of housing units rented-out and amounts of square meters of owned housing units at the end of the period.
Net profit of investment properties calculates by book value	Net-profit of investment properties (excl. changes in the value and capital gains / losses) set in proportion with average book value of investment properties at the beginning and in the end of the period.
Average monthly rent per square metre in housing units EUR per square meter	Average EUR per square meter of rented housing units at the end of the period.

STATEMENT OF THE SUPERVISORY BOARD

After confirming the Mortgage Society of Finland's accounting principles, we have certified the financial statements for 2016 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, Elias Oikarinen and Mari Vaattovaara.

Helsinki, February 28, 2017

Markku Koskela	**Hannu Hokka**
Mikael Englund	**Timo Hietanen**
Kari Joutsa	**Timo Kaisanlahti**
Markku Koskinen	**Juha Metsälä**
Elias Oikarinen	**Kallepekka Osara**
Anni Sinnemäki	**Liisa Suvikumpu**
Riitta Vahela-Kohonen	**Ira van der Pals**

AUDITOR'S REPORT

(Translation of the Finnish Original)

Auditor's Report has been issued today.

Helsinki 1 March 2017

PricewaterhouseCoopers Oy
Authorized Public Accountants

Juha Tuomala
Authorized Public Accountant (KHT)

Auditors report is published on Hypo's website at
http://www.hypo.fi/en/financial-information/

CORPORATE GOVERNANCE

Pictured from left, front row: LL.M (trained on the bench) Kari Joutsa, M.Sc. (Tech.) Mikael Englund, Development Manager Riitta Vahela-Kohonen, Managing Director Hannu Hokka, Professor Markku Koskela, Chief Investment Officer Ira van der Pals, Deputy Mayor Anni Sinnemäki and Managing Director Liisa Suvikumpu. Pictured from left, back row: Docent Elias Oikarinen, Deputy Managing Director Timo Hietanen, Consultant Markku Koskinen, President and CEO Juha Metsälä, Farmer Kallepekka Osara and Director Timo Kaisanlahti.

As an issuer of bonds, the Mortgage Society of Finland (Hypo) adheres to the recommendations on the governance of listed companies. The Finnish Corporate Governance Code issued by the Securities Market Association is available at www.cgfinland.fi. A statement on compliance with, and exemptions from, the governance code in the Hypo Group is available at www.hypo.fi, along with the statutory 2016 Corporate Governance Statement. The following is a general outline of Hypo's governance system and its administrative bodies and their duties.

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, liquidity, securities, obligations and loan and collateral documents. The Supervisory Board must consist of 12 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 31 March 2016

Markku Koskela, Chair, DSc (Econ.), Professor
Hannu Hokka, Vice Chair, M.S.c (Econ.), Managing Director
Elina Bergroth, MA., Lecturer
Mikael Englund, M.Sc. (Tech.), MBA, Managing Director
Markus Heino, LL.M. (Trained on the bench), Managing Director
Timo Hietanen, M.Sc. (Econ.), Deputy Managing Director
Kari Joutsa, LL.M. (Trained on the bench)
Timo Kaisanlahti, LLD, M.Sc. (Econ.), Director
Markku Koskinen, Construction Engineer, Consultant
Juha Metsälä, M.Sc. (Tech.), President and CEO
Elias Oikarinen, D.Sc. (Econ.), Academy Research Fellow, Docent
Kallepekka Osara, Agrologist, Farmer
Anni Sinnemäki, BA, Deputy Mayor
Liisa Suvikumpu, PhD, Managing Director
Mari Vaattovaara, Professor of Urban Geography, Dean
Riitta Vahela-Kohonen, MA, Development Manager
Ira van der Pals, M.Sc. (Econ.), Chief Investment Officer

Auditors of the Supervisory Board as of 31 March 2016
Markku Koskela, Chair, D.Sc. (Econ.), Professor
Hannu Hokka, Vice Chair, M.S.c (Econ.), Managing Director
Timo Hietanen, M.Sc. (Econ.), Deputy Managing Director
Kari Joutsa, LL.M. (Trained on the bench)

Deputy auditors as of 31 March 2016
Markku Koskinen, Construction Engineer, Consultant
Elias Oikarinen, D.Sc. (Econ.), Academy Research Fellow, Adjunct Professor

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 and on the selection of the CEO and his deputy. The Nomination Committee of the Mortgage Society of Finland 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 CEO or his deputy attends 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 2016
Markku Koskela, Chair, D.Sc. (Econ.), Professor
Hannu Hokka, Vice Chair, M.S.c (Econ.), Managing Director
Sari Lounasmeri, M.Sc. (Econ.), Managing Director
Harri Hiltunen, 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 Compensation Committee of the Mortgage Society of Finland 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 2016
Markku Koskela, Chair, D.Sc. (Econ.), Professor
Hannu Hokka, Vice Chair, M.S.c (Econ.), Managing Director
Timo Hietanen, M.Sc. (Econ.), Deputy Managing Director
Kari Joutsa, LL.M. (Trained on the bench)

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 COO 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.

Members of the Board: Teemu Lehtinen, Pasi Holm, Kai Heinonen, Harri Hiltunen, Hannu Kuusela, Ari Oauna, Tuija Virtanen, Sari Lounasmeri and Elli Reunanen.

Members of the Board as of 31 March 2016

Sari Lounasmeri (b. 1975), Chair, M.Sc. (Econ.), Managing Director, member of the Board since 2011
Kai Heinonen (b. 1956), LL.M., Real Estate Director, member of the Board since 2014
Harri Hiltunen (b. 1961), Vice Chair, MSc (Econ.), Managing Director, member of the Board since 2012
Pasi Holm (b. 1962), DSocSci, member of the Board since 2015
Hannu Kuusela (b. 1956), D.Sc. (Econ.), Professor, member of the Board since 2001
Teemu Lehtinen (b. 1961), DSocSci, M.Sc. (Tech.), Managing Director, member of the Board since 2005
Ari Pauna (b. 1967), LL.M., Chief Executive Officer, member of the Board since 2006
Elli Reunanen (b. 1974), LL.M. (Trained on the bench), Chief Operating Officer, member of the Board since 2013
Tuija Virtanen (b. 1958), D.Sc. (Econ.), University Lecturer, member of the board since 2009
Elli Reunanen serves as Secretary to the Board.

CHIEF EXECUTIVE 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.

In 2016, the Management Group was composed of Chief Executive Officer, Chief Operating Officer, Chief Banking Officer and Chief Risk Officer. The composition of the Management Group had changed as of 1 February 2017 when Chief Financial Officer and Chief Treasury and Funding Officer joined the Management Group.

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. In addition, any changes to the rules of the Mortgage Society of Finland must be approved by a 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, financial statements and administration. All of the aforementioned must be auditors or public accountants authorised by the Finnish Chambers of Commerce. As of 31 March 2016, PricewaterhouseCoopers Oy, Authorised Public Accountants, were selected to carry out auditing. The chief auditor is Juha Tuomala, KHT Auditor, M.Sc. (Econ.), and his deputy is Jukka Paunonen, KHT Auditor, M.Sc. (Econ.).

Internal auditing

Chief Audit Executive Sari Ojala, (b. 1963), M.Sc. (Econ.), CIA, CCSA.

Members of the Management Group and Asset-Liability Committee: Chief Treasury and Funding Officer Petteri Bollmann, Chief Banking Officer Sami Vallinkoski, Chief Economist and Research Director Juhana Brotherus, Investment Director Juho Pajari, Chief Executive Officer Ari Pauna, Chief Financial Officer Aija Kontinen, Chief Risk Officer Mikko Huopio and Chief Operating Officer Elli Reunanen.

PERMANENT PERSONNEL ON 1 MARCH 2017

Chief Executive Officer **Ari Pauna**
Chief Operating Officer **Elli Reunanen**
Chief Economist and Research Director **Juhana Brotherus**
Chief Audit and Compliance Executive **Sari Ojala**

LENDING AND CUSTOMER SERVICE

Chief Banking Officer **Sami Vallinkoski**

Private Customers
Home Financing Director **Päivi Salo**, LKV
Financing Manager **Piia Konttinen**, LKV
Home Financing Manager **Anja Kymäläinen**, LKV
Home Financing Manager **Pauli Lange**, LKV
Home Credit Manager **Anu Maliranta**, LKV
Home Financing Manager **Risto Marila**, LKV
Home Financing Manager **Marjut Nummelin**, LKV
Home Financing Manager **Hannele Nyström**, LKV
Home Financing Manager **Petra Pironetti**, KED, on parental leave
Home Financing Manager **Kati Ryhänen**, KED
Home Financing Manager **Maarit Valkeajärvi**, LKV
Financing Manager **Teemu Venäläinen**, LKV

Institutional Customers
Home Financing Director **Tom Lönnroth**
Home Financing Manager **Ksenia Akkonen**, LKV
Home Financing Manager **Jari Häkkinen**, LKV
Home Financing Manager **Katariina Rautiainen**
Financing Manager **Pekka Nuutinen**, LKV

Customer Service and Sales Suppoprt
Customer Service Director **Sanna Pälsi**
Service Advisor **Joanna Bremer**
Home Financing Manager **Anne Hiltunen**, LKV
Financing Assistant **Krista Kumpulainen**
Property Specialist **Marja Niemelä**, LVV, KED
Home Financing Manager **Elisa Sunikka**, LKV

FINANCING AND TREASURY

Chief Treasury and Funding Officer **Petteri Bollmann**
Chief Banking Officer, retail deposits and cards, **Elina Aalto**
Financing Manager **Kristiina Aitala**, LKV
Director, treasury, funding and rating **Maiju Harava**
Financing Manager **Tiina Helokivi**
Financing Manager **Anttimatti Sipilä**

RESIDENTIAL LAND FUNDS AND TRUSTEE SERVICES

Investment Director, Managing Director **Juho Pajari**,

FINANCIAL ADMINISTRATION

Chief Financial Officer **Aija Kontinen**
Accountant **Ahti Aalto**, LKV
Controller **Marja Ahjopalo-Sundberg**, on parental leave
Controller **Petri Miettinen**
Controller **Arttu Mönkkönen**, KED
Senior Controller **Mikke Pietilä**
Chief Accountant **Netta Sundberg**

RISK MANAGEMENT, COMPLIANCE LEGAL AFFAIRS AND DEVELOPMENT

Chief Risk Officer **Mikko Huopio**
Director, Compliance and Development, **Sami Aarnio**

Legal affairs
Legal Counsel **Kirsti Heikura**
Legal Counsel **Eerika Koivisto**
Debt Collection Manager **Päivi Hietamies**, LKV

Development and support
Technical Manager **Ari Korkia-Aho**
ICT Manager **Pekka Turunen**

THE FIRST 156 YEARS OF HYPO

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 Jul 1860 Decision on the establishment of the Mortgage Society of Finland at a general agricultural meeting in Hamina.

24 Oct 1860 The 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 used for loans for housing companies and their owners – that is, home mortgage banking. Kansallis-Osake-Pankki and Pohjoismaiden Yhdyspankki serve as agents, as does Postisäästöpankki later on.

Funding expanded to the world of coverd bonds

Funding sources diversified and expanded and investor base became more international with the inauguration of Hypo's covered bond issuances.

The credit portfolio grew to EUR 1.8 billion and the deposit base exceeded EUR 1.2 billion.

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 into home building and flat purchasing, into housing companies for renovation projects, and into 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. A positive net income even during the banking crisis. The euro is adopted. Y2K preparations. Loan portfolio at EUR 280 million. Average number of personnel: 30.

2002–2012 **Matti Inha**, Bachelor of Laws, honorary financial counsellor, serves as CEO. The decade of "A secure way for for better living". Under the leadership of Inha, Hypo reawakens and establishes its position as the only bank specialising in housing and home financing in Finland. The Group nearly triples its loan portfolio and balance sheet, to EUR 725 million and EUR 930 million, respectively. AsuntoHypoPankki establishes its position as a Group company and achieves a deposit portfolio of EUR 308 million. The number of customers doubles to approximately 25,000 during Inha's term, and the Group's own funds increase to nearly EUR 80 million with capital adequacy remaining strong. All of this was achieved during the worst global financial and government crisis in economic history so far, driven by a staff of less than 30 home financing specialists on average.

2013 **Ari Pauna**, LL.M., becomes the 15th CEO of Hypo. His first goal is to increase Hypo's loan portfolio to more than EUR 1 billion in a profitable and risk-conscious manner.

In 2013, the loan portfolio grew from EUR 725 million to EUR 978 million.

2014 The loan portfolio increased to EUR 1.2 billion, and the deposit portfolio grew to EUR 500 million.

Operating profit EUR 7.5 million. Capital adequacy ratio 15.1 per cent. Non-performing receivables/total lending 0.23 per cent. Personnel 50.

2015 Hypo opened its extended street-level banking office in Hypo House in March. Standard & Poor's Rating Services issued an international credit rating for Hypo in August 2015. Hypo's loan portfolio exceeded EUR 1.4 billion, and its deposits exceeded EUR 1.0 billion.

2016 In May Hypo issued its first covered bond totaling EUR 300 million. In December another covered bond was issued with a nominal amount of EUR 100 million.

Coverd bonds have a credit rating of 'AAA' stable assigned by S&P Global Ratings (S&P).

In November S&P Global Ratings (S&P) affirmed its credit rating 'BBB/A-3' with stable outlook to The Mortgage Society of Finland.

Hypo's own funds increased to over EUR 100 million.

The credit portfolio grew to EUR 1.8 billion and the deposits exceeded EUR 1.2 billion.

SUOMEN HYPOTEEKKIYHDISTYS 1860

HYPO

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