THE MORTGAGE SOCIETY OF FINLAND

ANNUAL REPORT 2019

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CORONAVIRUS CAN CHANGE EVERYTHING

The crisis with Coronavirus started at the beginning of 2020 and expanded into a pandemic in March. It has hit the society with an unpredictable force. There is no turning back to how things used to be, but the changes remain yet to be seen. The foundations of society, the economy, social networks … all activities are now tested on a way never seen before.

Hypo has been preparing for a new global crisis since the previous financial crisis. I am very confident that we will survive this one as well, simultaneously renewing our activities in a way required by the operating environment.

The housing and housing loan market will meet the old problems in a new light because of the pandemic. Forecasts indicate that the change itself is constant, even if its pace may change significantly.

The population forecasts published last year strengthened our vision of Finland having only three genuinely growing urban areas in the 2040's, meaning the regions of Helsinki, Tampere and Turku. However, it is good to remember that many urban areas will develop in unbalance, as the centers of cities may grow at the same time as the population even decreases in the surrounding areas.

The Finnish housing finance system and the whole housing market of Finland face a challenge as the development is strongly divergent and fragmented. Our country is dividing into different housing markets; with collateral, without collateral, self-financed and financed with donations. This poses new challenges to banks' lending as well as to other actors in the housing market.

The competition for jobs, health services and residents is intensifying between the cities and the municipalities in Finland. In my opinion, it would be healthy to let the cities and the municipalities decide for themselves how they will navigate to the future. The old way to develop the whole country in a same way is not leading anywhere. A growing portion of owner-occupied housing in a growing city is a sign of success.

From Hypo's point of view, the recent history and forecasts confirm that the Finnish housing market is strongly diverging – a harsh fact, which has been known, predicted and publicly discussed for several years already. The widely noticed headline "A million homes in wrong regions" seems to be even optimistic in the light of recent estimates.

It is clear that the forecasted development will have a significant effect on housing market and housing prices in Finland. In more and more regions there is a growing number of homes not eligible for collateral or the housing market. For banks having an international credit rating and obtaining funding from international wholesale markets and operating nation-wide but not in urban areas, this poses a big challenge. Market positions are melting and the competition for urban banking markets is heating significantly, when at the same time new operators will enter Finland.

This will affect housing financing, housing production, repair construction, real estate brokerage and real estate investments. This will challenge especially the nation-wide operators, due to the diverging goals and needs. Many will be forced to make internal renewals and even to divide. It can already be seen as the various lobbing organisations are increasingly competing with each other and banking operators are merging and specializing. I predict that in 2030 there will be only 25 banks in the banking field instead of about 250 banks today.

The price and the availability of long-term funding of banks will become key factors. Funding depends on liquid and solid real estate collateral, as there is no competitive long-term funding without them, nor do the requirements of regulation fulfill. The development grows by itself and is typical to all Nordic countries and is especially challenging to us Finnish people, as

we are used to local banking operations funded with deposits, where all customers are equal in terms of credit availability and credit terms for example. The decreasing population is growing older and living in a country widely dispersed. Billions have been invested in infrastructure and in real estates believing they will hold their value. Now there is not enough money to investigate even the obligatory repair needs, not to mention other investments related to health and education, transport or the climate.

The households need to consider carefully where in Finland they will live and how. Job opportunities, functioning health care and functioning housing market at all times, especially in a crisis, will become more and more important.

Even after the pandemic, the future of Finland will be in cities, as our country is not becoming more rural but urbanizing. The development should be taken seriously and people must adapt to it. A well-describing fact is, that Hypo is the only specialized operator in the housing market who has awakened the industry to many things through numerous channels for many years.

At the end of the rule of the previous government, people started seeing the reality, but the emphasis still seems to be growingly on rural and less on urban areas. The metropolitan development is evident. The price of long-term funding and credit ratings show it clearly. Finland can only obtain funding on the responsibility of taxpayers, but the debts and liabilities of the government and municipalities are already alarmingly high. The current politics of covering the whole country is impossible to continue without considerably increasing the responsibility of taxpayers. This puts the credit ratings of Finland and the whole Finnish banking industry under a pressure never seen before – and this was already happening before the coronavirus crisis began. The availability and the terms of long-term funding will become more divergent and strengthen the polarization in the society.

Hypo has taken this into account in its operations and is ready to face the challenges. Regarding the quality of loan portfolio, we are more transparent than our competitors and we will put quality first while keeping the quantity on the current level, high enough for international wholesale markets. Our customer promises "Best from Finland" and "Better living. Safely" guide our operations on both sides of the balance sheet.

We have proven our ability to renew ourselves under the pressure of financial crisis, which gives me high confidence for the years to come. We are currently renewing the banking technology and business processes for the whole Group. We are doing it both profitably and managing the risks and also reacting to the risks and uncertainties posed by the operating environment.

As a mortgage society, which is probably one of the rarest company forms in the world, Hypo compares itself to the best publicly traded competitors operating internationally, as it forces us to constantly renew ourselves both profitably and managing the risks. The numbers speak for themselves: with a balance sheet of 3.5 billion euros, our RAC-capital adequacy is nearly 17 %, ROE nearly 6 % and credit losses still 0,0 %, which is an impressive combination even in international comparison. Besides this the "soft" numbers show a well-balanced development: Customer and employee satisfaction, internal control, expertise and well-being at work are all developing well and on a good level. However, our goal is to be at a top level in Scandinavia, regarding all of these measures, operating as an independent mortgage bank.

On behalf of my own and our organs, I thank the staff of Hypo for hard work, quality and results for our special purpose. The technology project is strategically important and it requires a lot from our staff.

We congratulate the President of the Supervisory Board of Hypo, Professor Markku Koskela. The President of the Finnish Republic has nominated him Commander of the Order of the Lion of Finland on the Independence Day of Finland 2019.

We thank our former Bank Manager Sami Vallinkoski, who returned to information technology to work with digital development after having worked for Hypo for almost five years.

We warmly remember the late long-term CEO of Hypo Risto Piepponen, the long-term member of the Supervisory Board, Farmer Pekka Osara and especially the long-term Chairman of the Board, Professor Jarmo Leppiniemi, who started the renewal of Hypo. As the first Chairman of Hypo nominated Commander of the Order of the Lion of Finland would say: "Right, but not yet sufficient" will guide our operations through the years to come.

Helsinki 17 March 2020

Ari Pauna
Chief Executive Officer

THE MORTGAGE SOCIETY OF FINLAND GROUP

The Mortgage Society of Finland Group (hereafter "Hypo Group" or "Group") is the only nationwide expert organization specializing in home financing and housing in Finland. Hypo Group grants mortgages as well as renovation loans and consumer loans, all secured by residential property collateral, for first-time and other homebuyers. Hypo Group continuously develops new ways and models for housing and home financing.

Our customer promise – a secure way for better living – guides all of our operations. Nearly 28,000 customers, in growth centers, have already taken us up on our promise.

The Mortgage Society of Finland, the parent of company of the Group (hereinafter also referred to as "Hypo"), has its domicile and administrative headquarters in Helsinki. Hypo is a mutual company governed by its member customers. The company is an authorized credit institution. Since 2016, Hypo's license includes mortgage credit bank operations.

Suomen AsuntoHypoPankki (hereinafter also referred to as "the Bank" or "AsuntoHypoPankki"), a wholly-owned subsidiary of the parent company, is a deposit bank that offers its customers deposit products, credit cards and trustee services.

Group companies own 54.6 percent of the housing company Bostadsaktiebolaget Taos (hereinafter "Taos"). 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.

The operations of Hypo and AsuntoHypoPankki are supervised by the Financial Supervisory Authority (hereinafter also referred to as FIN-FSA).

Group's both credit institutions endow the Single Resolution Fund of the Banking Union by contribution payments to the Financial Stability Authority. Acting as a deposit bank, Suomen AsuntoHypoPankki also pays deposit guarantee contributions to the Deposit Guarantee Fund managed by the Financial Stability Authority.

S&P Global Ratings has assigned a 'BBB/A-2' issuer credit rating with stable outlook to Hypo. Rating for Hypo's covered bonds is 'AAA' with stable outlook (S&P Global Ratings).

GROUP STRATEGY AND GOALS

In the long term, Hypo Group's aim is steady and profitable growth in its secured loan portfolio and customer relationships while managing risks. Hypo Group aims to offer a competitive alternative for financing private customers' housing solutions and housing companies' need for repairs as well as strengthen its market position in the core business of lending for the benefit of the 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, focusing in the next few years on the renewal of the core banking system, profitability and capital adequacy.

KEY EVENTS OF THE YEAR 2019

During the financial period, Hypo Group focused on strengthening its core businesses and controlling the growth of the loan portfolio, as well as started the renewal project of the core banking system.

On 1 July 2019, The Mortgage Society of Finland and Tieto Finland Oy signed an agreement on delivery of a new core banking system solution to the Mortgage Society of Finland. The contract with the current core banking system deliverer, Oy Samlink Ab, will end in April 2022 at the latest.

In March 2019, The Mortgage Society of Finland issued a new covered bond with a nominal amount of 300 million euros. As a result, the outstanding amount of issued covered bonds increased to 1,300 million euros.

During the financial period, Hypo published four housing market reviews and two reviews of the economy. In addition, Hypo contributed to producing a regional population projection together with Municipality Finance Plc, RAKLI and the Ministry of the Environment. Published by the Consultancy of Regional Development MDI, the projection provided new information on the population development in urban areas up to 2040. All reviews can be found from Hypo's webpages at http://www.hypo.fi/tietoa-hyposta/uutishuone/.

OPERATING ENVIRONMENT

At the latter part of Hypo's 159th year of operation, the global economic growth stayed stable. Manufacturing remained weary as the global trade war loomed but the service sector kept the economy afloat. The stock markets rose strongly and the returns for 2019 were between 20-30 percent in main markets. The European Central Bank kept the key interest rates unchanged after the cut in September. Short-term interest rates that follow the ECB's policy rates remained negative. At the end of December, the 12-month Euribor stood at minus 0.25 percent.

The Finnish economy continued a relatively strong growth in the end of 2019. For the whole year, gross domestic product grew by 1.6% according to the preliminary data. Household and business confidence surveys point to slightly slower growth period to follow. Only construction confidence stayed stronger than average thanks to the urbanization trend.

Polarization deepened in the housing markets: housing prices rose in growth cities, especially in the Helsinki metropolitan area, but in sparsely populated areas and in areas struggling with population declines prices continued to decrease. At the end of the year, the housing market cooled of as usual and transaction volumes declined. Housing loan stock rose by 2.7 percent in November from the previous year and the average interest rate on new mortgage loans was 0.73 percent. The loan stock of housing companies continued to rise by more than 10 percent on an annual basis.

New apartments still boosted housing transaction figures. Newbuilding also kept rents from increasing more than 1.5 percent. At the same time inflation rose by one percent while

earnings increased by 2,5 percent. Labor market stayed stable and the improvement starts to be behind us. The employment rate steadied to 72.6 percent and the unemployment rate at 6.7 percent.

BALANCE SHEET AND OFF-BALANCE SHEET COMMITMENTS

Most of Hypo's assets are invested in lending, liquidity and investment properties. Balance sheet growth of EUR 116.8 million was mainly due to the growth of liquidity investments, as the loan portfolio remained on the level of the previous year. Housing and residential land holdings also remained on the same level.

Group's funding operations benefit from a strong capital adequacy ratio, a good liquidity position, an entirely property-secured loan portfolio, as well as Hypo's investment grade credit rating, all valued by investors. A growing number of international investors choose to finance Hypo's operations as covered bonds continued to strengthen their position as a source of funding along with deposit funding. The total funding grew by EUR 86.5 million. The deposits decreased by 89.4 million while the amount of issued debt instruments grew by 182.3 million. At the end of 2019, the share of long-term deposit and other funding was 46.5% (36.2%) of total funding.

The balance sheet total was EUR 3,230.7 million (EUR 3,113.8 million) on 31 December 2019. The off-balance sheet commitments amounted to EUR 112.5 million (EUR 273.7 million). The off-balance sheet commitments consisted mainly of granted but undrawn loans.

Lending

Hypo has an entirely property-secured loan portfolio. The majority of the lending and related collateral is focused on growth centers, particularly the Helsinki Metropolitan Area. Borrowers primarily consist of households and housing companies. The key financial indicators portraying the quality of the loan portfolio continued to strengthen. Loan-to-value (LTV) ratio was 35.3 percent (35.8%). The total amount of non-performing loans was low at EUR 2.7 million (EUR 1.8 million), representing only 0.10 percent (0.07%) of the total loan portfolio.

At the end of the year, Hypo's loan portfolio stood at EUR 2,586.2 million (EUR 2,588.9 million). Granted but undrawn loans totaled EUR 110.3 million (EUR 269.2 million).

Liquidity

Group continued to strengthen its liquidity during the financial year. The cash and cash equivalents which totaled EUR 536.1 million (EUR 438.8 million) consisted of asse ts distributed widely across various counterparties, and of debt securities tradable on the secondary market, of which 100% (95,4%) had a credit rating of at least 'AA-' or were of equivalent credit quality and 94.7% (95.9%) were ECB repo eligible. The Liquidity Coverage Ratio (LCR) was 163.8% (122.6%), the regulatory minimum requirement being 100 %.

The cash and cash equivalents in accordance with the cash flow statement, combined with current account and other binding credit facilities, totaled EUR 539.1 million (EUR 442.4 million). 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.

Investment properties and property investments in own use

Homes and residential land owned and rented out by Hypo enables The Group to offer its customers a more comprehensive selection of housing products and services. Hypo's customer service facilities and office premises in own use are located in the housing company Bostadsaktiebolaget Taos. At the end of the financial year, the fair value of property holdings was EUR 5.0 million (EUR 5.1 million) higher than their book value. Change in fair value was caused by house price increases and property holding divestments. Property investments constituted 1.9 percent (2.0 percent) of the balance sheet total, which is clearly less than the 13 percent maximum allowed in the Act on Credit Institutions. Group's housing and residential land holdings increased to EUR 62.2 million (62.3 million).

Pension benefits

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 4.6 million (EUR 5.3 million), is part of Group's assets and may with a separate permission from the FIN-FSA be returned to the parent company thus benefiting the Group's capital adequacy.

Derivative contracts

The interest rate risk related to funding and other financial instruments is managed with interest rate derivatives. The notional amount of contracts increased mainly due to new hedging derivatives made for the newly issued covered bond. The changes in market interest rates cause volatility in the fair value of derivative contracts. On 31 December 2019, the balance sheet value of derivative receivables was EUR 19.4 million (EUR 4.6 million), and that of derivative liabilities was EUR 7.6 million (EUR 3.2 million).

Deposits

Group's financing position remained stable, and the portion of deposit funding was maintained high. The Bank lowered Prime rate by 0.10 percentage points to 0.10 percent. The decrease was based on the development of general market rates and came into effect as of 1 October 2019. Deposits decreased to EUR 1,628.8 million (EUR 1,718.2 million), representing 53.6 percent (58.2 percent) of total funding. The ratio between deposits and loans increased to 158.8 percent (150.7 percent).

Covered bonds and other funding

In March, The Mortgage Society of Finland issued a covered bond with a nominal amount of EUR 300.0 million. The proceeds were used for Hypo's general lending purposes and for

refinancing of maturing funding. The outstanding amount of bonds and certificates of deposits on 31 December 2019 was EUR 1,311.7 million (EUR 1,129.4 million). Hypo Group's funding totaled EUR 3,041.1 million (EUR 2,954.6 million).

EQUITY

The changes in equity are presented in more detail in the Financial Statements for 2019 under "Statement of changes in equity between 1 January and 31 December 2019." Equity stood at EUR 129.8 million at the end of the financial year (EUR 121.4 million). The figure includes Hypo's basic capital of five million euros. The Mortgage Society of Finland is a mutual company governed by its members.

CAPITAL ADEQUACY

Group's Common Equity Tier 1, CET 1, in relation to total risk was 13.4% on 31 December 2019 (12.1% on 31 December 2018). Own funds were EUR 120.0 million (EUR 112.3 million). Minimum CET1 requirement is 12.75 percent. Group's leverage ratio at the end of the year was 3.7% (3.5%).

The own funds and capital adequacy are presented in accordance with the EU's Capital Requirements Regulation (EU 575/2013). The capital requirement for credit risk is calculated using the standard method and for counterparty credit risk by using the current exposure method. The capital requirement for operational risk is calculated using the basic method. Disclosures required under the EU Capital Requirements Regulation Part Eight are published in the Group's Board of directors' report.

The FIN-FSA has set an additional capital requirement of one (1) percent to The Mortgage Society of Finland. The requirement is set on the basis of structural features in the financial system (systemic risk buffer) and it shall be met with consolidated Common Equity Tier 1 capital. Additional capital requirement entered into force on 1 July 2019. The FIN-FSA has also set a discretionary capital add-on of 1.25% to the Mortgage Society of Finland. The requirement entered into force on 31 December 2019 and applies indefinitely, but not longer than until 31 December 2022.

The Financial Stability Authority has decided not to impose an MREL requirement on Hypo Group.

HYPO GROUP'S RESULT AND PROFITABILITY

Group's operating profit for the financial period 1 January to 31 December 2019 was EUR 8.4 million (EUR 7.2 million for 1 January to 31 December 2018). Profitability of core business operations increased. Net interest income continued to grow due to lower funding costs. Income totaled EUR 20.7 million (EUR 18.2 million) and expenses EUR 12.3 million (EUR 11.1 million). Group's cost-to-income ratio was 59.6% (60.6%).

Income

Net interest income strengthened and grew to EUR 14.5 million (EUR 12.3 million) due to lower funding costs. Net fee and commission income totaled EUR 3.6 million (EUR 3.8 million). Net income from investment properties (housing units and residential land) amounted to EUR 2.9 million (EUR 2.9 million), containing an impairment of EUR 0.3 million from investment properties. Capital gains from the sales of investment properties decreased totaling 0.1 million (EUR 0.4 million). Capital gains generated from liquidity investments and interest rate swaps hedging the portfolio totaled to -0.2 million euros (EUR -0.9. million).

Expenses

Administrative expenses totaled EUR 9.5 million (8.7 million). Salaries and indirect employee costs increased by EUR 0.2 million in comparison to the previous year, constituting 66.1 percent (69.3 percent) of total administrative expenses. Other administrative costs amounted to EUR 3.2 million (EUR 2.7 million).

Depreciation amounted to EUR 0.9 million (EUR 0.5 million) and consisted mainly of items related to start the mortgage banking and other system investments. The increase was due to the revision of system related depreciation lengths and implementation of IFRS 16.

Other operating expenses grew to EUR 2.0 million (EUR 1.8 million), resulting among others from the growth in various regulatory contribution expenses.

Net gains/losses on derecognition of financial assets measured at amortized cost

Net gains from expected credit losses from loans during the financial period totaled EUR 0.04 million (EUR -0.02 million), including a final credit loss of EUR 0.1 million from expected credit losses of loans.

Comprehensive income

Group's comprehensive income was EUR 8.4 million (EUR 5.6 million). Group's profit for the period, net of income taxes for the period was EUR 6.9 million (EUR 5.9 million). Income taxes totaled EUR 1.5 million (EUR 1.2 million). Comprehensive income includes profit for the financial period as well as the change in the fair value reserve EUR 0.8 million (EUR -0.0 million) and the revaluation of defined benefit pension plans EUR 0.6 million (EUR -0.3 million). The changes in the fair value reserve were caused by net income from financial assets at fair value through other comprehensive income. Changes caused by amendments in actuary assumptions in defined benefit pension plan are recognized as other comprehensive income.

Numeric tables presented in the Financial Statements and in the Board of Directors' report are presented in thousands (€1,000), unless otherwise stated. Therefore, presented totals may vary from the sum calculated from the presented figures.

KEY FINANCIAL INDICATORS 2015-2019

Group	IFRS 2015	IFRS 2016	IFRS 2017	IFRS 2018	IFRS 2019
Turnover, EUR million	33.0	32.4	29.2	29.3	**32.8**
Operating profit/profit before appropriations and taxes, EUR million	7.4	7.3	6.7	7.2	**8.4**
Operating profit/turnover, %	22.5	22.6	22.7	24.4	**25.7**
Return on equity (ROE), %	6.2	5.8	4.9	5.0	**5.5**
Return on assets (ROA), %	0.4	0.3	0.2	0.2	**0.2**
Equity ratio, %	5.2	4.7	4.1	3.9	**4.0**
Cost-to-income ratio, %	55.2	57.1	62.5	60.6	**59.6**
Non-performing loans, % of loan portfolio	0.16	0.11	0.14	0.07	**0.10**
Loan-to-value ratio (average LTV), %	41.1	38.4	37.4	35.8	**35.3**
Loans/Deposits, %	136.7	150.2	143.6	150.7	**158.8**
Indicators set in the EU's Capital Requirements Regulation and in national legislation					
Leverage Ratio, %	4.3	4.2	3.7	3.5	**3.7**
Common Equity Tier 1 (CET1) ratio, %	13.8	13.6	12.7	12.1	**13.4**
Capital adequacy, %	13.8	13.6	12.7	12.1	**13.4**
LCR-ratio, %	128.0	144.0	147.6	122.6	**163.8**
Other key figures					
Receivables from the public and public sector entities	1,420.7	1,806.4	2,212.6	2,588.9	**2,586.1**
Deposits (incl. deposits of financial institutions)	1,040.0	1,203.0	1,540.4	1,718.2	**1,628.8**
Balance sheet total, EUR million	1,959.5	2,305.2	2,792.5	3,113.8	**3,230.7**
Total Capital, EUR million	93.9	100.9	106.1	112.3	**120.0**
Common Equity Tier 1 (CET1), EUR million	93.9	100.9	106.1	112.3	**120.0**
Minimum requirement of Total Capital, EUR million*	71.6	78.0	87.9	97.2	**114.3**
Average number of personnel	55	57	58	53	**52**
Salaries and remuneration, EUR million	3.8	3.9	4.3	4.2	**4.6**

* Since 31.12.2019 the total capital adequacy requirement has been 12.75%, consisting of minimum capital requirement 8%, capital conservation buffer requirement 2.5%, systemic risk buffer requirement 1.0% and discretionary capital add-on (Pillar 2) 1.25%.

The formulas for Key Financial Indicators and their definitions are presented in the end of Board of Directors' report.

GROUP'S DEVELOPMENT PER QUARTER

€ 1,000	10–12/2019	7–9/2019	4–6/2019	1–3/2019	10–12/2018
Interest income	7,151.0	6,657.6	6,523.0	6,131.1	6,135.1
Interest expenses	-3,131.7	-3,094.7	-3,045.7	-2,738.6	-2,784.8
NET INTEREST INCOME	**4,019.2**	**3,562.9**	**3,477.3**	**3,392.5**	**3,350.4**
Fee income	861.7	961.8	996.1	796.1	899.7
Fee expenses	-7.9	-15.0	-17.9	-12.5	-13.7
Net income from currency operations and securities trading					
Net income from securities trading	40.7	-303.8	-0.1	73.1	-1,512.1
Net income from financial assets at fair value through other comprehensive income	-189.2	0.0	75.2	118.9	183.0
Net income from hedge accounting	135.8	23.3	-30.3	-55.0	59.3
Net income from investment properties	669.0	696.9	695.3	788.8	987.3
Other operating income	-25.4	-5.7	-9.3	-9.8	4.2
Administrative expenses					
Personnel expenses					
Salaries and remuneration	-1,558.6	-1,043.8	-1,280.7	-1,297.0	-1,251.8
Indirect personnel expenses					
Pension expenses	-271.5	-215.7	-230.9	-220.5	-270.2
Other indirect personnel expenses	-46.6	-43.8	-16.3	-19.6	-8.7
Other administrative expenses	-992.5	-692.3	-781.0	-740.7	-816.4
Total administrative expenses	-2,869.2	-1,995.6	-2,308.9	-2,277.8	-2,347.1
Depreciation and impairment losses on tangible and intangible assets	-288.7	-189.8	-196.9	-180.7	-142.1
Other operating expenses	-335.3	-214.3	-290.7	-1,187.2	-256.7
Net gains/losses on derecognition of financial assets measured at amortised cost	-5.1	13.7	12.7	0.8	1.3
Net gains/losses on derecognition of other financial assets	15.1	0.0	0.9	0.7	0.0
OPERATING PROFIT	**2,020.8**	**2,534.4**	**2,403.6**	**1,447.9**	**1,213.6**
Income taxes	-320.4	-477.4	-432.5	-293.0	-169.1
PROFIT FROM OPERATIONS AFTER TAXES	**1,700.4**	**2,057.0**	**1,971.1**	**1,154.9**	**1,044.5**
PROFIT FOR THE PERIOD	**1,700.4**	**2,057.0**	**1,971.1**	**1,154.9**	**1,044.5**

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT, IFRS

€ 1,000	10–12/2019	7–9/2019	4–6/2019	1–3/2019	10–12/2018
Profit for the period	1,700.4	2,057.0	1,971.1	1,154.9	1,044.5
Items that may be included in the income statement later					
Change in fair value reserve					
Financial assets at fair value through other comprehensive income	-220.4	819.1	39.8	196.6	136.5
	-220.4	819.1	39.8	196.6	136.5
Items that may not be included in the income statement at a later date					
Effect of the change in the ownership of Bostads Ab Taos Oy	296.3	-172.9	125.0	386.4	-458.4
	296.3	-172.9	125.0	386.4	-458.4
Total other comprehensive income	76.0	646.2	164.8	583.0	-321.9
COMPREHENSIVE INCOME FOR THE PERIOD	**1,776.4**	**2,703.1**	**2,135.9**	**1,737.9**	**722.6**

KEY EVENTS SINCE THE END OF THE FINANCIAL PERIOD

There have been no significant changes in Hypo's or Group's future prospects nor financial position since the end of the financial period from 1 January 2019 to 31 December 2019.

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

Finnish economy grows at a slower pace. Household income increases and employment stays stable. Housing loan demand is supported by low interest rates. Urbanization will continue and supports the housing market and loan demand in growth cities, while areas with declining population will suffer and polarization will deepen. Newbuilding will increase the importance of the largest cities.

Hypo Group focuses on its core business and expects the share of profit made by it to continue to rise following the increase in loan portfolio and net interest income. Capital adequacy is expected to remain unchanged and the operating profit for 2020 is estimated to reach the level of 2019. The expectation containes uncertainties due to the development of the economy and interest rates.

BOARD OF DIRECTORS' PROPOSAL FOR THE USE OF PROFITS

According to section 26 of the rules of The Mortgage Society of Finland, at least 80 percent of annual profits must be transferred to a contingency fund or a reserve fund if the ratio between equity and risk-adjusted commitments (capital adequacy ratio) is less than 8 percent. If the capital adequacy ratio is at least 8 percent but less than 9 percent, at least 70 percent of annual profits must be transferred to a contingency or reserve fund. If the ratio is at least 9 percent, at least 50 percent of annual profits must be transferred to a contingency or reserve fund.

The Board of Directors proposes that EUR 3,402,507.68 of Hypo's result for 2019 (EUR 6,805,015.35) be transferred to the reserve fund and the rest remain in retained earnings.

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/en) in conjunction with this document.

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

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

During financial year, the average number of permanent employees was 50 (49) and the average number of fixed-term employees was 2 (4). Total of combined person years was 51 (55). At the end of the financial year, permanent employees numbered 53 (47) and the number of fixed-term employees was 3 (2). These figures do not include the CEO and deputy to the CEO. All employment contracts were full-time contracts.

Eight new employees were hired for permanent employment during the financial year, one temporary employment relationship was made permanent and 3 employment relationships ended.

Of Group's personnel, 58 percent work in direct customer service duties and 42 percent in administration. The average age of employees is 44.9 years. At the end of the year, the youngest employee was 26.0 years of age and the oldest was 62.7. The average length of an employment relationship is 7.5 years. Of all employees, 32 percent are men and 68 percent are women. Two of the three members of the Management Group (excl. CEO and the deputy to the CEO) are men and one is a woman. In addition, the secretary to the Management Group is a woman. Of Group's employees, 34 percent hold a higher education degree and 64 percent have graduated from a university of applied sciences (polytechnic) or completed upper secondary education. Of the women employed by Hypo Group, 21 percent hold a higher education degree and 67 percent have graduated from a university of applied sciences (polytechnic) or completed upper secondary education. For the men, the proportions are 59 and 47 percent, respectively. The above mentioned figures do not include temporary staff or the CEO.

All employees are included in Group's performance-related pay and incentive scheme. The performance-related and incentive scheme takes into account 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 deputy to the CEO are made by Hypo's Compensation Committee on a 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. For temporary employees the whole incentive is paid in cash.

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 and a supplementary working capacity insurance provided by LähiTapiola. 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 80 people.

INFORMATION REQUIRED BY SECTION EIGHT OF THE CAPITAL REQUIREMENTS REGULATION (EU 575/2013) AND INFORMATION CONCERNING GROUP'S RISK MANAGEMENT

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 nor investment services.

Risk tolerance

The Mortgage Society of Finland Group must continuously 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, efficient capital adequacy management and effective internal control.

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, and it also covers the subsidiary Suomen AsuntoHypoPankki. In addition to this Board of Directors' Report, more information about corporate governance is available in separate Corporate Governance Statement and Remuneration Statement as well as 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 S&P Global Ratings. Besides the compulsory minimum quantity, an internal minimum targets and monitoring limits have been set for the key indicators. The Group companies are not subject to a countercyclical capital buffer and none of the Group companies have been identified as globally systemically important institutions.

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

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 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 strategy and the planning and supervision of business operations.

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

Responsibility and organization of risk management

The Supervisory Board of Hypo and Boards of Directors of the group companies confirm principles of risk taking, which are implemented by the Chief Executive Officer and other members of the management group.

Risk taking takes place in business functions in accordance with said principles and other instructions and limitations applicable in risk taking. For the part of credit risk, the management group member responsible for lending (Chief Banking Officer) complies with the general terms of lending and principles of credit risk management and other applicable lending instructions.

For the part of market and liquidity risk, the management group member responsible for funding and treasury (Chief Funding and Treasury Officer) complies with principles on market risk management, principles of liquidity risk management and investment policy of treasury and other applicable instructions concerning said functions.

All management group members implement principles of operational risk management and other operational instructions. Risk management is responsible for monitoring of risk taking, development and maintenance of risk management methodologies and risk reporting to the management.

Risks related to ownership of housing units and residential land, recognizing and evaluation of those risks are responsibilities of the management group member responsible for housing and land.

Other independent control functions, i.e. compliance and internal audit are responsible of monitoring the implementation and compliance of risk taking principles in their respective fields. The base material used in risk reporting is produced by the controller function which is separate from the business lines.

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 by the Board of Directors. i.e. 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 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 regurlarly in 2019.

Business units' controls

The operational management and Hypo's personnel 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 companies actively participate in business operations, carrying out internal auditing on their part.

The objective of risk management within the 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 any related 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 Risk Manager 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 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 Risk Manager, the Compliance Officer and the 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 companies have assessed that the risk management systems used are sufficient

in relation to profiles and strategies of the Group and Group companies.

Risk statement

In light of the figures concerning Group's risk position presented in this Board of Directors' Report, 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 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 the Group, lending is carried out by Hypo, the parent company.

Within the 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. Market value of the collateral is monitored on a regular basis by using statistical methods. Large exposure collateral is evaluated in a separate process as required in regulation. 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 given by the state of Finland or by an insurance company with adequate credit rating and deposit collateral are the most commonly used credit risk mitigation techniques.

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 aim is to keep a balanced loan portfolio regarding these customer groups. The majority of the customers and collateral is focused in 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. The most significant risk concentration arising out of use of the credit risk mitigation techniques is the development of the housing market in Finland and especially in its largest growth centers.

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 or which has been impaired.

Since 2018, credit risk adjustments have been based on calculation of expected credit losses (ECL) and potentially final credit losses in line with IFRS 9 regulation.

The amount of forbearances increased during 2019 but still remained on an excellent level compared to the industry average. 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.

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, Group applies Central Counterparty Clearing in derivative contracts other than those related to the covered bonds or potential simple 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.

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

Use of external credit rating agencies

In capital adequacy calculation the following credit rating agencies are used: S&P Global Ratings, Moody's and Fitch. The credit ratings are being used in capital adequacy calculation by assigning the regulatory risk weight corresponding the ratings. The current credit ratings are used for the receivables from the following counterparties:

- sovereigns and central banks
- regional governments or local authorities
- public sector entities
- institutions
- companies

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. The counterparty risk related to derivative contracts is calculated using the current exposure method. The liquidity investments belonging to the banking book are included in the credit risk calculation. Hypo does not have a trading book and can only have a minor trading book 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 process, 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, performed by the parent company Hypo, 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 renewal of the Group's core banking systems has been initiated in 2019 and has progressed as planned.

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. Operational risks related to services offered to customers remotely without face-to-face contact, are taken into account in planning of business processes. Business risks, such as fraud risks, are also covered with separate insurance policies.

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. Business related risks, such as criminal risks, have also been covered with a special insurance.

Mortgage credit bank operations
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 instructed separately.

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

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

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

Liquidity risk management and reporting within the Group are based on confirmed principles of liquidity risk management.

Group's liquidity risks comprise various funding 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.

The long-term i.e. structural financing risk on the balance sheet
The long-term funding risk, also known as the structural funding risk, on the balance sheet refers to the temporal imbalance that is related to the funding 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 the Group's funding position.

The existing programs and authorizations for arranging long-term funding and securing the funding position are kept at a sufficient level in relation to the 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 the Group's strategy. Hypo, the parent company of the Group, also has permission to act as a counterparty to central bank funding. Implemented debt issuances and liquidity investments are regularly reported to the management.

The Net Stable Funding Ratio (NSFR) has been taken into account in the principles of liquidity risk management.

Short-term liquidity risk
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 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 short-term 30-day liquidity, 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 risk reporting in accordance with the principles of liquidity risk management.

Refinancing risk

Refinancing risk – caused by the maturity imbalance between receivables and liabilities on the balance sheet – is 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. Because of this funding matures to be refinanced several times during the term of the loans granted. 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 process, 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.

A specific declaration and statement on liquidity risk management are given in connection with information concerning liquidity position.

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 the Group's business operations may result from a change in the general interest rate level, a change in the credit risk related to the counterparty, limited supply of an instrument on the market (lack of liquidity) or a combination of these. The Group aims to maintain the changes in the market value of balance sheet items measured at 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.

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. Only simple and general derivatives are allowed to be used. Derivative contracts are used in funding, which includes mortgage credit bank activities, solely for hedging purposes. In other business than funding, derivatives may be used in a controlled manner to make a moderate position by utilizing view on interest rates. 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.

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.

The 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.

The Group makes use of its balance sheet by offering diverse housing solutions for its customers, which is why the turnover rate of housing and residential 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.

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 impairment losses related to holdings of housing units or residential land were recognized 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 the 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 macro economy and cause requirements for change in the 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 the Group is also regarded as strategic risks.

Changes in the operating environment

Unfavorable changes in the operating environment, such as strong changes in economic cycles, cause a risk that the 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, the 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.

Group's recognizability

Group's recognizability 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 recognizability 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, especially due to anticipated changes in the operations of the central IT-system service providers.

Statement on non-disclosed information

In a materiality evaluation assessment performed under Capital Adequacy Regulation (EU) 575/2013, Part Eight, Article 432(1), taking into account the scope and nature of the operations, the information under the following articles has not been considered as material to be disclosed in a manner larger than as disclosed in these Financial Statements and that the information disclosed conveys comprehensively the risk profile of the Group:

- Article 435 Risk management objectives and policies
- Article 436 Scope of application
- Article 438 Capital requirements
- Article 439 Exposure to counterparty credit risk
- Article 440 Capital buffers
- Article 441 Indicators of global systemic importance (does not apply to Hypo Group)
- Article 442 Credit risk adjustments
- Article 444 Use of ECAIs
- Article 445 Exposure to market risk
- Article 446 Operational risk
- Article 447 Exposures in equities not included in the trading book
- Article 448 Exposure to interest rate risk on positions not included in the trading book
- Article 451 Leverage

GROUP'S OWN FUNDS AND CAPITAL RATIOS

€ 1,000

Common Equity Tier 1 (CET1) capital: Instruments and reserves	**2019**	**2018**
Capital instruments and the related share premium accounts	5,000.0	5,000.0
of which: Basic capital	5,000.0	5,000.0
Retained earnings	65,870.4	62,601.8
Accumulated other comprehensive income and other reserves	52,008.6	47,858.8
Independently reviewed interim profits net of any foreseeable charge or dividend	6,883.4	5,948.5
Common Equity Tier 1 (CET1) capital before regulatory adjustments	129,762.3	121,409.0
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets	-2,909.4	-2,230.4
Deferred tax assets that rely on future profitability	0.0	-148.5
Value adjustments due to the requirements for prudent valuation	-314.1	-219.9
Defined-benefit pension fund assets	-6,510.3	-6,467.9
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-9,733.7	-9,066.7
Common Equity Tier 1 (CET1) capital	120,028.6	112,342.3
Additional Tier 1 (AT1) capital	0.0	0.0
Tier 2 (T2) capital	0.0	0.0
Total capital (TC = T1 + T2)	120,028.6	112,342.3
Total risk weighted assets	896,212.8	925,239.5
Capital ratios and buffers		
Common Equity Tier 1 (CET1) as a percentage of total risk exposure amount	13.4	12.1
Tier 1 (T1) as a percentage of total risk exposure amount	13.4	12.1
Total capital as a percentage of total risk exposure amount	13.4	12.1
Institution specific buffer requirement, %	8.0	7.0
of which: capital conservation buffer requirement, %	2.5	2.5
of which: countercyclical buffer requirement, %	0.0	0.0
of which: systemic risk buffer requirement, %	1.0	0.0
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer, %	0.0	0.0
Discretionary capital add-on (Pillar 2), %	1.25	0.0
Common Equity Tier 1 available to meet buffers, %	9.9	8.6

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 counterparty credit risk is calculated using the current exposure method (CEM). The capital requirement for operational risk is calculated using the basic method. The other risk-weighted items consist of credit valuation risk (CVA). No restrictions applied in the EU's Capital Requirements Regulation (575/2013) compliant own funds calculation and no elements of own funds other than what is laid down in this regulation is used.

Contribution EUR 1 500 000 from the pension foundation of the Mortgage Society of Finland has been included in Group's own funds. An authorization for the contribution was granted by the Financial Supervisory Authority on 9 January 2020.

Capital instruments main features		
Issuer	Suomen Asuntohypopankki Oy	Suomen Hypoteekkiyhdistys
Unique Identifier	743700P5K21EQSEHZK26	N/A
Governing law of the instrument	Limited Liability Companies Act	Act on Mortgage Societies
Regulatory treatment		
Transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1
Post-transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1
Eligibility level	Solo	Solo and consolidated
Instrument type	Share	Basic capital
Amount recognized in regulatory capital	EUR 6.5 million	EUR 5.0 million
Nominal amount of instrument	EUR 6.5 million	EUR 5.0 million
Accounting classification	Shareholder's equity	N/A
Original date of issuance	19 June 2002	21 December 1858
Perpetual or dated	Perpetual	Perpetual

CREDIT AND COUNTERPARTY RISKS ACCORDING TO THE STANDARD METHOD, OPERATIVE RISK AND OTHER RISKS, BALANCE SHEET AND OFF-BALANCE SHEET ITEMS

2019 € 1,000	Original exposure pre conversion factors	Exposure value	Risk weighted exposure amount after SME-supporting factor	Own funds requirement
Credit and counterparty risks				
Exposures to central governments or central banks	364,618.4	421,686.8	0.0	0.0
Exposures to regional governments or local authorities	138,747.9	147,493.6	0.0	0.0
Exposures to credit institutions	53,091.9	61,075.2	16,676.0	1,334.1
Exposures to corporates	54,738.1	25,919.9	18,426.5	1,474.1
Retail exposures	61,925.5	15,075.3	10,129.7	810.4
Exposures secured by mortgages on immovable property	2,582,115.8	2,514,794.5	738,062.4	59,045.0
Exposures in default	2,412.0	2,238.3	2,290.8	183.3
Exposures in the form of covered bonds	23,451.1	23,451.1	2,345.1	187.6
Other items	65,120.0	65,120.0	65,120.0	5,209.6
Total	3,346,220.5	3,276,854.7	853,050.5	68,244.0
Operational risk			36,346.8	2,907.7
Other risks			6,815.5	545.2
All items in total	3,346,220.5	3,276,854.7	896,212.8	71,697.0

2018 € 1,000	Original exposure pre conversion factors	Exposure value	Risk weighted exposure amount after SME-supporting factor	Own funds requirement
Credit and counterparty risks				
Exposures to central governments or central banks	277,765.2	337,111.0	0.0	0.0
Exposures to regional governments or local authorities	100,496.5	110,003.0	0.0	0.0
Exposures to public sector entities	5,854.8	5,854.8	1,171.0	93.7
Exposures to credit institutions	24,169.1	32,658.5	11,652.1	932.2
Exposures to corporates	84,510.4	39,188.4	32,584.8	2,606.8
Retail exposures	62,615.0	16,635.4	11,220.0	897.6
Exposures secured by mortgages on immovable property	2,716,899.7	2,572,499.5	755,204.2	60,416.3
Exposures in default	1,391.4	1,339.6	1,359.4	108.8
Exposures in the form of covered bonds	40,280.2	40,280.2	4,028.0	322.2
Other items	67,952.5	67,952.5	67,952.5	5,436.2
Total	3,381,934.8	3,223,522.8	885,172.0	70,813.8
Operational risk			32,506.8	2,600.5
Other risks			7,560.7	604.9
All items in total	3,381,934.8	3,223,522.8	925,239.5	74,019.2

Risk-weighting of the following exposures: sovereigns, regional governments, local authorities, public sector entities, institutions and companies; is based on ratings assigned by S&P Global Ratings, Fitch and Moody's where applicable. Own funds requirement for credit and counterparty risks have been calculated using eight percent requirement of risk-weighted exposures in accordance with the EU's Capital Requirements Regulation (575/2013).

€ 1,000

Total exposure values covered by eligible financial collateral or other eligible collateral	2019	2018
Exposures to corporates	270.1	142.9
Retail exposures	4,523.8	3,981.4
Exposures in default	32.0	10.0
Total	4,825.9	4,134.3

€ 1,000

Total exposure values covered by guarantees or credit derivatives	2019	2018
Exposures to corporates	41,688.9	44,302.4
Retail exposures	40,890.2	40,480.3
Exposures in default	141.7	41.8
Total	82,720.8	84,824.6

COUNTERPARTY CREDIT RISK EXPOSURES

2019
€ 1,000

	b	c	f	g
Analysis of CCR exposure by approach (EU CCR1)	Replacement cost/current market value	Potential future credit exposure	EAD post CRM	RWAs
1 Mark to market	22,899.7	9,250.0	32,139.7	9,093.8

	a	b
CVA capital charge (EU CCR2)	Exposure value	RWAs
4 All portfolios subject to the standardised method	30,296.8	6,815.5
5 Total subject to the CVA capital charge	30,296.8	6,815.5

	a	b	c	d	e
Impact of netting and collateral held on exposure values (EU CCR5-A)	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1 Derivatives	19,351.9	0.0	19,351.9	23,350.0	0.0
4 Total	19,351.9	0.0	19,351.9	23,350.0	0.0

	a	b	c	d
	Collateral used in derivative transactions			
	Fair value of collateral received		Fair value of posted collateral	
Composition of collateral for exposures to CCR (EU CCR5-B)	Segregated	Unsegregated	Segregated	Unsegregated
1 Cash		23,350.0	4,708.7	3,300.7
2 Sovereign debt			5,365.8	

Collateral posted for CCP are segregated. Collateral received from or posted for other counterparties are unsegregated.

INFORMATION CONCERNING ASSET ENCUMBRANCE

2019 € 1,000	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
A – Assets	1,706,675.5	1,706,675.5	1,523,981.3	1,523,981.3
Equity instruments			132.4	132.4
Debt securities	49,319.8	49,319.8	233,367.7	233,367.7
Other assets, including lending	1,657,355.7	1,657,355.7	1,290,481.3	1,290,481.3

B – Collateral received

Nothing to report, as the Group's received collaterals meet the conditions for recognition on the balance sheet and are reported in Template A.

C – Encumbered assets and associated liabilities	Liabilities associated with encumbered assets	Encumbered assets
Book value of selected financial liabilities	78,950.9	94,703.1
Debt securities issued to the public	1,278,253.3	1,598,597.2
Derivative contracts	7,048.0	13,375.2
Total	1,364,252.2	1,706,675.5

D – Information on the importance of encumbrance

Provided figures are based on the situation as at 31 December 2019. The amount of assets reported under items A and C above does not include excess collateral except for covered 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 1,706.7 million, out of which of covered bonds was EUR 1,649.3 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 218.4 million on 31 December 2019 EUR 677.0 million of unencumbered loans may be used as collateral for covered bonds.

INFORMATION CONCERNING ASSET ENCUMBRANCE

2018 € 1,000	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencum-bered assets	Fair value of unencum-bered assets
A – Assets	1 345 044,2	1 345 044,2	1 768 772,7	1 768 772,7
Equity instruments			132,4	132,4
Debt securities	50 648,0	50 648,0	159 514,2	159 514,2
Other assets, including loans	1 294 396,1	1 294 396,1	1 609 126,2	1 609 126,2
B – Collateral received				
Nothing to report, as the Group's received collaterals meet the conditions for recognition on the balance sheet and are reported in Template A.				

C – Encumbered assets and associated liabilities	Liabilities associated with encumbered assets	Encumbered assets
Book value of selected financial liabilities	79 275,3	97 588,9
Debt securities issued to the public	962 816,5	1 239 491,3
Derivative contracts	3 483,5	7 963,9
Total	1 045 575,4	1 345 044,2

D – Information on the importance of encumbrance

Provided figures are based on the situation as at 31 December 2018. The amount of assets reported under items A and C above does not include excess collateral except for covered 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 1 345.0 million, out of which of covered bonds was EUR 1290.1 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 159.5 on 31 December 2018. EUR 1 035.1 million of unencumbered loans can be used as collateral for covered bonds.

REMUNERATION POLICY

Information on remuneration policy according to the article 450 of EU's Capital Requirements Regulation (575/2013) is published separetely in the report "Palkka- ja palkkioselvitys" found from http://www.hypo.fi/tietoa-hyposta/johtaminen-ja-hallinnointi/saannot-ja-sisainen-valvonta/palkitseminen/.

LEVERAGE RATIO

	2019	**2018**
Leverage ratio, %	3.7	3.5

EU LIQA ON LIQUIDITY RISK MANAGEMENT

Strategies and processes in the management of liquidity risk

Group's liquidity risk strategy is based on the Principles on liquidity risk management which are updated regularly. The strategy consists of identification, measuring, management and coordination of structural funding risk, short-term liquidity risk and refinancing risk on the balance sheet.

Structure and organization of the liquidity risk management function

Liquidity risk is managed in three separate units. Treasury performs risk measuring and practical risk management with necessary authorisations thereof. Controller unit, independent of Treasury, produces liquidity risk reporting. Risk management as an independent risk monitoring unit, independent of both aforementioned units, is responsible of maintenance and development of risk management methods as well as risk reporting to the management.

Scope and nature of liquidity risk reporting and measurement systems

Risk reporting to the management covers all liquidity risks and is performed in a pre-defined format at least quarterly. Identification and measuring of the risk takes place with suitable IT systems taking into account the measuring methods stated in the Principles of liquidity risk management.

Protection and risk reduction policies and control of their effectiveness

Protection against liquidity risk based on the individual risk limits laid down in (the minimum and / or target levels), which typically is set as the alarm. The limits guide operations and are monitored in liquidity management and risk reporting. The maintenance of adequate liquidity reserves in both the short and long term as regards payment obligations and regulatory requirements is a key way of ensuring liquidity adequacy. A contingency plan has been defined for the unforeseeable weakening of the liquidity situation.

Management declaration concerning liquidity risk management

Management of the group deems the arrangements and processes in place regarding liquidity risk management as being on an adequate level taking into account the group's risk profile and business strategy.

Management statement on liquidity risk

Management of the group states, based on the quantitative information disclosed in these financial statements that the liquidity risk profile is consistent and controlled in relation to the business strategy and risk tolerance of the group.

LCR DISCLOSURE TEMPLATE AND QUALITATIVE INFORMATION ON THE LCR (EU LIQ1)

Consolidated, € 1,000	Total weighted value (average)			
Quarter ending on	31.3.2019	30.6.2019	30.9.2019	31.12.2019
Number of data points used in the calculation of averages	12	12	12	12
LIQUIDITY BUFFER	407,708	398,726	398,855	403,152
TOTAL NET CASH OUTFLOWS	304,600	301,585	303,850	300,734
LIQUIDITY COVERAGE RATIO (%)	135.0604%	133.2014%	131.9458%	134.4415%

Concentration of funding and liquidity sources
Key funding sources of the group are covered bonds, senior unsecured bonds, certificates of deposits, and deposits from the public. Out of these and in addition to the mandatory LCR requirement, deposits and long-term funding have been set minimum/target levels which affect the operations and which are monitored in liquidity risk reporting. Proportional shares of different funding sources are disclosed in these financial statements.

Derivative exposures and potential collateral calls
The derivatives used are always related to the group's own operations and they are plain vanilla interest rate (IRS) or interest rate and currency swap (CIRS) contracts. In mortgage credit bank operations, only IRS contracts are used. In the case of option and swaption agreements, Group companies operate only as a buyer, not as an assigner. In funding, derivatives are used only in the purpose of hedging. In other operations derivatives may be used in taking a moderate position. Outside covered bond operations and simple cross currency swap contracts, derivatives are centrally cleared with a central clearing counterparty. The use of collateral is subject to the master derivative agreement in question.

Currency mismatch in the LCR
The Hypo Group has only euro-denominated liabilities and receivables, so there is no currency difference.

A description of the degree of centralisation of liquidity management and interaction between the group's units
On operational level, liquidity management is centralized in treasury where authorisations, responsibilities and tasks are divided in due manner. Cooperation between treasury and other units taking part in liquidity or liquidity risk management is continuous and functioning.

Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile
N/A.

NON-PERFORMING AND FORBORNE EXPOSURES

2019 € 1,000	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Non-perhorming forborne						
	Performing forborne		Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
Loans and advances	8,254	54	54	54	0	0	8,247	50
Central banks								
General goverments								
Credit institutions								
Other financial corporations								
Non-financial corporations	5,821						5,818	
Households	2,433	54	54	54			2,429	50
Debt securities								
Loan commitments given								
Total	8,254	54	54	54	0	0	8,247	50

NON-PERFORMING AND FORBORNE EXPOSURES

Credit quality of performing and non-performing exposures by past due days

2019 € 1,000	Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures							
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
Loans	2,842,397	2,838,249	1,466	2,682	74	893	529	576	439	116	55	2,682
Central banks	244,130	244,130		0								
General goverments	0			0								
Credit institutions	9,821	9,821		0								
Other financial corporations	1,750	1,750		0								
Non-financial corporations	1,769,427	1,769,427		0								
Of which SMEs		753,018		0								
Househoulds	817,268	813,121	1,466	2,682	74	893	529	576	439	116	55	2,682
Debt securities	282,687	282,687	0	0	0	0	0	0	0	0	0	0
Central banks	0			0								
General goverments	259,236	259,236		0								
Credit institutions	23,451	23,451		0								
Other financial corporations	0			0								
Non-financial corporations	0			0								
Off-balance-sheet exposures	112,466			0								0
Central banks				0								
General goverments				0								
Credit institutions				0								
Other financial corporations				0								
Non-financial corporations	89,313			0								
Househoulds	23,153			0								
Total	3,237,550	3,120,937	1,466	2,682	74	893	529	576	439	116	55	2,682

Performing and non-performing exposures and related provisions

2019 € 1,000	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
		Of which: Level 1	Of which: Level 2		Of which: Level 2	Of which: Level 3		Of which: Level 1	Of which: Level 2		Of which: Level 2	Of which: Level 3			
Loans	2,839,715	2,829,792	9,923	2,682	0	2,682	-65	-20	-45	-196	0	-196	-467	2,583,302	2,448
Central banks	244,130	244,130		0			0			0					
General governments	0			0			0			0					
Credit institutions	9,821	9,821		0			0			0					
Other financial corporations	1,750	1,750		0			0			0				1,750	
Non-financial corporations	1,769,427	1,763,078	6,350	0			0	0		0				1,767,655	
Of which SMEs	753,018	746,668	6,350	0			0			0				753,018	
Households	814,586	811,013	3,573	2,682		2,682	-65	-20	-45	-196		-196	-467	813,897	2,448
Debt securities	282,687	282,687	0	0	0	0	0	0	0	0	0	0	0	0	0
Central banks	0			0			0			0					
General governments	259,236	259,236		0			0			0					
Credit institutions	23,451	23,451		0			0			0					
Other financial corporations	0			0			0			0					
Non-financial corporations	0			0			0			0					
Off-balance-sheet exposures	112,466	112,466	0	0	0	0	0	0	0	0	0	0		0	0
Central banks	0			0			0			0					
General governments	0			0			0			0					
Credit institutions	0			0			0			0					
Other financial corporations	0			0			0			0					
Non-financial corporations	89,313	89,313		0			0	0		0					
Households	23,153	23,153		0			0	0		0					
Total	3,234,868	3,224,945	9,923	2,682	0	2,682	-66	-21	-45	-196	0	-196	-467	2,583,302	2,448

OTHER INFORMATION DESCRIBING CAPITAL ADEQUACY AND RISK POSITION

Risk type	Indicator	2019	2018
Credit risk	LTV-ratio (Loan to Value, average), %	35.3%	35.8%
Credit risk	Non-performing loans, % of loan portfolio	0.10%	0.07%
Credit risk	Net impairment losses, EUR million	0.10	-0.03
Liquidity risk	Long-term funding out of total funding, %	46.5%	36.2%
Liquidity risk	Deposits out of total funding, %	53.6%	58.2%
Liquidity risk	Average maturity of liabilities, in years	3.5	3.3
Liquidity risk	LCR-ratio, %	163.8%	122.6%
Liquidity risk	Short-term liquidity, EUR million	539.1	442.4
Liquidity risk	Short-term liquidity, months	38.4	28.3
Liquidity risk	Share of short -term liquidity of the balance sheet total, %	16.7%	14.2%
Interest rate risk	Interest rate risk in the banking book, EUR million	-4.9	-4.6
Interest rate risk	Net Present Value risk, EUR million	-4.5	-2.2
Risk related to ownership of housing units and residential land	Total amount of housing property holdings of the balance sheet total, %	1.9%	2.0%
Risk related to ownership of housing units and residential land	Book values of investement properties, % out of estimated fair values	91.5%	96.4%
Risk related to ownership of housing units and residential land	Occupancy rate, %	93.7%	98.1%
Risk related to ownership of housing units and residential land	Net profit of investment properties calculates by book value	4.4%	4.2%
Risk related to ownership of housing units and residential land	Average monthly rent per square metre in housing units EUR per square meter	19.7	21.2

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 collaterals are taken into account. LTV average is calculated by weighting the loan-to-value ratio of the credit by the remaining amount of credit.
Non-performing loans, % 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.
Deposits out of total funding, %	Deposits divided by total funding. 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 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 multiplied with 365 (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.
Book values of investment 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.

INFORMATION REQUIRED FROM A SIGNIFICANT SUBSIDIARY (SUOMEN ASUNTO-HYPOPANKKI OY) BY SECTION EIGHT OF THE CAPITAL REQUIREMENT REGULATION (EU 575/2013)

Own funds and capital ratios of Suomen Asuntohypopankki Oy

€ 1,000	2019	2018
Common Equity Tier 1 (CET1) capital: Instruments and reserves		
Capital instruments and the related share premium accounts	6,500.0	6,500.0
of which: Basic capital	6,500.0	6,500.0
Retained earnings	17,979.7	17,728.1
Accumulated other comprehensive income and other reserves	168.2	168.2
Independently reviewed interim profits net of any foreseeable charge or dividend	646.3	251.6
Common Equity Tier 1 (CET1) capital before regulatory adjustments	25,294.1	24,647.9
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets	-1.1	-4.4
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-1.1	-4.4
Common Equity Tier 1 (CET1) capital	25,293.0	24,643.4
Additional Tier 1 (AT1) capital	0.0	0.0
Tier 2 (T2) capital	0.0	0.0
Total capital (TC = T1 + T2)	25,293.0	24,643.4
Total risk weighted assets	33,257.4	38,347.8
Capital ratios and buffers		
Common Equity Tier 1 (CET1) as a percentage of total risk exposure amount	76.1	64.3
Tier 1 (T1) as a percentage of total risk exposure amount	76.1	64.3
Total capital as a percentage of total risk exposure amount	76.1	64.3
Institution specific buffer requirement, %	7.0	7.0
of which: capital conservation buffer requirement, %	2.5	2.5
of which: countercyclical buffer requirement, %	0.0	0.0
of which: systemic risk buffer requirement, %	0.0	0.0
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer, %	0.0	0.0
Common Equity Tier 1 available to meet buffers, %	72.6	60.8

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. No restrictions applied in the EU's Capital Requirements Regulation (575/2013) compliant own funds calculation and no elements of own funds other than what is laid down in this regulation is used.

INFORMATION REQUIRED FROM A SIGNIFICANT SUBSIDIARY (SUOMEN ASUNTO-HYPOPANKKI OY) BY SECTION EIGHT OF THE CAPITAL REQUIREMENT REGULATION (EU 575/2013)

Credit risks according to the standard method, operative risk, balance sheet and off-balance sheet items of Suomen Asuntohypopankki Oy

€ 1,000	2019			
	Original exposure pre conversion factors	Exposure value	Risk weighted exposure amount after SME-supporting factor	Own funds requirement
Exposures to credit institutions	1,654,211.6	1,654,211.6	84.9	6.8
Exposures secured by mortgages on immovable property	84,848.4	84,848.4	22,626.1	1,810.1
Other items	3,734.5	3,734.5	3,734.5	298.8
Total	1,742,794.6	1,742,794.6	26,445.5	2,115.6
Operational risk			6,812.0	545.0
All items in total	1,742,794.6	1,742,794.6	33,257.4	2,660.6

€ 1,000	2018			
	Original exposure pre conversion factors	Exposure value	Risk weighted exposure amount after SME-supporting factor	Own funds requirement
Exposures to credit institutions	1,745,316.0	1,745,316.0	3.7	0.3
Exposures secured by mortgages on immovable property	94,257.5	94,257.5	25,135.2	2,010.8
Other items	3,959.9	3,959.9	3,959.9	316.8
Total	1,843,533.5	1,843,533.5	29,098.8	2,327.9
Operational risk			9,249.0	739.9
All items in total	1,843,533.5	1,843,533.5	38,347.8	3,067.8

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

Own funds requirement for credit and counterparty risks have been calculated using eight percent requirement of risk-weighted exposures in accordance with the EU's Capital Requirements Regulation (575/2013).

There are no items related to articles 442 or 453 of the EU's Capital Requirements Regulation (EU 575/2013).

REMUNERATION POLICY OF SUOMEN ASUNTOHYPOPANKKI OY

Information on remuneration policy according to the article 450 of EU's Capital Requirements Regulation (575/2013) is published separetely at the Group level in the report "Palkka- ja palkkioselvitys" found from http://www.hypo.fi/tietoa-hyposta/johtaminen-ja-hallinnointi/saannot-ja-sisainen-valvonta/palkitseminen/.
The Bank does not have own personnel.

LEVERAGE RATIO OF SUOMEN ASUNTOHYPOPANKKI OY

	2019	2018
Leverage ratio, %	1.45	1.34

DEFINITIONS OF ALTERNATIVE PERFORMANCE MEASURES:

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.

Turnover

Interest income + income from equity investments + fee income + net income from financial assets at fair value through other comprehensive income + 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 financial assets at fair value through other comprehensive income + 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, Weighted 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 deputy to the CEO). 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

Total of personnel’s salaries and remuneration

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 statements 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 relation 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.

Equity 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 percent 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 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, %

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

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.

CONSOLIDATED INCOME STATEMENT, IFRS

€ 1,000	Note	1.1.–31.12.2019	1.1.–31.12.2018
Interest income	1, 3	26,462.7	23,614.8
Interest expenses	1, 3	-12,010.8	-11,284.1
NET INTEREST INCOME		**14,451.9**	**12,330.8**
Fee and commission income	2, 3	3,615.7	3,887.3
Fee and commission expenses	2	-53.3	-92.5
Net income from securities and foreign currency transactions			
Net income from securities trading	4	-190.0	-1,144.7
Net income from financial assets at fair value through other comprehensive income	5	4.9	291.4
Net income from hedge accounting	6	73.9	33.2
Net income from investment properties	7	2,850.1	2,930.5
Other operating income	8	-50.3	-12.9
Administrative expenses			
Personnel costs			
Wages and salaries		-5,180.2	-4,920.5
Other personnel related costs			
Pension costs		-938.6	-995.8
Other personnel related costs		-126.3	-109.0
Other administrative expenses		-3,206.4	-2,663.5
Total administrative expenses		-9,451.5	-8,688.8
Depreciation and impairment losses on tangible and intangible assets	10	-856.1	-516.1
Other operating expenses	9	-2,027.5	-1,830.3
Net gains/losses on derecognition of financial assets measured at amortised cost	11	22.2	-31.3
Net gains/losses on derecognition of other financial assets	11	16.6	8.7
OPERATING PROFIT		**8,406.7**	**7,165.2**
Income taxes	12	-1,523.3	-1,216.8
PROFIT FROM OPERATIONS AFTER TAXES		**6,883.4**	**5,948.5**
PROFIT FOR THE PERIOD		**6,883.4**	**5,948.5**

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT, IFRS

€ 1,000	1.1.–31.12.2019	1.1.–31.12.2018
Profit for the period	6,883.4	5,948.5
Other comprehensive income		
Items that may in the future be recognized through profit or loss		
Change in fair value reserve		
Hedging of cash flows	0.0	65.0
Financial assets at fair value through other comprehensive income	835.1	-114.2
	835.1	-49.2
Items that may not be included in the income statement at a later date		
Revaluation of defined benefit pension plans	634.8	-254.8
Correction for previous year, IFRS 9		-57.8
	634.8	-312.6
Total other comprehensive income	1,469.9	-361.7
COMPREHENSIVE INCOME FOR THE PERIOD	**8,353.3**	**5,586.7**

CONSOLIDATED BALANCE SHEET, IFRS

€ 1,000	Note	31.12.2019	31.12.2018
ASSETS			
Cash	14 ,15, 38	244,100.0	223,600.0
Debt securities eligible for refinancing with central banks			
Other	15, 18, 19, 36, 38, 57, 58, 59	267,107.0	201,166.5
		267,107.0	201,166.5
Receivables from credit institutions			
Payable on demand	15, 16, 36, 38	9,820.9	5,338.7
Other	15, 16, 36, 38	29.8	60.8
		9,850.7	5,399.5
Receivables from the public and public sector entities			
Other than those payable on demand	17, 36, 38, 54, 55, 57, 58, 59	2,586,147.0	2,588,907.9
Debt securities			
From public sector entities	15, 18, 19, 36, 38, 57, 58, 59	15,006.4	8,506.0
Shares and holdings	20, 38	132.4	132.4
Derivative contracts	21–25, 38, 39	19,351.9	4,562.6
Intangible assets	26, 28	3,636.7	2,788.0
Tangible assets			
Investment properties and shares and holdings in investment properties	27, 28	61,564.4	61,420.5
Other properties and shares and holdings in housing property corporations	27, 28	644.5	844.4
Other tangible assets	28	242.2	258.0
		62,451.1	62,522.9
Other assets	29	15,134.3	10,626.0
Deferred income and advances paid	30	7,739.3	5,456.6
Deferred tax receivables	31	0.0	148.5
TOTAL ASSETS		**3,230,656.9**	**3,113,816.9**

CONSOLIDATED BALANCE SHEET, IFRS

€ 1,000	Note	31.12.2019	31.12.2018
LIABILITIES			
Liabilities to credit institutions			
To central banks	36, 38	80,000.0	80,000.0
To credit institutions			
Other than those payable on demand	36, 38	6,329.2	10,101.5
		86,329.2	90,101.5
Liabilities to the public and public sector entities			
Deposits			
Payable on demand	36, 38	829,457.9	806,059.4
Other than those payable on demand	36, 38	799,335.3	912,106.3
		1,628,793.2	1,718,165.6
Other liabilities			
Other than those payable on demand	36, 38	14,294.1	16,917.6
		1,643,087.3	1,735,083.3
Debt securities issued to the public			
Bonds	32, 36, 38	1,275,217.9	960,976.9
Other	32, 36, 38	36,483.2	168,435.6
		1,311,701.1	1,129,412.5
Derivative contracts	21–25, 38, 39	7,598.5	3,215.5
Other liabilities			
Other liabilities	33	35,004.0	17,119.0
Deferred expenses and advances received	34	7,445.2	7,663.3
Deferred tax liabilities	31	9,729.3	9,812.9
EQUITY			
Basic capital	40	5,000.0	5,000.0
Other restricted reserves			
Reserve fund		25,490.5	22,810.7
Fair value reserve			
From valuation at fair value		755.0	-80.2
Defined benefit pension plans			
Actuarial gains/losses		2,839.6	2,204.8
Unrestricted reserves			
Other reserves		22,923.5	22,923.5
Retained earnings		65,870.4	62,601.8
Profit for the period		6,883.4	5,948.5
		129,762.3	121,409.0
TOTAL LIABILITIES AND EQUITY		**3,230,656.9**	**3,113,816.9**

STATEMENT OF CHANGES IN EQUITY

€ 1,000	Basic capital	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
Equity 1 Jan 2018	**5,000.0**	**22,799.9**	**2,428.6**	**22,923.5**	**62,670.3**	**115,822.3**
Adjustment due to initial application of IFRS 9					-57.8	-57.8
Restated equity 1 January 2018	**5,000.0**	**22,799.9**	**2,428.6**	**22,923.5**	**62,612.5**	**115,764.5**
Profit for the period					5,948.5	5,948.5
Other comprehensive income						
Distribution of profits		10.7			-10.7	0.0
Hedging of cash flow						
Amount recognized in equity			-89.0			-89.0
Amount transferred to the income statement			170.3			170.3
Change in deferred taxes			-16.3			-16.3
Financial assets at fair value through other comprehensive income						
Change in fair value			144.5			144.5
Amount transferred to the income statement			-291.4			-291.4
Change in deferred taxes			32.7			32.7
Defined benefit pension plans						
Actuarial gains/losses			-318.5			-318.5
Change in deferred taxes			63.7			63.7
Total other comprehensive income	0.0	10.7	-303.9	0.0	-10.7	-303.9
Equity 31 Dec 2018	**5,000.0**	**22,810.7**	**2,124.6**	**22,923.5**	**68,550.2**	**121,409.0**

€ 1,000	Basic capital	Reserve fund	Fair value re-serve	Other reserves	Retained earnings	Total
Equity 1 Jan 2019	**5,000.0**	**22,810.7**	**2,124.6**	**22,923.5**	**68,550.2**	**121,409.0**
Profit for the period					6,883.4	6,883.4
Other comprehensive income						
Distribution of profits		2,679.9			-2,679.9	0.0
Financial assets at fair value through other comprehensive income						
Change in fair value			1,052.9			1,052.9
Amount transferred to the income statement			-4.9			-4.9
Change in deferred taxes			-212.9			-212.9
Defined benefit pension plans						
Actuarial gains/losses			793.5			793.5
Change in deferred taxes			-158.7			-158.7
Total other comprehensive income	0.0	2,679.9	1,469.9	0.0	-2,679.9	1,469.9
Equity 31 Dec 2019	**5,000.0**	**25,490.5**	**3,594.5**	**22,923.5**	**72,753.8**	**129,762.3**

Since the end of the financial period of 1 January–31 December 2019, there have not been any significant changes in the outlook or financial standing of The Mortgage Society of Finland or its Group. 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.

According to section 26 of the rules of The Mortgage Society of Finland, at least 80 percent of annual profits must be transferred to a contingency fund or a reserve fund if the ratio between equity and risk-adjusted commitments (capital adequacy ratio) is less than 8 percent. If the capital adequacy ratio is at least 8 percent but less than 9 percent, at least 70 percent of annual profits must be transferred to a contingency or reserve fund. If the ratio is at least 9 percent, at least 50 percent of annual profits must be transferred to a contingency or reserve fund.

The Board of Directors proposes that EUR 3 402 507.68 of Hypo's result for 2019 (EUR 6 805 015.35) be transferred to the reserve fund and the rest remain unused.

CONSOLIDATED CASH FLOW STATEMENT

€ 1,000	1.1.–31.12.2019	1.1.–31.12.2018
Cash flow from operating activities		
Interest received	24,107.7	23,024.5
Interest paid	-10,049.4	-10,909.5
Fee income	3,696.1	3,741.0
Fee expenses	-53.3	-92.5
Net income from currency operations and securities trading	-190.0	-1,144.7
Net income from financial assets at fair value through other comprehensive income	4.9	291.4
Net income from hedge accounting	73.9	33.2
Net income from investment properties	3,024.0	3,594.0
Other operating income	-50.3	-12.9
Administrative expenses	-11,018.6	-7,447.9
Other operating expenses	-2,187.8	-1,927.3
Credit and guarantee losses	38.8	-22.2
Income taxes	-2,260.6	51.3
Total net cash flow from operating activities	**5,135.4**	**9,178.3**
Operating assets increase (-) / decrease (+)		
Receivables from customers (lending)	3,316.5	-373,842.7
Cash collaterals, derivatives	12,539.9	2,501.3
Investment properties	1,794.8	-2,455.2
Operating assets increase (-) / decrease (+) total	**17,651.2**	**-373,796.5**
Operating liabilities increase (+) / decrease (-)		
Liabilities to the public and public sector entities (deposits)	-89,372.5	177,764.2
Operating liabilities increase (+) / decrease (-) total	**-89,372.5**	**177,764.2**
NET CASH FLOWS ACCRUED FROM OPERATING ACTIVITIES	**-66,585.9**	**-186,854.0**
Cash flows from investments		
Change in fixed assets	-1,489.1	-439.5
NET CASH FLOWS ACCRUED FROM INVESTMENTS	**-1,489.1**	**-439.5**
Cash flows from financing		
Bank loans, new withdrawals	89.7	151.5
Bank loans, repayments	-3,862.0	-3,923.9
Other liabilities increase (+) / decrease (-)	-2,605.8	-2,629.3
Bonds, new issues*	318,624.8	110,462.1
Bonds, repayments*	-14,827.2	-9,429.6
Certificates of deposit, new issues	134,328.4	195,485.8
Certificates of deposit, repayments	-266,280.8	-161,979.2
Subordinated liabilities, new withdrawals	0.0	11.4
Subordinated liabilities, repayments	0.0	-4,501.4
NET CASH FLOWS ACCRUED FROM FINANCING	**165,467.1**	**123,647.3**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**97,392.1**	**-63,646.1**
Cash and cash equivalents at the beginning of the period	438,672.0	502,318.1
Cash and cash equivalents at the end of the period	536,064.1	438,672.0
CHANGE IN CASH AND CASH EQUIVALENTS	**97,392.1**	**-63,646.1**

* The cash flow statement from the reference period has been revised by removing the deferred non-cash flow items from the cash flows regarding hedge accounting. The revision had no effect on the income, balance sheet or comprehensive income of the Group.

ACCOUNTING POLICIES

GROUP

The Mortgage Society of Finland Group (hereinafter "Hypo Group" or "Group") is the only national organization focusing in home financing and housing in Finland. Hypo Group offers all kinds of loan services for home financing to its customers as well as continuously develops new ways and models for housing and home financing.

The parent company of the Group, The Mortgage Society of Finland (hereinafter "Hypo") has its domicile and administrative headquarters in Helsinki. The street address of The Mortgage Society of Finland is Yrjönkatu 9 A, 00120 Helsinki and the mail address is P.O.Box 509, 00101 Helsinki.

Hypo is a mutual company governed by its member customers. The company is an authorized credit institution. Since 2016, Hypo has also license to engage in mortgage credit banking operations.

Suomen Asuntohypopankki Oy ("hereinafter AsuntoHypoPankki" or "the Bank"), a deposit bank wholly owned by the parent company, offers its customers deposit products, credit cards and trustee services.

The group entities together own 54.6 percent of the housing company Bostadsaktiebolaget Taos (hereinafter "Taos"). Taos owns and manages the land and property where Hypo's customer service facilities are located. Taos also rents out its office premises to third parties.

The operations of Hypo and the Bank are supervised by the Financial Supervisory Authority.

On 31 January 2020, the Board of Directors approved the release of the Financial Statements Release 1.1 - 31.12.2019 and on 27 February 2020, the presentation of this Financial Statements to the Auditor and to the Supervisory Board for verification. The Supervisory Board meeting is held on 28 February 2020. Financial Statements is presented for confirmation to the Annual General Meeting of the Mortgage Society of Finland, which will be held on 23 March 2020.

BASIS OF PREPARATION

Hypo Group's Financial Statements is 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. In addition, the applicable national legislation and regulatory requirements have been taken into account.

The consolidated Financial Statements includes 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 statement on changes in equity. In addition, the Board of Director's report is incorporated in the Financial Statements.

Hypo Group's business operations constitute a single segment, retail banking. The Board is the Chief Operating Decision Maker (CODM) at Hypo.

AsuntoHypoPankki is accounted for using the acquisition method of accounting.

Ownership in housing company Bostadsaktiebolaget Taos is accounted for using IFRS 11 Joint Arrangements –standard. Assets, liabilities, revenue and expenses of the joint operations are recognized in relation to Hypo Group´s interest in the joint operation.

The accounting principles of joint operations are modified to correspond Hypo Group's accounting policies. Inter-company transactions and balances between Group companies are eliminated.

The information related to capital adequacy has been prepared and presented in accordance with the EU Capital Requirements Regulation (CRR, EU 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. The capital requirement for the counterparty credit risk is calculated using the current exposure method. Disclosures required under the EU Capital Requirements Regulation Part Eight are published in the Board of Director's report.

The Group does not apply the transitional arrangements of the EU Capital Requirements Regulation (EU 575/2013) Article 473a.

Financial data is presented in group entities' operating currency, euros.

Numeric tables presented in the Financial statements released by the group are rounded to nearest 1000 euros. Therefore, presented totals may vary from the sum calculated from the presented figures.

New standards and interpretations

In preparing these financial statements, The Group has followed the same accounting policies as in the Annual Financial

statements for 2018 except for the effect of changes required by the adoption of the following new standards, interpretations and amendments to existing standards since 1 January 2019:

- Hypo Group began to apply IFRS 16 as of 1 January 2019. Hypo Group uses the simplified retrospective approach; the prior-year figures will not be adjusted.

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

- IASB made amendments to IFRS 9, IFRS 7 and IAS 39 standards regarding fair value hedge accounting to mitigate the effects that uncertainty about the IBOR reform may have to hedging relationships that are directly affected by the reform. The Mortgage Society of Finland does not have, for the time being, hedging relationships that are directly affected by the uncertainty related to the IBOR reform. Euribor reform was completed during the fall of 2019, and it is expected that EURIBOR will continue in its current form for the foreseeable future. Other benchmarks affected by the reform are currently not in use.

CHANGES IN ACCOUNTING POLICIES

IFRS 16 Leases

Hypo Group began to apply IFRS 16 as of 1 January 2019. Hypo Group uses the simplified retrospective approach; the prior-year figures will not be adjusted.

Hypo Group as lessee

Practical expedients on assessing whether the leases are onerous and excluding initial costs from the measurement of the right-of-use asset at the time of initial application are also used.

As IFRS 16 requires Hypo Group as lessee recognizes assets for the right of use received and liabilities for the payment obligations entered into for all leases. Hypo Group uses relief options provided for leases of low-value assets. For leases that have been classified to date as operative leases in accordance with IAS 17, the lease liability is recognized at the present value of the remaining payments or when the lease period is not fixed term an appropriate period is determined based on economic and business factors. The remaining lease payments are discounted using the lessee's incremental borrowing rate. The right-of-use assets will be measured at the amount of the lease liability. Possible advance payments and liabilities will also be accounted for as well as initial direct costs.

The depreciation charges on the right-of-use assets and the interest expense from unwinding of the discount on the lease liabilities will be recognized on the income statement.

The change in the presentation of operating leases will result in an equivalent improvement is cash flows from operating activities and a decline in cash flows from financing activities.

Hypo Group as lessor

All the leases in which Hypo Group is the lessor are classified as operative leases. The leased assets continue to be presented on the Hypo Group's balance sheet and the lease payments are generally recognized as income on a straight-line basis over the lease term.

Reconciliation of Lease Liabilities pursuant to IFRS 16

€ 1,000

Minimum lease payments under leases disclosed in the notes to the financial statements as of 31 December 2018	26.5
Discounted value of leases as at 1 January 2019	396.6
Relief option for leases of low-value assets	-3.2
Lease liabilities due to the initial application of IFRS 16 as of January 1.2019	419.8

When the lease period is not fixed term an appropriate period is determined based on economic and business factors. The weighted-average incremental borrowing rate for lease liabilities initially recognized as of January 1. 2019, was 3,0 % p.a.

SIGNIFICANT JUDGEMENTS AND ASSUMPTIONS

Due to uncertainty of future, preparation of financial statements requires use of accounting estimates. Accounting estimates involves judgements based on the latest available, reliable information. Following areas of financial statements involve significant judgements and assumptions:

- estimate of whether the financial instruments' credit risk has increased significantly since initial recognition
- estimate of the business environment's future development,
- estimations used in ECL modeling; future development for mortgage collaterals and solvency of customers,
- estimation of fair values of certain financial instruments,
- estimations used in hedge accounting,
- estimation of fair values of investment property,
- estimated useful life on intangible assets,
- estimations of defined benefit plan asset and actuarial assumptions and
- estimation of fair values of certain off-balance sheet commitments.

Information on significant judgements and assumptions used on above areas is disclosed in notes to this financial statements. Significant judgements and assumptions require regular assessment in order to revise estimates if changes in circumstances occur.

FINANCIAL INSTRUMENTS

Definitions

Amortized cost

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

Effective interest rate

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability. In effective interest rate method, transaction fees and expenses forming an integral part of effective interest rate are amortized over the remaining amount and duration of financial instruments. Gains or losses from the repurchase of own liabilities are recognized in interest expenses. The expected credit losses are not considered in the calculation.

Recognition

Financial assets and financial liabilities are recognized in the statement of financial position when Hypo becomes party to the contractual provisions of the instrument. The transactions of debt securities and shares are recognized using trade date accounting.

Measurement methods

At initial recognition, Hypo measures a financial asset and financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, Hypo recognizes the difference as follows:

a) When fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, Hypo recognizes the difference between the fair value at initial recognition and the transaction price as a gain or loss.
b) In all other cases, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, Hypo recognizes that deferred difference as a gain or loss only to the extent that it arises from a change in a factor that market participants would take into account when pricing the asset or liability.

After the initial recognition financial assets and liabilities are classified into following categories:

- Amortized cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVPL)

After the initial recognition an expected credit loss allowance is recognized for financial assets measured at amortized cost and bought debt instruments measured at FVOCI which results in an accounting loss being recognized in profit or loss when an asset is newly originated.

Accounting principles of financial instruments' fair value measurement

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).

Derecognition

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets have expired.

Financial liabilities are derecognized when they are extinguished that is, when the obligation specified in the contract is discharged, canceled or expires. If the terms of the liabilities are substantially modified the liability is accounted as an extinguishment of the original financial liability and a new financial liability is recognized. The difference between the carrying amount of the derecognized financial liability and the new financial liability is recognized in profit or loss.

Financial assets

Classification of Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans or government and corporate bonds. Classification and subsequent measurement of debt instruments depend on Hypo's business model. Business model refers to how Hypo manages its financial assets and liabilities. Based on these factors, Hypo classifies debt instruments into the following categories:

- Amortized cost: Assets that are held in order to collect contractual cash flows. Those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVPL, are measured at amortized cost. The book value of these assets is adjusted by recognized expected credit loss allowance. Interest income from these financial assets is included in interest income using effective interest rate method. Cash, receivables from credit institutions, the public and public sector entities are classified under amortized cost
- Fair value through other comprehensive income (FVOCI): Financial assets that are held in order to collect contractual cash flows and possibly sell the financial assets prior to maturity. The contractual cash flows of these assets are solely payments of principal and interest (SPPI) and the assets are not designated at FVPL. Part of debt securities are classified under FVOCI.
- Fair value through profit or loss (FVPL): Assets that are not measured at amortized cost or FVOCI are measured at FVPL. Part of debt securities are classified under FVPL.

Solely Payments of Principal and Interest (SPPI) test: When the business model is to collect contractual cash flows or to collect contractual cash and to sell financial assets prior to the maturity, Hypo tests whether the cash flows represent only solely payments of principal and interest. Hypo's financial instruments' cash flows consist solely payments of principal and interest. However, some debt instruments may have special clauses, for example interest rate floor or so called soft bullet clause. In order to detect the special clause cash flows, SPPI tests are conducted to the FVOCI instruments on the instrument level.

The change in fair value for debt instruments measured at fair value through other comprehensive income, is recognized in fair value reserve. When the financial instrument is sold the change in fair value reserve and the capital gain or loss is recognized in profit or loss. The interest income is recognized according to effective interest rate method through profit and loss. The expected credit losses are measured through profit and loss.

Hypo reclassifies financial assets only when its' business model for managing those assets changes.

Classification of Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's standpoint. Hypo's business model is to own shares as strategic long term investments. With these instruments Hypo has made irreversible choice to always recognize the fair value changes trough other comprehensible income. Dividend, when representing a return on such investments, continue to be recognized in profit or loss as income from equity investments when Hypo's right to receive payments is established.

Expected credit loss (ECL) measurement and calculation

The ECL principles are applied to financial assets measured at amortized cost or fair value through other comprehensive income, to lease receivables, contract assets or loan commitments and to off-balance sheet items such as loan commitments and financial guarantee contracts.

IFRS 9 outlines a three-level model for impairment based changes in credit quality since initial recognition. The model is summarized below for loan portfolio and for financial assets measured at fair value through other comprehensive income.

ECL calculation for loans

Hypo's loan portfolio is highly collateralized, and hence, the level of ECL is typically low. The calculations are performed separately for retail customers and for corporate customers.

Loans are classified into three different stages based on their credit risk:

- STAGE 1: Performing loans that have not had a significant increase in credit risk since initial recognition
- STAGE 2: Performing loans with a significant increase in credit risk after initial recognition
- STAGE 3: Non-performing loans

All other loans than the ones on stage 2 or 3 are considered as stage 1 receivables. On STAGE 1, ECL is calculated on a 12-month basis. ECL is calculated only for receivables that do not meet the condition of high collateralization, i.e. LTV exceeding 85%. The calculations incorporate data regarding exposure at default (EAD), historical impairment and credit loss (which are used to approximate probability of default (PD) and loss given default (LGD)), as well as statistical forward-looking factors, which are included in a so-called future coefficient (FLF).

As STAGE 2 receivables are considered loans:

- with on-going forbearance on the reporting date; or
- with interest, interest on arrears or principal payments more than 30 days due; and
- that have not become non-performing.

On Stage 2, ECL is calculated on a life-time basis, if in addition to the abovementioned criteria the loan's LTV is above 90% either before or after the collateral's statistical value change has been considered. Life-time ECL is calculated as the difference between contractual unreduced cash flows and the fair value of collateral(s). In addition, the abovementioned future coefficient is taken into account. It is assumed that additional loan withdrawals on stage 2 loan are rejected based on terms and conditions of the loan. Hence, undrawn loan commitments recorded as off-balance sheet items are not included in the ECL calculations.

In line with specifically defined principles, collaterals other than those accepted in the LTV calculation, only high-quality collateral is qualified as collateral in the ECL calculations (i.e. guarantee deposits or state / municipality guarantees).

STAGE 3 loan is either a non-performing loan or a loan, which is a specific Adjustment of Debt of a Private Individual loan. Non-performing loans meet the criteria in EU's Capital Requirements Regulation's (CRR) article 178. Adjustment of Debt of a Private Individual loan is always on Stage 3. Loan is assessed as future non-performing loan should it fail the 90 days past-due test.

There are two phases of life-time ECL calculation on Stage 3 loans. The first phase of the assessment is accomplished by subtracting the collateral fair value from the contractual cash flows, calculated on the contract net value after individual impairment. Phase 2 applies to situations where the collateral has been realized.

Stage 3/Phase 1 ECL-calculation result is recognized for the first time when a loan is initially identified as Stage 3 loan and thereafter, every time until the ECL-calculation result is recognized as per Stage 3/Phase 2. In the Stage 3/Phase 1 calculation, the future factor is also applied.

In Stage 3/Phase 2 ECL calculation result is recognized once loan collateral has been fully realized at the end of the debt collection process and when the debt collection process has

been finished and all debtors have been declared insolvent by the enforcement authorities.

Also on Stage 3, it is assumed that further withdrawals on undrawn loans are not allowed based on contract terms and hence the off-balance sheet amounts are not taken into account in the ECL calculation.

Modification of loans

When the loan cash flows are modified, Hypo assesses whether or not the credit risk has changed. Typically cash flow modifications are negotiated mainly based on the following reasons:

1) customer convenience without connection to financial difficulties, e.g. maintenance of customer relationship or in connection of a tendering process
2) extraordinary partial repayments in accordance with terms and conditions of the loan agreement
3) customer's existing or expected financial difficulties

With respect to items, 1 and 2, typical modification of to the loan terms do not significantly change the original terms and thus the credit risk remains unchanged. In item 3, when forbearance is granted to the customer, Hypo assesses that the credit risk has increased and the loan is moved to stage 2 and the ECL measurement is calculated accordingly.

ECL calculation for other debt securities

In the ECL calculations for debt securities Hypo applies:

- regulation conformant counterparty Credit Quality Steps derived from credit ratings,
- regulation conformant average Probability of Default, PD, and
- Loss Given Default, LGD

ECL is calculated only for debt securities measured at amortized cost or at fair value through other comprehensive income.

Debt securities are classified and measured based on their credit quality into three different stages:

- STAGE 1: Debt securities in normal state (credit quality 1-3)
- STAGE 2: Debt securities with an increased credit risk (credit quality 4-5 or payments due more than 30 days)
- STAGE 3: Debt securities with a significant increase in credit risk (credit quality 6 or payments due more than 90 days or Hypo's self-imposed individual impairment)

ON STAGE 1, 12-month expected ECL is calculated as the product of the instrument's carrying amount, counterparty Probability of Default (adapted on a 12-month period or the security's term to maturity, if less than 12 months) and the security's Loss Given Default.

ON STAGE 2, lifetime ECL is calculated as the product of the instrument´s carrying amount, counterparty Probability of Default (adapted on the security's term to maturity) and the security's Loss Given Default.

ON STAGE 3, lifetime ECL is calculated as the product of the debt security's net market value, counterparty Probability of Default (adapted on the security's term to maturity) and the security's Loss Given Default. Net market value is the security's market value reduced by individual impairment, if any.

Significant increase in credit risk (SICR)

A backstop is applied and the credit risk is considered to have increased significantly in loan portfolio when interest, interest on arrears or principal payment is more than 30 days due. Similar backstop is applied to debt securities. Credit risk of debt security is considered to have increased significantly when financial instrument's credit quality is 4-5 or payments are due more than 30 days. When the Credit risk has significantly increased the loss allowance is calculated according to stage 2 of the ECL model.

Definition of default and credit-impaired assets

Hypo group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- The criteria set out in the EU's Capital Requirements Regulation's (CRR) article 178
- A specific Adjustment of Debt of a Private Individual loan is applied to a loan
- Debt security's credit quality is 6

Instrument is considered to no longer be in default when it no longer meets any of the default criteria.

Forward-looking information incorporated in the ECL models

Hypo has performed historical analysis and identified the key economic variables associated with the changes of credit risk. These variables are built into the forward-looking factor (FLF) included in the ECL model. The statistical data is collected by the Statistics Finland. The calculation method was developed by Hypo's independent chief economist and values the FLF is assigned are based on the estimation made by Hypo's risk management. Hypo's independent chief economist provides up-to-date FLF value for the ECL model on regular basis. The FLF can have values that increase the final ECL allowance in comparison to the base scenario, but as a precautionary measure, it is not allowed to decrease it.

The most significant assumptions affecting the ECL allowance are as follows:

- Number of known transactions of dwellings in housing companies as it estimates future development of housing prices and therefore the value of commonly used collateral in housing loans
- Consumer confidence index as it estimates the future development in unemployment and furthermore the increase in defaults

Grouping of instruments for losses measured on collective basis

On ECL stage 1, ECL for loan portfolio is calculated only for receivables that do not meet the condition of high collateralization, i.e. LTV exceeding 85%. The calculations are performed separately for retail customers and for corporate customers. The calculation is done based on each loan's exposure amounts but using statistical data to determine the ECL allowance. The grouping of the exposures is done based on shared, homogeneous risk characteristics. On ECL stages 2 and 3 the ECL is calculated on contract level and no grouping is executed.

Collateral and other credit enhancements

Lending is Group's most important business area. Lending is carried out only against individually valued secured collateral. The principle collateral types for loans and loan commitments are shares in housing companies or mortgage deeds registered in a residential property. Loans are not granted without collateral. Market value of collaterals are monitored on a regular basis by using statistical methods. In addition to housing collateral, guarantees given by the state of Finland or by an insurance company with adequate credit rating and deposit collateral are used as credit risk mitigation techniques.

Collateral held as security for financial assets other than loans and loan commitments depends on the nature of the instrument. Covered bonds and similar assets are collateralized by their cover pools. Vast majority of the derivatives contracts are collateralized, either by CCP or by counterparty. Other debt securities, treasury and other bills are generally unsecured.

Hypo group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in overall quality of the collaterals held by Hypo group since the prior period.

Loss allowance

Loss allowance recognized in the period is impacted by a variety of factors, as described below:

- Transfers between stages due to financial instruments experiencing changes in their credit risk or becoming credit-impaired in the period
- Additional allowance for new financial instruments recognized during the period
- Releases for financial instruments derecognized during the period
- Impact on measurement of ECL due to changes in financial instrument specific factors
- Impact on measurement of ECL due to changes made to model and assumptions
- Write-offs of financial assets during the period.

Write-off policy

Hypo group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation for recovery are:

- Debtor has been declared insolvent
- All guarantees (guarantors, collateral) have been realized

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

Classification of financial liabilities

Hypo's financial liabilities are 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.

Financial derivatives

Classification and measurement of derivatives

Derivatives are initially recognized at fair value on the date which the derivative contract is entered into and are subsequently remeasured at fair value. 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.

Offsetting financial assets and financial liabilities

Liabilities are offset in the statement of financial position if Hypo has both the intention and a legally enforceable right to settle the transaction amounts on a net basis, or to realize the asset and settle the liability simultaneously. In contrast, bilateral OTC derivative assets and liabilities are recorded on contract level in either derivative assets or liabilities without offsetting.

Recognition of derivative collateral

Received and given collateral are recognized in other assets and in other liabilities.

Fair value hedge accounting

Fair value hedge accounting is applied to some of fixed-rate liabilities issued by Hypo and to fixed-rate assets as well as to the derivate contracts marked as hedging instruments used to hedge the aforementioned items. The purpose of fair value hedge accounting is to allocate the profit or loss impact from change in fair value of hedged items and hedging instruments to the same accounting period. The changes in the fair value of hedging instrument and hedged item are considered to be similar in size, but opposite. Only the interest rate risk element is hedged. The credit risk is managed according to the credit risk management strategy, and it is not considered to have significant impact to the value changes of the aforementioned items.

The hedging instruments are interest rate swaps that are used to change the hedged items' fixed-rate cash flows to variable cash flows. The interest rate risk component is determined as the change in fair value of the long-term fixed rate payments or repayments. Hypo establishes the hedging ratio by matching the notional of the derivatives with the principal of hedged item.

For example, the hedge relationship may be half of the nominal value of the hedged item if the actual hedging purpose, under the risk management strategy, is to cover only half of the fair value change of the hedged item.

The hedge relationship is assumed to be highly effective at the beginning and in the future of the hedge relationship, 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. The hedge ineffectiveness rises mainly from the changes in fair value of the floating leg of the hedging instrument. Any ineffectiveness of the hedging instruments is recognized through profit or loss.

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

Cash flow hedge

Cash flow hedge accounting is applied to some of 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. Hypo establishes the hedging ratio by matching the notional of the derivatives with the principal of hedged item. For example, the hedge relationship may be half of the nominal value of the hedged item if the actual hedging purpose, under the risk management strategy, is to cover only half of the cash flow changes of the hedged item.

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. 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. Any ineffectiveness of the hedging instruments is recognized through profit or loss.

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.

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.

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 intended to be used as residential land as well as shares in housing companies and investments in shares in housing companies under construction. Investment properties are held for collecting rental income as well as possible increase in value. Other properties and shares and stakes in housing companies refer to the part of the property that is in own use.

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".

Investment properties and other properties are initially recognized in balance sheet at cost.

Group has chosen not to recognize investment properties in their fair value in balance sheet. The fair values of proper-

ty investments are disclosed in the notes to the consolidated financial statements.

The need for impairment on property investments is assessed at least once a year. Should the book value of an asset exceed the recoverable amount, an impairment loss is recorded.

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 with the increase in the living cost index.

Hypo has concluded a conditional agreement, so called umbrella agreement, with a construction company. The agreement determines the conditions in which Hypo fulfills its commitment to purchase the ear-marked apartments under construction in a predetermined purchase price. Should the construction company fail to sell apartments during construction period, Hypo fulfills its commitment to purchase the ear-marked apartments in a predetermined purchase price. Hypo´s commitment ceases should the construction company succeed to sell the apartments to third parties. Commitment amount under the umbrella agreement is presented as contingent liability in off-balance sheet items. Conditionality of the agreement is assessed at every financial closing. Provision and contingent asset is recognized should it become highly probable that the construction company fails to sell the ear-marked apartments to third parties. Commitment amount is regularly assessed to fair values of similar commitments. Should it become probable that Hypo's contract value exceeds the fair value, a provision will be made in accordance with IAS 37.

Other tangible assets

Other tangible assets include machines, equipment and works of art. These are recognized according to the acquisition cost model.

EMPLOYEE BENEFITS

Pension expenses and other post-employment benefits

Post-employment benefits are considered as defined contribution plans or defined benefit plans.

Defined contribution plans

In defined contribution plan, the employer's obligation is limited to the amount of money paid to the plan and to the investment income generated by the payments. Employee contributions based on statutory pension provision are treated as a defined contribution plan. Expenses caused by defined contribution plans are recognized in the accounting period in which the expense is rendered. Expenses are recognized undiscounted and presented as pension expenses in the consolidated income statement. The voluntary defined contribution plan is arranged by the M Department of Hypo's separate pension foundation.

Defined benefit plans

Voluntary supplementary pension plan arranged in Department A of the pension foundation is recognized as a defined benefit plan. Obligation amount of the arrangement, net asset or net liability, is accounted by deducting the fair value of plan assets from the discounted obligation amount. Net defined benefit asset is presented as other assets in the consolidated balance sheet. Changes caused by amendments in actuary assumptions in defined benefit pension plan are recognized as other comprehensive income (and as equity's fair value reserve, net of deferred tax). Accounting of discounted obligation value requires use of certain actuarial estimations such as discount rate, expected disability rate and expected salary levels. Possible deviations between actual and expected levels of actuarial estimations cause uncertainty of future amount of discounted obligation.

DEFERRED TAX RECEIVABLES AND LIABILITIES

Amounts generated due to negative fair values from financial assets measured at fair value through other comprehensive income and from interest rate swaps are recognized as deferred tax receivables.

Deferred tax liabilities consists of amounts caused by positive fair values from net defined benefit asset, from a credit loss provision in accordance with section 46 of the Business Income Tax Act recognized by parent company and from revaluations of selected holdings of investment properties and other properties. Amounts caused by positive fair values from financial assets measured at fair value through other comprehensive income and from interest rate swaps are recognized as deferred tax liabilities.

The voluntary credit loss provision recorded by the parent company in accordance with section 46 of the Business Income Tax Act has been reversed in the consolidated financial statements and adjusted in the tax statement.

Fair value reserve from assets measured at fair value through other comprehensive income and from interest rate swaps, recognized in equity is presented net of deferred tax assets and liabilities.

REVENUE AND EXPENSES RECOGNITION

Net interest income

Interest income and expenses are recognized based on effective interest rate method. In this method, transaction fees and expenses forming an integral part of effective interest rate are amortized over the remaining amount and duration of financial instruments. Gains or losses from the repurchase of own liabilities are recognized in interest expenses

Net fee income

As a rule, fee income is earned and recognized when a service or a specific measure has been performed and hence are recognized as a one-off income. Income from borrowings, such

as entry fees, loan servicing fees and other service fees as well as management and service fees from land trustee services, fees related to conditional purchase commitments and fees from Hypo's credit card business are recognized according to IFRS 15. Income from financial instruments are recognized in accordance with IFRS 9 effective interest method.

Income from equity investments

Dividend income from equity instruments is recognized once the dividend has become vested.

Net income from securities and foreign currency transactionst

Changes of fair value and realized capital gain/loss from financial instruments designated as financial assets measured at fair value through profit or loss are recognized as net income from currency operations and securities trading. Also changes of fair value from interest rate swaps to which hedge accounting is not applied are recognized as net income from currency operations and securities trading. The Group does not hold a trading book nor has operations in foreign currencies however, Group does hedge the interest rate risk in the liquidity portfolio.

Net income from financial assets at fair value through other comprehensive income

Realized capital gain/loss from financial instruments measured at fair value through other comprehensive income are recognized on the trade date. Fair value is de-recognized from fair value reserve to profit or loss when the instrument is sold. Instruments measured at fair value through other comprehensive income are instruments held for collecting interest income and which according to the business model may also be sold prior to their contractual maturity date.

Net income from investment properties

Rental income from investment properties and maintenance costs are recognized in the items on a time proportion basis. Also gains / losses on disposal are recorded in net income from investment properties. The sales result is recognized when all significant risks and rewards are transferred to the buyer. Any possible impairment and depreciation are also presented in net income from investment properties.

Salaries and other administrative costs

Salaries and remunerations, paid annual leave expenses, allowances paid to cover business travel expenses compensated to personnel are presented as short term employee benefit. The statutory pension security of employees is arranged through pension insurance and the compensations paid based on Hypo´s performance and incentive scheme are recognized as defined contribution plan. Salaries and other defined contribution arrangements are expected to be settled before twelve months have elapsed from period in which the employees render the related services and hence expenses are recognized with undiscounted values.

Depreciation, depreciation calculation and the useful life

Depreciation of intangible assets and other tangible assets is recognized in the item.

Depreciation, depreciation calculation and the useful life

Intangible assets with a finite useful life are subject to straight-line depreciation as follows:

- IT-projects 2 to 10 years
- Other long-term expenditure 5 to 10 years

Depreciation begins when the asset is deemed to have materially been put into service.

Tangible assets

Tangible assets with a finite useful life are subject to straight-line depreciation as follows:

- Buildings 25 years
- Vehicles 3 to 5 years
- Equipment, supplies and equipment 5 years

Depreciations are not applied to land areas. The assets whose useful life is unlimited, is not subject to depreciations. Machines and equipment are recorded as cost during the useful life of the asset.

Net gains/losses on derecognition of financial assets measured at amortized cost

Expected credit loss allowance from financial assets measured at amortized cost, according to ECL model.

Net gains/losses on derecognition of other financial assets

Expected credit loss allowance from other financial assets than assets measured at amortized cost, according to ECL model.

Taxes in income statement

Taxes in the income statement 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 receivable is recognized in income statement to probable maximum amount of future taxable income.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

€ 1,000, unless otherwise indicated.

1. BREAKDOWN OF INTEREST INCOME AND EXPENSES BY BALANCE SHEET ITEM	2019	2018
Receivables valued at amortized cost		
Receivables from the public and public sector entities	19,082.6	18,519.6
Total	19,082.6	18,519.6
Debt securities available for sale		
Debt securities, financial assets at fair value through other comprehensive income	103.7	48.4
Derivative contracts	6,291.5	4,283.1
Negative interest expenses of financial liabilities	369.5	323.1
Other interest income	615.3	440.7
Total interest income	26,462.7	23,614.8
Liabilities valued at amortized cost		
Liabilities to credit institutions	-64.5	-109.0
Liabilities to the public and public sector entities	-3,587.6	-3,937.3
Debt securities issued to the public	-5,434.0	-4,585.2
Subordinated liabilities		-128.0
Total	-9,086.2	-8,759.6
Derivative contracts	-2,044.7	-1,932.4
Negative interest income of cash and cash equivalents	-870.0	-591.0
Other interest expenses	-9.9	-1.1
Total interest expenses	-12,010.8	-11,284.1

2. FEE INCOME AND EXPENSE	2019	2018
From lending and deposits	948.3	862.4
From legal assignments	796.9	1,184.8
From residential property trustee service	2,032.9	1,370.6
From other operations	-162.4	469.5
Total fee income	3,615.7	3,887.3
Other fee expenses	-53.3	-92.5
Total fee expenses	-53.3	-92.5

3. INCOME DISTRIBUTION	10–12/2019	10–12/2018	1–12/2019	1–12/2018
Interest income	7,151.0	6,135.1	26,462.7	23,614.8
Interest expense	-3,131.7	-2,784.8	-12,010.8	-11,284.1
Net interest income	4,019.2	3,350.4	14,451.9	12,330.8
Net fee income				
from lending operations	395.3	392.5	1,707.4	2,058.2
from land trustee services	383.0	400.1	1,558.3	1,390.3
from other operations	75.5	93.4	296.7	346.3
Total net fee income	853.8	886.0	3,562.5	3,794.8
Net income from treasury operations	-12.6	-1,269.7	-111.3	-820.1
Net income from investment properties	674.1	777.5	2,708.5	2,554.5
Capital gains on investment properties	-5.1	209.8	141.6	376.0
Other income	-25.4	4.2	-50.3	-12.9
Non-interest income	631.0	-278.2	2,688.5	2,097.4
Total income	5,504.0	3,958.2	20,702.9	18,223.0

NOTES TO THE CONSOLIDATED INCOME STATEMENT

4. NET INCOME FROM CURRENCY OPERATIONS AND SECURITIES TRADING	2019	2018
Gains and losses from disposals of financial instruments (net)		
Net income arising from items recognized based on the fair value option	-3.3	800.2
Gains and losses arising from measurement at fair value (net)		
Net income arising from items recognized based on the fair value option	-490.2	-2,423.8
Non-hedging derivative contracts	303.4	478.9
Net income from securities trading	-190.0	-1,144.7
Total net income from currency operations and securities trading	-190.0	-1,144.7

5. NET INCOME FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME / NET INCOME FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS	2019	2018
Net income from financial assets at fair value through other comprehensive income		
Capital gains from debt securities	4.9	291.4
Total	4.9	291.4

6. NET INCOME FROM HEDGE ACCOUNTING	2019	2018
Change in fair value, hedging items	-14,373.8	-9,414.7
Change in fair value, hedging instruments	14,447.7	9,447.9
Total	73.9	33.2

7. NET INCOME FROM INVESTMENT PROPERTIES	2019	2018
Rental income	2,358.7	2,315.7
Capital gains (losses)	141.6	376.0
Other income	1,325.3	1,025.7
Maintenance charges and other maintenance costs paid		
From investment properties that have accrued rental income during the period	-618.7	-714.5
Other expenses	-40.4	-13.7
Impairment losses	-254.8	0.0
Depreciation according to plan	-61.5	-58.7
Total	2,850.1	2,930.5

8. OTHER OPERATING INCOME	2019	2018
Rental income, property assets in own use	10.7	12.0
Other income	-61.0	-24.9
Total	-50.3	-12.9

9. OTHER OPERATING EXPENSES	2019	2018
Rental expenses	-25.9	-81.0
Expenses from properties in own use	-43.3	-60.6
Other expenses	-1,958.3	-1,688.7
Total	-2,027.5	-1,830.3

Contribution of EUR 941,304.66 (EUR 915,513.75) to Financial Stability Authority is included in Other expenses.

10. DEPRECIATION AND IMPAIRMENT LOSSES ON TANGIBLE AND INTANGIBLE ASSETS	2019	2018
Depreciation according to plan	-856.1	-516.1

NOTES TO THE CONSOLIDATED INCOME STATEMENT

11. EXPECTED CREDIT LOSSES / IMPAIRMENT LOSSES ON LOANS AND OTHER COMMITMENTS AND OTHER FINANCIAL ASSETS	2019	2018
Net gains/losses on derecognition of financial assets measured at amortised cost		
On receivables from the public and public sector entities		
Expected credit losses, net change	103.2	-31.0
Final credit losses	-81.0	
Off-balance sheet commitments, granted but unclaimed loans		
Expected credit losses, net change	0.0	-0.3
Total	22.2	-31.3
Net gains/losses on derecognition of other financial assets		
Debt securities eligible for refinancing with central banks		
Expected credit losses, net change	16.6	8.7
Total	16.6	8.7

12. INCOME TAXES	2019	2018
Breakdown of taxes in the income statement		
Tax expense based on taxable income for the financial period	-1,848.4	-1,369.8
Change in deferred taxes	306.8	146.4
Taxes from previous periods	18.3	6.6
Taxes in the income statement	**-1,523.3**	**-1,216.8**
Reconciliation of taxes		
Profit before taxes	8,406.7	7,165.2
Tax-free income	-708.2	-1,013.2
Non-deductible expenses	21.0	11.6
Adjustment made to previous period*	0.0	-57.8
Recognition of previously unrecorded tax losses	-11.5	11.0
Total	**7,707.9**	**6,116.9**
Taxes calculated using the tax rate of 20 %	-1,541.6	-1,223.4
Taxes from previous periods	18.3	6.6
Taxes in the income statement	**-1,523.3**	**-1,216.8**

*Correction due to IFRS 9

13. INFORMATION CONCERNING PRODUCT GROUPS AND 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 servise). 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.

2019	Combined amount of income	Operating profit	Total assets	Total liabilities	Personnel
Lending and deposits and other housing products and services	20,617.1	8,290.9	3,230,397.0	3,100,872.3	52
Other operations	139.0	115.8	259.9	22.2	
	20,756.2	8,406.7	3,230,656.9	3,100,894.6	52

2018	Combined amount of income	Operating profit	Total assets	Total liabilities	Personnel
Lending and deposits and other housing products and services	18,087.9	6,971.6	3,113,623.7	2,992,386.9	53
Other operations	227.7	193.7	193.3	21.0	
	18,315.6	7,165.2	3,113,816.9	2,992,407.9	53

NOTES TO THE CONSOLIDATED BALANCE SHEET

14. LIQUID ASSETS	2019	2018
Receivables from central bank	244,100.0	223,600.0

15. CASH AND CASH EQUIVALENTS AND NET DEBT IN THE CASH FLOW STATEMENT	2019 book value	2018 book value
Liquid assets	244,100.0	223,600.0
Debt securities eligible for refinancing with central banks	267,107.0	201,166.5
Receivables from credit institutions	9,850.7	5,399.5
Debt securities	15,006.4	8,506.0
	536,064.1	438,672.0

Net debt	**2019**	**2018**
Cash and cash equivalents	536,064.1	438,672.0
Funding, repayable within one year	-36,483.2	-168,435.6
Funding, repayable after one year	-1,364,996.0	-1,067,576.5
Net debt	**-865,415.1**	**-797,340.1**
Cash and cash equivalents	536,064.1	438,672.0
Funding, fixed rate	-36,483.2	-168,435.6
Funding, floating rate	-1,364,996.0	-1,067,576.5
Net debt	**-865,415.1**	**-797,340.1**

	Cash and cash equivalents				Funding		
Net debt 2019	Liquid assets	Debt securities eligible for refinancing with central banks	Debt securities from the public sector entities	Receivables from credit institutions	Funding, repayable within one year	Funding, repayable after one year	Total
Net debt 1.1.2019	223,600.0	201,166.5	8,506.0	5,399.5	-168,435.6	-1,067,576.5	-797,340.1
Cash flows	20,500.0	62,779.7	6,503.0	4,451.2	131,957.9	-296,373.9	-70,182.2
Other non-cash movements	0.0	3,160.8	-2.5	0.0	-5.5	-1,045.6	2,107.2
Net debt 31.12.2019	244,100.0	267,107.0	15,006.4	9,850.7	-36,483.2	-1,364,996.0	-865,415.1

Group manages liquidity risks by maintaining sufficient liquidity compared to Group´s payment obligations. Funding presented in cash flows from financing together with cash and cash equivalents presented in consolidated cash flow statement form net cash position (net debt).

	Cash and cash equivalents				Funding		
Net debt 2018	Liquid assets	Debt securities eligible for refinancing with central banks	Debt securities from the public sector entities	Receivables from credit institutions	Funding, repayable within one year	Funding, repayable after one year	Total
Net debt 1.1.2018	201,200.0	284,718.7	0.0	16,399.5	-134,929.0	-977,435.7	-610,046.6
Cash flows	22,400.0	-82,761.7	8,511.1	-10,999.9	-33,458.5	-89,339.8	-185,648.8
Other non-cash movements	0.0	-790.4	-5.2	0.0	-48.0	-801.0	-1,644.6
Net debt 31.12.2018	223,600.0	201,166.5	8,506.0	5,399.5	-168,435.6	-1,067,576.5	-797,340.1

Group manages liquidity risks by maintaining sufficient liquidity compared to Group´s payment obligations. Funding presented in cash flows from financing together with cash and cash equivalents presented in consolidated cash flow statement form net cash position (net debt).

	2019			2018		
16. RECEIVABLES FROM CREDIT INSTITUTIONS (LOANS AND RECEIVABLES)	Payable on demand	Other than those payable on demand	Total	Payable on demand	Other than those payable on demand	Total
From the central bank		29.8	29.8		60.8	60.8
From domestic credit institutions	7,969.6		7,969.6	4,638.6		4,638.6
From foreign credit institutions	1,851.3		1,851.3	700.1		700.1
Total	9,820.9	29.8	9,850.7	5,338.7	60.8	5,399.5

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. 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.

NOTES TO THE CONSOLIDATED BALANCE SHEET

17. RECEIVABLES FROM THE PUBLIC AND PUBLIC SECTOR ENTITIES (LOANS AND RECEIVABLES)	2019	Expected credit loss allowance 2019	2018	Expected credit loss allowance 2018
Companies and housing corporations	1,767,716.4	0.2	1,775,705.9	0.3
Households	805,062.7	261.2	800,122.5	364.3
Financial and insurance institutions	1,750.0		1,750.0	
Non-profit organizations serving households	504.4		613.6	
Foreign countries	11,374.9		11,080.5	
Total	2,586,408.4	261.4	2,589,272.5	364.6
Subordinated receivables	0.0		356.3	
Non performing loans	2,644.6		1,790.1	

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

	2019	2018
Impairment losses on receivables recognized during the period		
Impairment losses at the beginning of the year	364.6	333.6
Expected credit losses, net change	-103.2	31.0
Impairment losses at the end of the year	261.4	364.6
No group-specific impairment losses have been recognized.		
Final credit losses on receivables recognized during the period	81.0	0.0

18. DEBT SECURITIES	2019				2018			
	Publicly quoted	Other	Total	Expected credit loss allowance	Publicly quote	Other	Total	Expected credit loss allowance
Issued by public sector entities								
Fair value through other comprehensive income								
Government bonds	0.0		0.0		22,144.8		22,144.8	
Other bonds issued by public sector entities	138,728.4		138,728.4		100,476.6		100,476.6	
Option to designate a financial asset at fair value								
Government bonds	111,705.7		111,705.7		31,555.2		31,555.2	
Those issued by other than public sector entities								
Option to designate a financial asset at fair value								
Bonds issued by banks	31,679.4		31,679.4		23,272.6		23,272.6	
Fair value through other comprehensive income								
Bonds issued by banks	0.0		0.0	0.0	26,499.0		26,499.0	15.7
Other debt securities	0.0		0.0	0.0	5,724.4		5,724.4	0.9
Total debt securities	282,113.4	0.0	282,113.4	0.0	209,672.5	0.0	209,672.5	16.6
Receivables eligible for refinancing with central banks			267,107.0				201,166.5	

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

NOTES TO THE CONSOLIDATED BALANCE SHEET

19. DEBT SECURITIES BY CREDIT RATING

Credit rating	2019			
S&P equivalency	Governments and public sector entities	Companies and banks	Covered bonds	Total
AAA	20,839.7		23,407.9	44,247.6
AA+ - AA-	229,594.3	8,271.5		237,865.9
A+ - A-				0.0
BBB+ - BBB-				0.0
BB+ or below				0.0

Credit rating	2018			
S&P equivalency	Governments and public sector entities	Companies and banks	Covered bonds	Total
AAA			40,160.1	40,160.1
AA+ - AA-	154,176.5	5,724.4		159,900.9
A+ - A-				0.0
BBB+ - BBB-		9,611.5		9,611.5
BB+ or below				0.0

20. SHARES AND HOLDINGS (FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME)

	2019			2018		
	Publicly quoted	Other	Total	Publicly quoted	Other	Total
Shares and holdings, fair value through other comprehensive income		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

21. DERIVATIVE CONTRACTS

	2019		2018	
	Book value Assets	Liabilities	Book value Assets	Liabilities
Derivative contracts in hedge accounting relationships				
OTC Interest rate swaps, fair value hedge accounting model, fair value	18,964.0	405.3	4,496.3	
Derivative contracts not in hedge accounting relationships				
OTC Interest rate swaps, fair value	387.9	7,193.2	66.3	3,215.5
of which: cleared by a central counterparty	0.0	4,220.8	0.0	874.4
	19,351.9	7,598.5	4,562.6	3,215.5
OTC Interest rate and currency swaps, accrued interest	3,537.8	3,919.8	2,108.1	2,609.0
Total	22,889.7	11,518.4	6,670.7	5,824.4

NOTES TO THE CONSOLIDATED BALANCE SHEET

21. DERIVATIVE CONTRACTS

2019

Remaining maturity	less than one year	1–5 years	>5 years	Total
Nominal values of the underlying instruments	35,000.0	1,021,000.0	414,514.1	1,470,514.1
of which: cleared by a central counterparty	0.0	45,000.0	70,000.0	115,000.0
Fair value, assets	0.0	13,605.4	5,746.6	19,351.9
of which: cleared by a central counterparty	0.0	0.0	0.0	0.0
Fair value, liabilities	103.3	1,055.0	6,440.1	7,598.5
of which: cleared by a central counterparty	0.0	273.5	3,947.2	4,220.8

2018

Remaining maturity	less than one year	1–5 years	>5 years	Total
Nominal values of the underlying instruments	15,000.0	746,000.0	414,634.5	1,175,634.5
of which: cleared by a central counterparty	0.0	45,000.0	60,000.0	105,000.0
Fair value, assets	0.0	3,385.7	1,176.9	4,562.6
of which: cleared by a central counterparty	0.0	0.0	0.0	0.0
Fair value, liabilities	36.1	708.7	2,470.7	3,215.5
of which: cleared by a central counterparty	0.0	184.8	689.6	874.4

Open counterparty credit risk related to derivatives agreements consists of mark-to-market value of the contracts and the delivered collateral. Some of the derivatives and collateral form netting sets. Counterparty credit risk related to derivative contracts is managed through careful selection of counterparties, use of master service agreements and collateral. All Hypo's derivative counterparties have at least 'A' credit rating, and majority of contracts have been made under the ISDA/CSA master agreements. Hypo's open derivative counterparty credit risk as at 31 December 2019 totaled EUR 460 301. The amount of risk is calculated over the netting sets and taking into account the collateral delivered.

22. HEDGE ACCOUNTING, MATURITY

2019

	<3 months	3–12 months	1–5 years	5–10 years
Fair value Hedges				
Notional			910,000	309,514
Average fixed interest rate			0.37%	0.50%

2018

	<3 months	3–12 months	1–5 years	5–10 years
Fair value Hedges				
Notional			610,000	309,562
Average fixed interest rate			0.31%	0.49%

The table sets out the maturity profile of hedging instrument used in hedge accounting.

23. INSTRUMENTS USED FOR HEDGE ACCOUNTING

2019	Notional	Carrying amount, assets	Carrying amount, liabilities	Balance sheet line item(s)	Changes in fair value used for calculating hedge ineffectiveness
Fair value Hedges					
Interest rate swaps	1,219,514.1	18,964.0	405.3	Derivative contracts	14,043.1

2018	Notional	Carrying amount, assets	Carrying amount, liabilities	Balance sheet line item(s)	Changes in fair value used for calculating hedge ineffectiveness
Fair value Hedges					
Interest rate swaps	919,562.2	4,496.3	0.0	Derivative contracts	9,447.9

NOTES TO THE CONSOLIDATED BALANCE SHEET

24. HEDGED EXPOSURES

2019	Carrying amount		Accumulated amount of fair value adjustments on the hedged item			
	Assets	Liabilities	Assets	Liabilities	Balance sheet line item(s)	Changes in fair value used for calculating hedge in-effectiveness
Fair value Hedges						
Debt securities issued to the public		1,205,642.0		-19,824.3	Debt securities issued to the public	-14,373.8
Receivables from the public and public sector entities	19,014.6		404.6	0.0	Receivables from the public and public sector entities	404.6

2018	Carrying amount		Accumulated amount of fair value adjustments on the hedged item			
	Assets	Liabilities	Assets	Liabilities	Balance sheet line item(s)	Changes in fair value used for calculating hedge in-effectiveness
Fair value Hedges						
Debt securities issued to the public		955,848.1	0.0	5,450.4	Debt securities issued to the public	-9,414.7

25. HEDGE EFFECTIVENESS

2019	Gains/(loss) recognized in OCI	Hedge Ineffectiveness recognized in P&L	P&L line item that includes hedge ineffectiveness
Fair value Hedges			
Interest rate swaps	0.0	73.9	Net income from hedge accounting

2018	Gains/(loss) recognized in OCI	Hedge Ineffectiveness recognized in P&L	P&L line item that includes hedge ineffectiveness
Fair value Hedges			
Interest rate swaps	0.0	33.2	Net income from hedge accounting

26. INTANGIBLE ASSETS

	2019	2018
IT programs and projects	2,801.8	1,840.5
Other intangible assets	834.9	947.5
	3,636.7	2,788.0
Amount of agreement-based commitments concerning acquisition of intangible assets	1,936.0	136.8

NOTES TO THE CONSOLIDATED BALANCE SHEET

27. TANGIBLE ASSETS	2019	2018
Investment properties and investment property shares, balance sheet value		
Land and water areas	8,808.8	8,975.2
Buildings	893.6	911.2
Shares and holdings in housing property corporations	51,862.0	51,534.1
Total balance sheet value	**61,564.4**	**61,420.5**
Total fair value of investment properties	64,564.4	63,838.5
of which share based on assessments of a qualified third-party valuer	1,575.2	670.0
Non-cancellable land lease agreements		
Rental receivables within one year	190.7	192.3
Rental income is only calculated for one year ahead, as the future redemptions of the land holdings of housing companies are not yet known.		
Agreement-based obligations of investment properties		
Purchase commitments of housing units	0.0	2,262.6
Liabilities related to construction	2,181.9	2,181.9
Total	2,181.9	4,444.5
Agreement-based obligations of investment properties are included in the off-balance sheet commitments presented in Note 44. Liabilities related to construction consist of potential construction and defect liabilities.		
Other properties and shares in housing property corporations, balance sheet value		
In own use		
Land and water areas	538.3	687.0
Buildings	106.2	157.4
Total balance sheet value	**644.5**	**844.4**
Total fair value of other properties	2,590.9	3,516.2
Obligations related to sites under construction		
Unpaid purchase prices of sites under construction	0.0	0.0

Hypo's properties are located in growth centers, mainly in the Helsinki Metropolitan Area, distributed across key residential areas. These properties consist mainly of apartments that have been rented out as well as residential land that has been rented for the long term to housing companies.

The fair values of housing units have mainly been assessed using the Statistics Finland's most recent released statistics on the prices of dwellings, in which dwellings are divided into categories based on type and location. The fair values of apartments purchased a year or less than a year ago are assumed to be equal to their acquisition prices. The fair value of the land is its acquisition cost adjusted for the increase in the living cost index, which equals the land's redemption price.

NOTES TO THE CONSOLIDATED BALANCE SHEET

28. CHANGES IN INTANGIBLE AND TANGIBLE ASSETS DURING THE FINANCIAL PERIOD

2019	Intangible assets	Investment properties and investment property shares	Other properties and housing property shares	Other tangible assets	Total tangibles
Acquisition cost 1 January 2019	**5,392.5**	**64,226.2**	**932.0**	**2,472.8**	**67,630.9**
Increases, new acquisitions	1,792.6	3,802.9		49.4	3,852.3
Deductions	-293.1	-3,241.1	-192.6	-30.2	-3,464.0
Acquisition cost 31 December 2019	**6,891.9**	**64,788.0**	**739.4**	**2,491.9**	**68,019.2**
Accumulated depreciation and impairment losses 1 Jan 2019	2,604.5	513.6	87.6	2,214.7	2,815.9
Depreciation for the period	650.8	163.1	7.3	34.9	205.3
Impairment losses for the period	0.0	254.8			254.8
Accumulated depreciation and impairment losses 31 December 2019	**3,255.2**	**931.5**	**94.9**	**2,249.7**	**3,276.0**
Revaluation reserve 1 December 2019		-2,292.1			-2,292.1
Book value 31 December 2019	**3,636.7**	**61,564.4**	**644.5**	**242.2**	**62,451.1**

2018	Intangible assets	Investment properties and investment property shares	Other properties and housing property shares	Other tangible assets	Total tangibles
Acquisition cost 1 January 2018	**4,946.6**	**62,491.7**	**932.0**	**2,479.2**	**65,902.8**
Increases, new acquisitions	454.8	6,748.1		1.6	6,749.8
Deductions	-9.0	-5,013.6		-8.1	-5,021.7
Acquisition cost 31 December 2018	**5,392.5**	**64,226.2**	**932.0**	**2,472.8**	**67,630.9**
Accumulated depreciation and impairment losses 1 Jan 2018	2,129.7	513.6	77.4	2,183.6	2,774.6
Accumulated depreciation of deductions and transfers	-4.9				0.0
Depreciation for the period	479.7		10.1	31.2	41.3
Accumulated depreciation and impairment losses 31 December 2018	**2,604.5**	**513.6**	**87.6**	**2,214.7**	**2,815.9**
Revaluation reserve 1 December 2018		-2,292.1			-2,292.1
Book value 31 December 2018	**2,788.0**	**61,420.5**	**844.4**	**258.0**	**62,522.9**

29. OTHER ASSETS

29. OTHER ASSETS	2019	2018
Defined benefit pension plans/surplus	4,588.3	5,328.9
Other receivables	10,545.9	5,297.2
Total	15,134.3	10,626.0

More detailed information about defined benefit pension plans is presented in Note 41.

30. DEFERRED INCOME AND ADVANCES PAID

30. DEFERRED INCOME AND ADVANCES PAID	2019	2018
Interest receivables	7,198.6	4,843.7
Other deferred income	540.7	612.9
Total	7,739.3	5,456.6

NOTES TO THE CONSOLIDATED BALANCE SHEET

31. TAX RECEIVABLES AND LIABILITIES	2019	2018
Income tax receivables		38.5
Deferred tax receivables		148.5
Total tax receivables	0.0	187.0
Income tax liabilities	530.8	1,306.6
Deferred tax liabilities	9,729.3	9,812.9
Total tax liabilities	10,260.0	11,119.5
DEFERRED TAX RECEIVABLES		
Fair value reserve		148.5
Total	0.0	148.5
DEFERRED TAX LIABILITIES		
Earnings-related pensions	917.7	1,065.8
Revaluation reserve	286.2	286.2
Fair value reserve	188.7	124.3
Credit loss provisions	8,336.7	8,336.7
Total	9,729.3	9,812.9
Net deferred tax receivable (+)/liability (-)	-9,729.3	-9,664.4
CHANGES IN DEFERRED TAXES		
Deferred tax receivables/liabilities 1 January	-9,664.4	-9,891.0
Recognized in the income statement:		
Voluntary credit loss provision		
IAS 19 calculation	306.8	146.4
Occupational retirement benefits		
Elimination of revaluation reserve		
Recognized in the consolidated comprehensive income statement and equity:		
Hedging of cash flows		-16.3
Financial assets available for sale		
Financial assets at fair value through other comprehensive income	-212.9	32.7
Revaluation of defined benefit pension plans	-158.7	63.7
Adjustment made to retained earnings of join operations		
Net deferred tax receivables (+)/liabilities (-), total 31 December	**-9,729.3**	**-9,664.4**
Income tax receivables (+)/liabilities (-), net	**-530.8**	**-1,268.1**
Total tax receivables (+)/liabilities (-), net	**-10,260.0**	**-10,932.5**

32. DEBT SECURITIES ISSUED TO THE PUBLIC	2019		2018	
	Book value	Nominal value	Book value	Nominal value
Other than those payable on demand				
Bonds	1,275,217.9	1,260,000.0	960,976.9	960,000.0
Certificates of deposit and commercial papers	36,483.2	36,500.0	168,435.6	168,500.0
Total	1,311,701.1	1,296,500.0	1,129,412.5	1,128,500.0

The bonds are unsecured debt obligations and issue covered 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.

33. OTHER LIABILITIES	2019	2018
Other liabilities	35,004.0	17,119.0

NOTES TO THE CONSOLIDATED BALANCE SHEET

34. DEFERRED EXPENSES AND ADVANCES RECEIVED	2019	2018
Interest liabilities	4,740.7	2,802.5
Advance payments received	79.1	137.2
Tax liability based on taxes for the period	530.8	1,306.6
Other deferred expenses	2,094.7	3,417.0
Total	7,445.2	7,663.3

35. LIABILITIES ACCORDING TO THE ACT ON RESOLUTION OF CREDIT INSTITUTIONS AND INVESTMENT FIRMS	2019	2018
Unsecured liabilities	57,106.5	195,454.7
of which the remaining maturity is less than one year	20,623.3	10,719.1
Common Equity Tier 1 (CET1) capital	120,028.6	112,342.3
Liabilities according to the Act on Resolution of Credit Institutions and Investment Firms total	140,651.9	123,061.5

36. MATURITY DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES

2019	<3 months	3–12 months	1–5 years	5–10 years	>10 years	Total
Receivables from credit institutions	9,850.7					9,850.7
Receivables from the public and public sector entities	23,793.0	120,008.0	594,853.0	683,092.0	1,164,401.0	2,586,147.0
Debt securities	20,015.0	17,129.2	129,750.1	115,219.1		282,113.4
Total	53,658.8	137,137.2	724,603.1	798,311.1	1,164,401.0	2,878,111.1
Liabilities to credit institutions	777.7	80,000.0	5,551.5			86,329.2
Liabilities to the public and public sector entities	1,249,324.5	378,934.6	1,028.2	13,800.0		1,643,087.3
Debt securities issued to the public	4,999.6	31,483.6	970,318.3	304,899.6		1,311,701.1
Total	1,255,101.8	490,418.2	976,898.0	318,699.6	0.0	3,041,117.6

2018	<3 months	3–12 months	1–5 years	5–10 years	>10 years	Total
Receivables from credit institutions	5,399.5					5,399.5
Receivables from the public and public sector entities	22,318.0	102,909.0	448,719.0	537,667.0	1,477,294.9	2,588,907.9
Debt securities	8,506.0	1,004.3	139,981.0	60,181.2		209,672.5
Total	36,223.5	103,913.3	588,700.0	597,848.2	1,477,294.9	2,803,979.9
Liabilities to credit institutions			90,101.5			90,101.5
Liabilities to the public and public sector entities	1,377,292.3	356,494.3	1,272.2	24.4		1,735,083.3
Debt securities issued to the public	80,985.7	87,449.9	662,311.4	298,665.5		1,129,412.5
Total	1,458,278.0	443,944.3	753,685.1	298,689.9	0.0	2,954,597.2

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

Balance sheet items do not include foreign currency items.

NOTES TO THE CONSOLIDATED BALANCE SHEET

38. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

			2019		2018	
	Classification	Fair value determination principle	Book value	Fair value	Book value	Fair value
Liquid assets	Amortised cost		244,100.0	244,100.0	223,600.0	223,600.0
Receivables from credit institutions	Amortised cost		9,850.7	9,850.7	5,399.5	5,399.5
Receivables from the public and public sector entities	Amortised cost		2,586,147.0	2,586,147.0	2,588,907.9	2,588,907.9
Debt securities	Fair value through other comprehensive income	1	123,722.0	123,722.0	146,338.8	146,338.8
Debt securities	Option to designate a financial asset at fair value	1	143,385.0	143,385.0	54,827.8	54,827.8
Shares and holdings	Fair value through other comprehensive income	2	132.4	132.4	132.4	132.4
Derivative contracts	Fair value through profit or loss	2	19,351.9	19,351.9	4,562.6	4,562.6
Total			3,126,689.0	3,126,689.0	3,023,768.9	3,023,768.9
Liabilities to credit institutions	Amortised cost		86,329.2	86,329.2	90,101.5	90,101.5
Liabilities to the public and public sector entities	Amortised cost		1,643,087.3	1,643,087.3	1,735,083.3	1,735,083.3
Debt securities issued to the public	Amortised cost		1,311,701.1	1,311,701.1	1,129,412.5	1,129,412.5
Derivative contracts	Fair value through profit or loss	2	7,598.5	7,598.5	3,215.5	3,215.5
Total			3,048,716.1	3,048,716.1	2,957,812.7	2,957,812.7

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

Fair values and valuation principles are disclosed above for items that are measured at fair value on a recurring basis. The fair values of debt securities (financial assets) are presented based on public quotes from active markets. The fair values of derivatives are calculated by discounting the future cash flows of the contracts using the market interest rates of the closing date. Fair values are presented excluding accrued interest.

39. NETTING OF FINANCIAL ASSETS AND LIABILITIES

				Amounts not offset on the balance sheet		
2019	Gross amounts	Netted on the balance sheet	Amounts shown on the balance sheet	Financial instruments	Cash collateral received/paid	Net amount
Derivative liabilities	8,516.8		8,516.8		8,009.4	507.4
Derivative receivables	22,889.7		22,889.7		23,350.0	-460.3

				Amounts not offset on the balance sheet		
2018	Gross amounts	Netted on the balance sheet	Amounts shown on the balance sheet	Financial instruments	Cash collateral received/paid	Net amount
Derivative liabilities	4,018.7		4,018.7		3,259.3	759.4
Derivative receivables	6,670.7		6,670.7		6,060.0	610.7

Financial assets and liabilities are offset in the statement of financial position if Hypo has both the intention and a legally enforceable right to settle on a net basis, or to realise the asset and settle the liability simultaneously. Derivative liabilities and receivables include accrued interest.

NOTES TO THE CONSOLIDATED BALANCE SHEET

40. 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. The Mortgage Society of Finland is a mutual company governed by its member customers.

41. EMPLOYEE BENEFITS

Short–term employee benefits
Salaries, annual leave expenses, as well as kilometer, business travel and daily allowances paid to Hypo's employees and members of governing bodies are classified as short-term employee benefits.

Compensations based on Hypo's performance and incentive scheme to employees are paid partly in cash and partly as insurance premia to Department M of Hypo's pension fund which is a defined contribution plan.

Pension obligations and other post–employment benefits
Post-employment benefits are classified as either defined contribution plans or defined benefit plans.

Defined contribution plans
Under defined contribution plans, employer's obligation is limited to the payment of fixed contributions into the arrangement.

The statutory pension security of employees is arranged through pension insurance, and it is recognized as a defined contribution plan.

Insurance premia paid to fund post-employment benefit plan arranged by Department M are classified as defined contribution plan. M-Department funds post-employment benefits of all employees and members of governing bodies who held position at Hypo on 1 December 2010. M-Department also funds post-employment benefit plan of all new full-time employees and members of governing bodies after above mentioned date.

Pre-payments of statutory pension security arrangement to insurance company are presented as deferred income and advances paid. Withheld but unpaid taxes, social security expenses are presented as other liabilities and accrued annual leave expenses as deferred expenses and advances received.

Defined benefit plans
Voluntary supplementary post-employment plan paid to few beneficiaries is arranged through Department A of the pension foundation and recognized as a defined benefit pension plan. Fair value of plan assets exceeds its obligation. Thus, the plan's obligation is fully covered.

The supplementary post-employment benefit covers: voluntary supplementary pension, disability to work and supplementary survivor´s pension. Number of beneficiaries in Department A may not increase as no new beneficiaries are accepted to the plan without specific consent of the Pension Fund's Board. Obligation is fully funded.

Net defined benefit asset
Obligation amount of the arrangement, net asset or net liability, is accounted by deducting the fair value of plan assets from the discounted obligation amount. The Mortgage Society of Finland may transfer the net defined benefit asset or part of it to itself with a specific consent from Finnish Financial Supervisory Authority.

Net defined asset is recognized in other assets in the consolidated balance sheet as well as the unpaid portion of transfer from Department A. Deferred tax liability of the net defined asset is presented in deferred tax liabilities.

Fluctuations in amount of net defined benefit asset caused by actuarial assumptions is recorded as actuarial gain/loss through other comprehensive income and accordingly, in fair value reserve of equity, net of deferred tax liabilities.

Accounting of obligation
Accounting for defined benefit plan requires use of actuarial method which takes into account variables such age, expected salaries and relevant census data statistics. The group has outsourced accounting of obligation to a certificated actuary and the obligation is calculated at least once a year. Discounted obligation amount is sensitive to fluctuations in actuarial assumptions. Fluctuations may arise from inflation, actual salaries compared to expected salaries, new benefits, discount rate and also from expected return of plan assets. Duration of the obligation characterizes the maturity of the obligation.

Plan assets
European AA-rated corporate bond yields, more specifically, iBoxx-series EUR Corporates AA10+, are used as benchmark to determine expected rate of return and discount rate of plan assets. Observations of actuary as well as those of employer company's independent economist are taken into account when setting up the discount rate. Plan assets are presented grouped by asset class divided to listed and non-listed assets.

Estimation uncertainty of benefit plan
Accounting of discounted obligation value requires use of certain actuarial estimations such as discount rate, expected disability rate and expected salary levels. Possible deviations between actual and expected levels of actuarial estimations cause uncertainty of future amount of the obligation. Actuary runs sensitivity tests and risk analyses to assess the effect of possible deviations of used actuarial data such as expected salary and inflation level.

Relevant risks of defined benefit plan
The obligation liability may increase should the benefits exceed the expected levels due to changes in actuarial assumptions or in return of plan assets. Fair value of plan assets is nearly twice the present value of obligation. Risk management, compliance and auditing of defined benefit obligation are run in parallel with the practices of Hypo group. In addition, Department A of the pension foundation has hired an ombudsman and outsourced the actuary services to a certified service provider. Most relevant risk areas of defined benefit plan are
– market risks (interest rate risk, currency risk, risks at stock and commodity markets) meaning the risks which may cause losses due to market changes
– risks of salary and pension increases
– risks caused by changes in census data statistics and
– strategic risk, which may realize due to erroneous estimations.

NOTES TO THE CONSOLIDATED BALANCE SHEET

Employee benefits in Consolidated Income Statement

2019	Salaries and other short term employee benefits	Defined contribution plans	Defined benefit plans	Total
Interest income			84.6	84.6
Other operating income (+) / expense (-)			-97.0	-97.0
Salaries and remuneration	-5,180.2			-5,180.2
Pension expenses		-918.0	-21.6	-939.7
Other indirect personnel expenses		-126.3		-126.3
Other administrative expenses	-3.2			-3.2
Total	-5,183.4	-1,044.3	-34.0	-6,261.7

2018	Salaries and other short term employee benefits	Defined contribution plans	Defined benefit plans	Total
Interest income			101.4	101.4
Other operating income (+) / expense (-)			-63.0	-63.0
Salaries and remuneration	-4,920.5			-4,920.5
Pension expenses		-975.2	-20.6	-995.8
Other indirect personnel expenses		-109.0		-109.0
Other administrative expenses	-6.2			-6.2
Total	-4,926.7	-1,084.2	17.9	-5,993.1

Employee benefits in Consolidated Comprehensive Income Statement	**2019**	**2018**
	Defined benefit plans	Defined benefit plans
Net actuarial profit (+) / loss (-)	-793.5	-318.5

Employee benefits in Consolidated Balance Sheet Assets	**2019**		
	Defined contribution plans	Defined benefit plans	Total
Other assets		4,588.3	4,588.3
Deferred income and advances paid			0.0
Total	0.0	4,588.3	4,588.3

	2018		
	Defined contribution plans	Defined benefit plans	Total
Other assets		5,328.9	5,328.9
Deferred income and advances paid			0.0
Total	0.0	5,328.9	5,328.9

Employee benefits in Consolidated Balance Sheet Liabilities	**2019**			
	Salaries and other short term employee benefits	Defined contribution plans	Defined benefit plans	Total
Other liabilities		174.6		174.6
Deferred tax liabilities			917.7	917.7
Deferred expenses and advances received	1,049.6			1,049.6
Fair value reserve, net actuarial gain (+) / loss (-)			3,549.5	3,549.5
Fair value reserve, deferred tax liabilities			-709.9	-709.9
Total	1,049.6	174.6	3,757.3	4,981.5

	2018			
	Salaries and other short term employee benefits	Defined contribution plans	Defined benefit plans	Total
Other liabilities		125.2		125.2
Deferred tax liabilities			1,065.8	1,065.8
Deferred expenses and advances received	899.8			899.8
Fair value reserve, net actuarial gain (+) / loss (-)			2,756.0	2,756.0
Fair value reserve, deferred tax liabilities			-551.2	-551.2
Total	899.8	125.2	3,270.6	4,295.5

NOTES TO THE CONSOLIDATED BALANCE SHEET

Defined benefit plans

The defined benefit obligation and Plan assets	**2019**	**2018**
Present value of Defined benefit obligation	-6,468.3	-6,428.7
Fair value of Plan assets	11,056.7	11,757.6
Net demined benefit asset (+) / liability (-)	4,588.4	5,328.9

Change in Net defined benefit assets	**2019**	**2018**
Net defined benefit asset as of 1.1.	5,328.9	6,379.5
Current service cost	-21.6	-20.6
Interest income of the net defined benefit asset (+), cost (-)	84.6	101.4
Administrative cost	-97.0	-63.0
Contributions paid to M-Department	0.0	0.0
Net actuarial gain (+) / loss (-) for the period	793.5	-318.5
Contributions	-1,500.0	-750.0
Net defined benefit asset as of 31.12.	4,588.4	5,328.9

Fair value of Plan assets			**2019**			**2018**
	Listed	Non-listed	Total	Listed	Non-listed	Total
Equity instruments	1,130.7	466.8	1,597.4	1,536.2	314.5	1,850.7
Debt instruments	216.8		216.8	212.8		212.8
Investment funds	1,927.6		1,927.6	1,542.6	0.0	1,542.6
Properties and land	7,314.8		7,314.8	8,151.5		8,151.5
Fair value of Plan assets	10,589.9	466.8	11,056.7	11,443.1	314.5	11,757.6

	2019	**2018**
Group's own financial instruments included in plan assets	595.7	95.3
Duration, years	12.78	12.20
Most significant actuarial assumptions, %		
Discount rate	0.70	1.60
Expected returns on assets	0.70	1.60
Future pay rise assumption	2.10	2.10
Inflation	1.20	1.30

Sensitivity of the projected benefit obligations to changes in the principal assumptions			**2019**		**2018**
		Effect on defined benefit obligation		Effect on defined benefit obligation	
	Change in assumption	Increase	Decrease	Increase	Decrease
Discount rate	0.50%	-5.78%	6.39%	-5.54%	6.10%
Rate of wage increases	0.50%	0.24%	-0.24%	0.27%	-0.26%
Rate of pension increases	0.50%	6.04%	-5.70%	5.78%	-5.47%
Life expectancy at birth	1 year	4.45%	-4.26%	4.09%	-3.93%

NOTES CONCERNING GROUP'S COLLATERAL AND CONTINGENT LIABILITIES

42. COLLATERAL PLEDGED AND RECEIVED	**2019**	**2018**
	Other collaterals	Other collaterals
Collateral pledged for own liabilities		
Liabilities to the central bank	94,703.1	97,588.9
Debt securities issued to the public	1,598,597.2	1,239,491.3
Derivative contracts	13,375.2	7,963.9
Encumbered assets total	1,706,675.5	1,345,044.2
Collateral received		
Derivative contracts	23,350.0	6,060.0
Collateral received total	23,350.0	6,060.0

NOTES CONCERNING GROUP'S COLLATERAL AND CONTINGENT LIABILITIES

43. IFRS 16 LEASES

Hypo Group as lessee	2019	1.1.2019*
Right-of-use assets		
Depreciation - IT	35.9	
Depreciation - Apartments	163.1	
Carrying amount - IT	35.9	71.8
Carrying amount - Apartments	325.4	321.5
Lease liabilities		
Interest expense	8.1	
Carrying amounts sorted by remaining maturity		
Non-fixed-term leases	361.3	393.3
Relief options		
Expenses from leases of low-value assets	5.3	

*1 January 2019 Adjustments to balance sheet items due to IFRS 16.
Hypo Group leases office premises in Helsinki as well as IT products and services. The lease terms of these contracts are non-fixed.

Hypo Group as a lessor	2019
Operative leases	
Lease income	2,369.4
Undiscounted lease payments to be received	
1 year	1,006.3
2 year	660.9
3 year	545.8
4 year	350.3
5 year	252.5
>5 years	7,594.0

Hypo Group leases out building plots, apartments, office space and parking lots.

44. OFF-BALANCE SHEET COMMITMENTS	2019	2018
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	110,284.1	269,244.0
Purchase commitments of housing units	0.0	2,262.6
Total	112,466.0	273,688.5

NOTES CONCERNING THE AUDITOR'S FEE

45. AUDIT SERVICE FEES	2019	2018
Fees paid to the auditor for the audit	104.5	89.9
Fees paid to the auditor for other services, parent company	10.9	4.1
Fees paid to the auditor for other services, Group	13.6	4.1

Amounts (VAT 0%) are presented by assignment for year 2019 and 2018 accordingly.

NOTES CONCERNING GROUP'S PERSONNEL, MANAGEMENT AND RELATED PARTIES

Hypo Group's related parties include its subsidiary, members of the Board of Directors and the Supervisory Board, CEO and deputy to the CEO, members of the Management Group and the close family memebres of the aforementioned as well as the related party entities. In addition, The Mortgage Society of Finland's Pension Foundation and joint operations are included in related parties. The subsidiary and joint operations are presented in the Note 51. Those related party transactions that have not been eliminated in the consolidated financial statements are presented.

46. NUMBER OF PERSONNEL	**2019**	**2018**
	Average number	Average number
Permanent full-time personnel	50	49
CEO and deputy to the CEO	2	2
Temporary personnel	2	4
Total	54	55

47. SALARIES AND REMUNERATION PAID TO MANAGEMENT	**2019**	**2018**
CEO total salaries	329.3	321.4

In case of a notice, the CEO is paid a payment corresponding to the CEO's four (4) months´ salary in addition to the salary payable during the six (6) month notice period. 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 is covered by Hypo's performance-related pay and incentive scheme of which the CEO has an opportunity to obtain at most a payment corresponding to the CEO's 20 weeks' salary. The total salaries do not include compensations based on performance-related pay and incentive scheme, as they as they were not paid in 2019.

	2019	**2018**
Board of Directors		
Total remuneration, chair	50.3	44.0
Total remuneration, vice chair	34.7	30.8
Total remunerations, members	129.0	112.1
Total	214.0	186.9
Supervisory Board		
Total remuneration, chair	12.4	11.9
Total remuneration, vice chair	7.3	6.2
Total remunerations, members	50.3	50.4
Total	69.9	68.5
Members of the Management Group (exc. CEO)		
Total remunerations	839.1	702.9

Information about the remunerations paid to the individual members of the management and to the related parties, as well as the type of remuneration, is available in the 2019 Remuneration Statement of The Mortgage Society of Finland Group, which is published on Hypo's website at www.hypo.fi/en/investor-relations/

48. LOANS GRANTED TO THE RELATED PARTIES	**2019**	**2018**	Changes
CEO and deputy to the CEO	187.3	202.7	-15.4
Management Group	71.2	0.0	71.2
Board of Directors	199.4	204.4	-5.0
Supervisory Board	481.4	689.0	-207.6
Joint operations	754.3	821.3	-66.9
Other related parties	1,432.9	1,272.2	160.7
Total	3,126.5	3,189.5	-63.1

Loans to the related parties (private persons) are granted following the General Terms and in compliance with Hypo's Principles of Credit Risk Management. Amount of the loan granted is assessed case by case taking into consideration the borrower's solvency and the collateral. Maximum loan amount for owner occupied mortgages is 85% with 90% collateral valuation, at maximum. All lending is against housing collateral and loans are amortized regularly from the very beginning. Reference rate is 6 or 12 month euribor. Loan margin is determined by the purpose of use and the amount of the loan, ranging from 0.20% to 2.00%. An entry fee of 0.1% of the loan is charged.

49. DEPOSITS BY THE RELATED PARTIES	**2019**	**2018**	Changes
CEO, deputy to the CEO, Board of Directors and Supervisory Board	874.7	558.7	316.0
	493.9	400.0	93.9
Management Group	145.2	123.0	22.2
The Mortgage Society of Finland's pension foundation	1,078.8	577.6	501.2
Other insiders	1,484.3	2,108.5	-624.2
Total	4,076.9	3,767.9	309.1

Deposits made by the related parties are provided on market terms.

NOTES CONCERNING GROUP'S PERSONNEL, MANAGEMENT AND RELATED PARTIES

50. RELATED PARTY TRANSACTIONS

The Hypo Group carried out the following transactions with the related parties:

The Mortgage Society of Finland's pension foundation	2019	2018	Changes
Sales of investment properties	0.0	350.0	-350.0
Sales of services	24.1	22.3	1.8
Purchases of services	0.0	74.8	-74.8
Return of surplus assets	1,500.0	750.0	750.0
Receivables	1,500.0	772.3	727.7

All transactions have been carried out with arm´s length principle. Unpaid amounts of transactions listed above are presented as receivables/liabilities. Disbursements as well as balances between Hypo and The Mortgage Society of Finland's Pension Foundation under the performance-related pay and incentive scheme are described in Note 41, Employee benefits.

NOTES CONCERNING GROUP'S SHAREHOLDINGS

51. INFORMATION ABOUT SUBSIDIARIES AND JOINT OPERATIONS

2019	Domicile	Holding, %	Equity	Profit for the period	Assets	Liabilities	Income
Subsidiaries							
Suomen AsuntoHypoPankki Oy	Helsinki	100,00	25 294,1	646,3	1 657 947,5	1 632 653,4	2 946,0
Joint operations							
Bostadsaktiebolaget Taos	Helsinki	54,57	6 418,2	152,0	8 105,2	1 687,0	689,6

Amounts presented as result for the period and as equity for Bostadsaktiebolaget Taos is based on unaudited financial statements from financial year 2019. The Articles of Association of Bostadsaktiebolag Taos include a provision that a shareholder may have 20 per cent of the votes at a maximum.

2018	Domicile	Holding, %	Equity	Profit for the period	Assets	Liabilities	Income
Subsidiaries							
Suomen AsuntoHypoPankki Oy	Helsinki	100,0	24 647,9	251,6	1 749 320,0	1 724 672,1	2 273,5
Joint operations							
Bostadsaktiebolaget Taos	Helsinki	54,6	6 266,2	105,9	8 098,3	1 832,1	704,5

Amounts presented as result for the period and as equity for Bostadsaktiebolaget Taos is based on unaudited financial statements from financial year 2018. The Articles of Association of Bostadsaktiebolag Taos include a provision that a shareholder may have 20 per cent of the votes at a maximum.

NOTES CONCERNING CONTROLLED ENTITIES OF THE GROUP

52. 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 GROUP'S RISK MANAGEMENT

53. MAXIMUM AMOUNT OF CREDIT AND COUNTERPARTY RISK

2019	Book values, gross	Book value	Average book value during the period	Interest receivables	Expected credit loss allowance
Lending					
Not fallen due	2,226,912.7	2,225,770.9	2,223,497.5	1,045.2	96.6
Past due by 1–2 days*	339,249.2	338,321.5	337,807.9	925.7	2.0
Past due by 3 days–1 month	18,136.9	18,109.8	21,483.8	27.0	0.1
Past due by 1–3 months	1,465.6	1,462.9	2,734.8	2.8	0.0
Non-performing, past due by less than 3 months**	73.5	73.4	101.0	0.1	0.0
Non-performing, past due by more than 3 months	2,608.1	2,408.6	1,902.4	36.9	162.7
Total lending	2,588,446.0	2,586,147.0	2,587,527.4	2,037.7	261.4
Other					
Receivables from credit institutions					
Not fallen due					
Debt securities					
Not fallen due	282,687.5	282,668.0	246,161.9	19.5	0.0
Shares and holdings	132.4	132.4	132.4		
Derivative contracts					
Not fallen due	22,889.7	19,351.9	11,957.3	3,537.8	
Total other	305,709.6	302,152.3	258,251.6	3,557.2	0.0
Non-performing loans/total lending, %	0.10%	0.10%			

Information concerning recognition of impairment losses related to lending is presented in Notes 11 and 17 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.

2018	Book values, gross	Book value	Average book value during the period	Interest receivables	Expected credit loss allowance
Lending					
Not fallen due	2,222,554.7	2,221,224.2	2,199,380.2	1,232.4	98.1
Past due by 1–2 days*	338,219.9	337,294.3	170,560.1	924.5	1.1
Past due by 3 days–1 month	24,910.9	24,857.8	25,269.3	52.8	0.2
Past due by 1–3 months	4,013.6	4,006.7	3,412.1	6.9	0.0
Non-performing, past due by less than 3 months**	128.8	128.7	225.1	0.1	0.0
Non-performing, past due by more than 3 months	1,690.5	1,396.2	1,894.2	29.1	265.2
Total lending	2,591,518.3	2,588,907.9	2,400,741.1	2,245.8	364.6
Other					
Receivables from credit institutions					
Not fallen due	5,399.5	5,399.5	10,899.5		
Debt securities					
Not fallen due	210,162.2	209,655.9	247,187.3	489.8	16.6
Shares and holdings	132.4	132.4	132.4		
Derivative contracts					
Not fallen due	6,670.7	4,562.6	2,410.8	2,108.1	
Total other	222,364.9	219,750.4	260,629.9	2,597.9	16.6
Non-performing loan/total lending, %	0.07%	0.06%			

Information concerning recognition of impairment losses related to lending is presented in Notes 11 and 17 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.

NOTES CONCERNING GROUP'S RISK MANAGEMENT

54. FORBEARANCES

	Performing and past due receivables			Non-performing loans		
2019	Receivables with modified terms	Refinancing	Total	Receivables with amended terms	Refinancing	Total
Forbearances 1 Jan 2019	1,493.3	255.3	1,748.6	1.3	0.0	1.3
Changes during the financial period	4,380.0	2,125.8	6,505.8	-1.3	54.4	53.1
Book value of forbearances 31 Dec 2019	5,873.3	2,381.1	8,254.4	0.0	54.4	54.4
Impairment recognized 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 recognized on forbearances during the financial period.

	Performing and past due receivables			Non-performing loans		
2018	Receivables with modified terms	Refinancing	Total	Receivables with amended terms	Refinancing	Total
Forbearances 1 Jan 2018	1,049.1	207.0	1,256.0	402.8	58.5	461.3
Changes during the financial period	444.3	48.3	492.6	-401.6	-58.5	-460.0
Book value of forbearances 31 Dec 2018	1,493.3	255.3	1,748.6	1.3	0.0	1.3
Impairment recognized 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 recognized on forbearances during the financial period.

55. CONCENTRATION OF LENDING

	2019				2018			
		Expected credit loss allowance	Book value	%		Expected credit loss allowance	Book value	%
Lending by category								
Households	816,456.3	261.2	816,195.1	31.6%	810,469.2	364.3	810,104.8	31.3%
Housing companies	1,702,565.3	0.1	1,702,565.2	65.8%	1,697,811.9	0.1	1,697,811.8	65.6%
Private companies (housing investors)	59,839.1	0.1	59,839.0	2.3%	72,754.5	0.1	72,754.4	2.8%
Other	7,547.6	0.0	7,547.6	0.3%	8,236.8	0.0	8,236.8	0.3%
Total	2,586,408.4	261.4	2,586,147.0	100.0%	2,589,272.5	364.6	2,588,907.9	100.0%
Lending by purpose of use								
Permanent dwelling	2,521,641.8	131.1	2,521,510.7	97.5%	2,524,488.8	224.8	2,524,264.0	97.5%
Consumer loan	33,255.1	14.8	33,240.3	1.3%	34,237.9	24.1	34,213.8	1.3%
Holiday home	8,204.2	115.4	8,088.9	0.3%	8,880.9	115.4	8,765.5	0.3%
Other	23,307.2	0.2	23,307.0	0.9%	21,664.9	0.3	21,664.5	0.8%
Total	2,586,408.4	261.4	2,586,147.0	100.0%	2,589,272.5	364.6	2,588,907.9	100.0%
Lending by province								
Uusimaa	1,995,654.9	68.3	1,995,586.6	77.2%	1,979,708.3	86.0	1,979,622.4	76.5%
Rest of Finland	590,753.4	193.0	590,560.4	22.8%	609,564.1	278.6	609,285.5	23.5%
Total	2,586,408.4	261.4	2,586,147.0	100.0%	2,589,272.5	364.6	2,588,907.9	100.0%

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

NOTES CONCERNING GROUP'S RISK MANAGEMENT

56. LOAN TO VALUE BY CATEGORY	2019	%	2018	%
Loan to value in percent by households:				
<10	7,472.2	0.3%	7,341.5	0.3%
10–20	25,817.9	1.0%	26,330.8	1.0%
20–30	49,531.9	1.9%	45,783.0	1.8%
30–40	76,160.0	2.9%	76,216.0	2.9%
40–50	114,487.2	4.4%	110,316.7	4.3%
50–60	133,755.5	5.2%	134,429.1	5.2%
60–70	162,767.9	6.3%	170,569.0	6.6%
70–80	130,681.9	5.1%	128,115.4	4.9%
80–90	81,737.7	3.2%	85,146.8	3.3%
90–100	31,331.2	1.2%	23,221.7	0.9%
>100	1,089.4	0.0%	2,477.9	0.1%
Loans that are not included in LTV calculation	1,627.9	0.1%	1,268.6	0.0%
	816,460.8	31.6%	811,216.5	31.3%

	2019	%	2018	%
Loan to value in percent by housing companies, private companies and other:				
<10	399,428.6	15.4%	356,321.9	13.8%
10–20	416,496.3	16.1%	423,794.0	16.4%
20–30	352,569.7	13.6%	353,889.2	13.7%
30–40	254,161.9	9.8%	306,347.4	11.8%
40–50	205,782.0	8.0%	179,136.6	6.9%
50–60	64,410.1	2.5%	86,150.9	3.3%
60–70	36,734.2	1.4%	24,439.0	0.9%
70–80	8,648.7	0.3%	3,547.6	0.1%
80–90	19,423.2	0.8%	26,617.1	1.0%
90–100	2,614.2	0.1%	6,677.1	0.3%
>100	677.4	0.0%	1,278.8	0.0%
Loans that are not included in LTV calculation	8,740.0	0.3%	9,856.3	0.4%
	1,769,686.2	68.4%	1,778,055.9	68.7%

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. All loans have securing housing collateral. One credit is presented only in one LTV category. LTV calculations is including only property-secured loans.

NOTES CONCERNING GROUP'S RISK MANAGEMENT

57. IFRS 9 BY RISK CATEGORY

2019

Debt securities by risk category	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit-impaired (stage 3)	Total
Debt securities, Fair value through other comprehensive income				0.0
Risk class 1–5				0.0
Risk class 6–10				0.0
Risk class 11–15				0.0
Rating not classified	138,728.4			138,728.4
Loss allowance				0.0
Write-offs				0.0

2018

Debt securities by risk category	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit-impaired (stage 3)	Total
Debt securities, Fair value through other comprehensive income				0.0
Risk class 1–5				0.0
Risk class 6–10				0.0
Risk class 11–15				0.0
Rating not classified	154,844.7			154,844.7
Loss allowance	16.6			16.6
Write-offs				0.0

2019

Receivables from the public and public sector entities by risk category	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit-impaired (stage 3)	Total
Receivables from the public and public sector entities, amortised cost				0.0
Risk class 1–5				0.0
Risk class 6–10				0.0
Risk class 11–15				0.0
Rating not classified	2,573,605.5	9,961.8	2,841.0	2,586,408.4
Loss allowance	20.4	44.9	196.1	261.4
Write-offs				0.0
Total	2,573,585.2	9,916.9	2,644.9	2,586,147.0

2018

Receivables from the public and public sector entities by risk category	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit-impaired (stage 3)	Total
Receivables from the public and public sector entities, amortised cost				0.0
Risk class 1–5				0.0
Risk class 6–10				0.0
Risk class 11–15				0.0
Rating not classified	2,580,391.9	7,090.5	1,790.1	2,589,272.5
Loss allowance	23.9	41.7	299.0	364.6
Write-offs				0.0
Total	2,580,368.0	7,048.8	1,491.0	2,588,907.9

2019

Off balance sheet, granted but undrawn loans by risk category	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit-impaired (stage 3)	Total
Off balance sheet, granted but undrawn loans, amortised cost				0.0
Risk class 1–5				0.0
Risk class 6–10				0.0
Risk class 11–15				0.0
Rating not classified	110,268.7	3.2	12.2	110,284.1
Loss allowance	0.4	0.0	0.0	0.4
Write-offs				0.0
Total	110,268.3	3.2	12.2	110,283.7

NOTES CONCERNING GROUP'S RISK MANAGEMENT

				2018
Off balance sheet, granted but undrawn loans by risk category	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit-impaired (stage 3)	Total
Off balance sheet, granted but undrawn loans, amortised cost				0.0
Risk class 1–5				0.0
Risk class 6–10				0.0
Risk class 11–15				0.0
Rating not classified	269 128.9	105.5	9.6	269 244.0
Loss allowance	0.4	0.0	0.0	0.4
Write-offs				0.0
Total	269 128.5	105.5	9.6	269 243.6

58. IFRS 9 LOSS ALLOWANCE CHANGES AND TRANSITIONS

				2019
Debt securities, Fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2019	16.6			16.6
New financial assets				0.0
Maturities and repayments	-16.6			-16.6
Write-offs				0.0
Write-offs recoveries				0.0
Normal changes, e.g. change without stage change				0.0
Transfer to 12-month stage 1				0.0
Transfer to lifetime stage 2 not credit-impaired				0.0
Transfer to lifetime stage 3 credit-impaired				0.0
Changes to model assumptions and methodologies				0.0
Manual correction by loan				0.0
Loss allowance as at 31 December 2019	0.0	0.0	0.0	0.0

				2018
Debt securities, Fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2018	25.3			25.3
New financial assets	0.6			0.6
Maturities and repayments	-9.3			-9.3
Write-offs				0.0
Write-offs recoveries				0.0
Normal changes, e.g. change without stage change	-0.1			-0.1
Transfer to 12-month stage 1				0.0
Transfer to lifetime stage 2 not credit-impaired				0.0
Transfer to lifetime stage 3 credit-impaired				0.0
Changes to model assumptions and methodologies				0.0
Manual correction by loan				0.0
Loss allowance as at 31 December 2018	16.6	0.0	0.0	16.6

NOTES CONCERNING GROUP'S RISK MANAGEMENT

58. IFRS 9 LOSS ALLOWANCE CHANGES AND TRANSITIONS

				2019
Debt securities, Fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2019	23.9	41.7	299.0	364.6
New financial assets	11.0			11.0
Maturities and repayments	-3.1	-2.4	-15.7	-21.3
Write-offs			-81.1	-81.1
Write-offs recoveries				0.0
Normal changes, e.g. change without stage change	-11.4	5.6		-5.8
Transfer to 12-month stage 1	0.0		-6.0	-6.0
Transfer to lifetime stage 2 not credit-impaired	0.0			0.0
Transfer to lifetime stage 3 credit-impaired				0.0
Changes to model assumptions and methodologies				0.0
Manual correction by loan	0.0		-0.1	-0.1
Loss allowance as at 31 December 2019	20.4	44.9	196.1	261.4

				2018
Receivables from the public and public sector entities, amortised cost	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2018	21.0	3.0	309.6	333.6
New financial assets (new loans)	14.4			14.4
Maturities and repayments	-2.2	-25.6	-35.3	-63.1
Write-offs				0.0
Write-offs recoveries				0.0
Normal changes, e.g. change without stage change	-8.9		106.9	98.0
Transfer to 12-month stage 1	0.0		-3.0	-3.0
Transfer to lifetime stage 2 not credit-impaired	-0.5	67.3		66.8
Transfer to lifetime stage 3 credit-impaired	0.0	-3.0	6.0	3.0
Changes to model assumptions and methodologies				0.0
Manual correction by loan			-85.2	-85.2
Loss allowance as at 31 December 2018	23.9	41.7	299.0	364.6

				2019
Off balance sheet, granted but undrawn loans by risk category	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2019	0.4			0.4
New financial assets	0.4			0.4
Maturities and repayments	-0.4			-0.4
Write-offs				0.0
Write-offs recoveries				0.0
Normal changes, e.g. change without stage change				0.0
Transfer to 12-month stage 1				0.0
Transfer to lifetime stage 2 not credit-impaired				0.0
Transfer to lifetime stage 3 credit-impaired				0.0
Changes to model assumptions and methodologies				0.0
Manual correction by loan				0.0
Loss allowance as at 31 December 2019	0.4	0.0	0.0	0.4

NOTES CONCERNING GROUP'S RISK MANAGEMENT

58. IFRS 9 LOSS ALLOWANCE CHANGES AND TRANSITIONS

				2018
Off balance sheet, granted but undrawn loans by risk category	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2018	0.0			0.0
New financial assets	0.4			0.4
Maturities and repayments	0.0			0.0
Write-offs				0.0
Write-offs recoveries				0.0
Normal changes, e.g. change without stage change	0.0	0.0		0.0
Transfer to 12-month stage 1				0.0
Transfer to lifetime stage 2 not credit-impaired	0.0	0.0		0.0
Transfer to lifetime stage 3 credit-impaired				0.0
Changes to model assumptions and methodologies				0.0
Manual correction by loan				0.0
Loss allowance as at 31 December 2018	0.4	0.0	0.0	0.4

59 IFRS 9 CHANGES IN THE CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

				2019
Debt securities, Fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Carrying amount as at 1 January 2019	146 338.8	0.0	0.0	146 338.8
Transfers				0.0
Transfer from Stage 1 to Stage 2	0.0			0.0
Transfer from Stage 1 to Stage 3	0.0			0.0
Transfer from Stage 2 to Stage 3	0.0			0.0
Transfer from Stage 3 to Stage 2	0.0			0.0
Transfer from Stage 2 to Stage 1	0.0			0.0
Transfer from Stage 3 to Stage 1				0.0
New financial assets	32 500.0			32 500.0
Maturities and repayments	-55 116.8			-55 116.8
Write-offs				0.0
Write-offs recoveries				0.0
Carrying amount as at 31 December 2019	123 722.0	0.0	0.0	123 722.0

				2018
Debt securities, Fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Carrying amount as at 1 January 2018	213 488.7	0.0	0.0	213 488.7
Transfers				0.0
Transfer from Stage 1 to Stage 2	0.0			0.0
Transfer from Stage 1 to Stage 3	0.0			0.0
Transfer from Stage 2 to Stage 3	0.0			0.0
Transfer from Stage 3 to Stage 2	0.0			0.0
Transfer from Stage 2 to Stage 1	0.0			0.0
Transfer from Stage 3 to Stage 1				0.0
New financial assets	26 845.8			26 845.8
Maturities and repayments	-93 995.7			-93 995.7
Write-offs				0.0
Write-offs recoveries				0.0
Carrying amount as at 31 December 2018	146 338.8	0.0	0.0	146 338.8

NOTES CONCERNING GROUP'S RISK MANAGEMENT

59 IFRS 9 CHANGES IN THE CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

2019

Receivables from the public and public sector entities, amortised cost	Stage 1	Stage 2	Stage 3	Total
Carrying amount as at 1 January 2019	2 580 027.3	7 204.0	1 676.6	2 588 907.9
Transfers	-3 750.1	2 525.9	1 224.2	0.0
Transfer from Stage 1 to Stage 2	-6 349.8	6 349.8		0.0
Transfer from Stage 1 to Stage 3	-895.6		895.6	0.0
Transfer from Stage 2 to Stage 3		-547.3	547.3	0.0
Transfer from Stage 3 to Stage 2		8.1	-8.1	0.0
Transfer from Stage 2 to Stage 1	3 284.8	-3 284.8		0.0
Transfer from Stage 3 to Stage 1	210.6		-210.6	0.0
New financial assets	519 699.1	63.1		519 762.2
Maturities and repayments	-522 391.2	123.9	-255.9	-522 523.1
Write-offs				0.0
Write-offs recoveries				0.0
Carrying amount as at 31 December 2019	2 573 585.2	9 916.9	2 644.9	2 586 147.0

2018

Receivables from the public and public sector entities, amortised cost	Stage 1	Stage 2	Stage 3	Total
Carrying amount as at 1 January 2018	2 203 965.7	5 600.4	3 007.4	2 212 573.5
Transfers	-2 740.1	2 990.3	-250.3	0.0
Transfer from Stage 1 to Stage 2	-3 636.1	3 636.1		0.0
Transfer from Stage 1 to Stage 3	-328.4		328.4	0.0
Transfer from Stage 2 to Stage 3		-83.0	83.0	0.0
Transfer from Stage 3 to Stage 2		196.5	-196.5	0.0
Transfer from Stage 2 to Stage 1	759.3	-759.3		0.0
Transfer from Stage 3 to Stage 1	465.2		-465.2	0.0
New financial assets	790 830.9	42.0		790 872.9
Maturities and repayments	-412 029.2	-1 428.8	-1 080.6	-414 538.6
Write-offs				0.0
Write-offs recoveries				0.0
Carrying amount as at 31 December 2018	2 580 027.3	7 204.0	1 676.6	2 588 907.9

2019

Off balance sheet, granted but undrawn loans by risk category	Stage 1	Stage 2	Stage 3	Total
Off balance sheet as at 1 January 2019	269 128.9	105.5	9.6	269 244.0
Transfers	100.5	-100.5	0.0	0.0
Transfer from Stage 1 to Stage 2				0.0
Transfer from Stage 1 to Stage 3				0.0
Transfer from Stage 2 to Stage 3				0.0
Transfer from Stage 3 to Stage 2				0.0
Transfer from Stage 2 to Stage 1	100.5	-100.5		0.0
Transfer from Stage 3 to Stage 1	0.0	0.0		0.0
Net change, lapsed and granted	-158 960.7	-1.8	2.6	-158 959.9
Off balance sheet as at 31 December 2019	110 268.7	3.2	12.2	110 284.1

2018

Off balance sheet, granted but undrawn loans by risk category 2018	Stage 1	Stage 2	Stage 3	Total
Off balance sheet as at 1 January 2018	274 766.9	258.3	38.7	275 063.9
Transfers	-17.2	32.7	-15.5	0.0
Transfer from Stage 1 to Stage 2	-85.0	85.0		0.0
Transfer from Stage 1 to Stage 3				0.0
Transfer from Stage 2 to Stage 3				0.0
Transfer from Stage 3 to Stage 2		15.5	-15.5	0.0
Transfer from Stage 2 to Stage 1	67.8	-67.8		0.0
Transfer from Stage 3 to Stage 1				0.0
Net change, lapsed and granted	-5 620.8	-185.5	-13.6	-5 819.9
Off balance sheet as at 31 December 2018	269 128.9	105.5	9.6	269 244.0

NOTES CONCERNING GROUP'S RISK MANAGEMENT

60. LIQUIDITY RISK

Cash flows from financial liabilities and derivatives 2019	<3 months	3–12 months	1–5 years	5–10 years	Total
Liabilities to credit institutions	782.2	80,929.8	3,338.7	0.0	85,050.7
Liabilities to the public and public sector entities	1,249,947.7	379,193.4	936.7	13,852.3	1,643,930.0
Debt securities issued to the public	6,500.0	34,650.0	974,925.0	303,000.0	1,319,075.0
Derivative contracts	-1,269.3	-3,682.8	-9,672.0	385.3	-14,238.6
Guarantees, granted but undrawn loans, rental liabilities and potential redemptions of partially owned housing units	112,466.0	0.0	0.0	0.0	112,466.0
Total liabilities	1,368,426.6	491,090.5	969,528.4	317,237.6	3,146,283.2

2018

Cash flows from financial liabilities and derivatives 2018	<3 months	3–12 months	1–5 years	5–10 years	Total
Liabilities to credit institutions	791.0	3,019.7	85,073.7	0.0	88,884.4
Liabilities to the public and public sector entities	1,378,001.1	356,754.6	1,159.9	24.4	1,735,940.0
Debt securities issued to the public	81,000.0	90,650.0	670,950.0	301,125.0	1,143,725.0
Derivative contracts	391.3	-2,867.3	284.1	-220.1	-2,411.9
Guarantees, granted but undrawn loans, rental liabilities and potential redemptions of partially owned housing units	273,688.5	0.0	0.0	0.0	273,688.5
Total liabilities	1,733,871.9	447,557.1	757,467.7	300,929.3	3,239,826.1

61. INFORMATION CONCERNING INTEREST RATE RISK

Repricing time in 2019 (EUR million)	<3 months	3–12 months	1–5 years	5–10 years	Total
Floating-rate items					
Receivables	827.1	2,045.5	0.0	0.0	2,872.6
Liabilities	798.6	865.5	122.6	0.0	1,786.6
Net	28.6	1,180.0	-122.6	0.0	1,086.0
Fixed-rate items					
Receivables	259.4	17.6	1,012.6	420.8	1,710.3
Liabilities	592.7	668.1	1,044.8	419.4	2,725.1
Net	-333.3	-650.6	-32.3	1.3	-1,014.8

Group's interest rate risks are related to the whole of its operations and are measured, monitored and managed by examining the Group's banking book. Lending, investments related to liquidity maintenance, 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 six 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 7.0 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 floating-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 2.3 million. The financial value of Hypo would decrease by EUR 9.0 million due to a rise of 2 per cent in interest rates.

NOTES CONCERNING GROUP'S RISK MANAGEMENT

61. INFORMATION CONCERNING INTEREST RATE RISK

					2018
Repricing time in 2018 (EUR million)	<3 months	3–12 months	1–5 years	5–10 years	Total
Floating-rate items					
Receivables	847.2	1,999.1			2,846.3
Liabilities	588.7	894.4			1,483.1
Net	258.5	1,104.7	0.0	0.0	1,363.2
Fixed-rate items					
Receivables	232.9	12.2	727.8	379.7	1,352.6
Liabilities	810.9	584.0	838.9	413.2	2,647.1
Net	-578.0	-571.9	-111.0	-33.5	-1,294.5

Group's interest rate risks are related to the whole of its operations and are measured, monitored and managed by examining the Group's banking book. Lending, investments related to liquidity maintenance, 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 six 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 7.5 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 floating-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 increase the value of items measured at fair value by EUR 4.0 million. The financial value of Hypo would decrease by EUR 4.4 million due to a rise of 2 per cent in interest rates.

STATEMENT OF THE SUPERVISORY BOARD

After confirming the Mortgage Society of Finland's accounting principles, we have certified the financial statements for 2019 to be presented to the auditors and the Annual General Meeting. We hereby accept the Board of Directros' proposal for the distribution of profits.

The following members of the Supervisory Board have reached the end of their term in office: Markku Koskela, Timo Aro, Markus Heino, Elias Oikarinen and Mari Vaattovaara.

Helsinki 28 February 2020

Markku Koskela **Hannu Hokka**

Elina Bergroth **Julianna Borsos**

Mikael Englund **Markus Heino**

Timo Hietanen **Timo Kaisanlahti**

Juha Metsälä **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 2 March 2020

PricewaterhouseCoopers Oy
Authorized Public Accountants

Jukka Paunonen
Authorized Public Accountant (KHT)

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

The former Chief Executive Officer of Hypo

Risto Piepponen
1938–2019

The former Chief Executive Officer of Hypo, Master of Laws with court training Mr. Risto Piepponen was deceased on the 20 May 2019 at the age of 81 in Helsinki. He was born on the 10 May 1938 in Enso. Mr. Piepponen valued highly his Karelian roots and participated actively in Karelian volunteer work.

Mr. Piepponen worked as the CEO of Hypo in 1987-2001. During this period in the end of the millennium, the lending activities of Hypo focused on housing companies and housing rental companies instead of private persons. Hypo was the only Finnish bank surviving without government help during the recession.

Mr. Piepponen was a board member of several organisations related to the Karelian culture, such as Karjalaisen Kulttuurin Edistämissäätiö, William ja Ester Otsakorven Säätiö, Karjalan Kulttuurirahasto and Viipurin taloudellinen korkeakouluseura. He was also actively involved in organisations supporting the national defence of Finland. Position of responsibility in the Karjalaisen Kulttuurin Edistämissäätiö began as early as 1964 and continued for 44 years. From the beginning of 2009 he was nominated as the honorary member of the organisation.

The portrait of Risto Piepponen in the collection of Hypo Artist Heinrich Ilmari Rautio, 2002.

Mr. Piepponen graduated from the upper secondary school of Imatra in 1957. After getting his Master of Laws degree, he completed it with court training in 1965. His military rank was Major in the reserve.

Mr. Piepponen worked in the Helsinki Chamber of Commerce in the 1960's, starting as an officer and proceeding as the Vice Director and finally as the Vice CEO. He worked as the Director of Finnish Business and Policy Forum EVA (Elinkeinoelämän Valtuuskunta) since the foundation of the forum in 1975. He started as the CEO of the Finnish Banking Association in 1980 and then became the CEO of the Mortgage Society of Finland in 1987. Mr. Piepponen retired in 2002.

Mr. Piepponen was a spirited socialiser and an enthusiastic singer. As a CEO, he cared deeply for the well-being of his employees.

HYPO

The Mortage Society of Finland | Suomen AsuntoHypoPankki Oy
Street address: Yrjönkatu 9 A | 00120 HELSINKI
Mailing address: P.O. Box 509 | 00101 HELSINKI
Tel. +358 9 228 361 | hypo@hypo.fi | **www.hypo.fi**

www.twitter.com/hypo
www.facebook.com/hypoteekkiyhdistys
www.instagram.com/hypo_pankki