THE MORTGAGE SOCIETY OF FINLAND

FINANCIAL STATEMENTS 2016

156th operational year

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BOARD OF DIRECTOR'S REPORT

THE MORTGAGE SOCIETY OF FINLAND GROUP

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

Hypo Group's consolidated Financial Statements include Hypo (the parent company), Suomen AsuntoHypoPankki (hereinafter "the Bank"), a wholly-owned subsidiary of the parent company, and the housing company subsidiary Bostadsaktiebolaget Taos (hereinafter "Taos"), of which the parent company owns 54.6 per cent. The Mortgage Society of Finland grants loans to households and housing companies against housing or residential property collateral situated in Finland. AsuntoHypoPankki is a deposit bank that offers its customers deposit products, credit cards and trustee services. Taos owns and manages the land and property where Hypo's customer service facilities are located and also rents out office premises from the property. Hypo Group's business operations constitute a single segment, retail banking. Group has around 27,000 customers.

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

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

GROUP STRATEGY AND GOALS

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

OPERATING ENVIRONMENT

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

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

Finland for 2016).

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

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

ASSETS AND FUNDING

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

Lending

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

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

Liquidity

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

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

Other assets

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

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

The additional pension cover for Hypo's employees, which is classified as a defined benefit plan, has been arranged through Department A of Hypo's pension foundation, which was closed in 1991. The surplus from the assets and obligations of the pension foundation, which totaled EUR 5.7 million (EUR 7.4 million), has been entered into Group's other assets and into equity after deferred tax liabilities. Surplus returned by Department A returned to the parent company amounted to EUR 1.8 million.

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

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

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

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

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

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

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

CHANGES IN EQUITY

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

HYPO GROUP'S RESULT, PROFITABILITY AND CAPITAL ADEQUACY

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

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

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

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

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

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

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

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

Loan impairments during the financial period totaled EUR -0.3 million (EUR -0.01 million) and were due to two problem loans.

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

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

KEY FINANCIAL INDICATORS 2012–2016

Group	IFRS **2012**	IFRS **2013**	IFRS **2014**	IFRS **2015**	IFRS **2016**
Turnover, EUR million	26.8	27.1	32.7	33.0	32.4
Operating profit/profit before appropriations and taxes, EUR million	5.2	6.0	7.5	7.4	7.3
Operating profit/turnover, %	18.4	22.2	22.9	22.5	22.6
Return on equity (ROE), %	5.2	5.8	6.7	6.2	5.8
Return on assets (ROA), %	0.5	0.5	0.5	0.4	0.3
Equity ratio, %	8.8	7.2	6.4	5.2	4.7
Cost-to-income ratio, %	55.0	57.4	56.4	55.2	57.1
Non-performing loans, % of loan portfolio	0.16	0.14	0.23	0.16	0.11
Loan-to-value ratio (average LTV), %	51.0	50.0	44.9	41.1	38.4
Loans/Deposits, %	235.0	271.8	237.3	136.7	150.2
Key figures as set out in EU's Capital Requirements regulation and in national legislation					
Leverage Ratio, %			5.2	4.3	4.2
Common Equity Tier 1 (CET1) ratio, %	15.9	14.7	15.1	13.8	13.6
Capital adequacy, %	17.0	14.7	15.2	13.8	13.6
LCR-ratio, %				128.0	144.4
Other key figures					
Receivables from the public and public sector entities	725.0	977.9	1204.0	1420.7	1806.4
Deposits (incl. deposits of financial institutions)	308.6	359.77	507.4	1040.0	1203.0
Balance sheet total, EUR million	911.2	1219.6	1499.9	1959.5	2305.2
Average number of personnel	28	36	52	55	57
Salaries and remuneration, EUR million	2.0	2.9	4.1	3.8	3.9

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

Definitions of Alternative Performance Measures:

Turnover

Interest income + income from equity investments + fee income + net income from available-for-sale financial assets + net income from currency operations and securities trading + net income from hedge accounting + income from investment properties + other operating income

Operating profit/profit before appropriations and taxes, milj. €

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

Operating profit/Turnover, %

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

Return on equity % (ROE)

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

Return on assets % (ROA)

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

Equity ratio, %

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

Cost-to-income ratio, %

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

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

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

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

Loans/deposits %

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

Deposits out of total funding, %

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

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

Long-term funding out of total funding, %

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

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

Average number of personnel

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

Salaries and remuneration, milj. €

Total of personnel's salaries and remunretion

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.

Description of Alternative Performance Measures:

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

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

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

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

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

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 per cent indicates that in addition to deposit funding, wholesale funding and equity are used as funding sources.

Average number of personnel describes the personnel resources available.

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

KEY EVENTS SINCE THE END OF THE FINANCIAL YEAR

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

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

FUTURE OUTLOOK

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

BOARD'S PROPOSAL FOR THE DISPOSAL OF PROFITS

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

The Board of Directors proposes that EUR 3,235.42 of Hypo's result for 2016 (EUR 6,470.84) be transferred to the reserve fund and the rest remain unused.

RISK MANAGEMENT

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

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

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

CORPORATE GOVERNANCE

Hypo's operations are governed by general laws and regulations concerning credit institutions and by the Act on Mortgage Societies. Although Hypo is not a listed company, it issues bonds that are traded publicly. For this reason, it must comply with many of the regulations concerning listed companies. Hypo adheres to the Finnish Corporate Governance Code of the Securities Market Association with certain exceptions.

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

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

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

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

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

Of Group's personnel, 69 per cent work in direct customer service duties and 31 per cent in administration. The average age of employees is 44.7 years. At the end of the year, the youngest employee was 24.1 years of age and the oldest was 59.7. The average length of an employment relationship is 7 years. Of all employees, 42 per cent are men and 58 per cent are women. Three of the four members of the Management Group are men and one is a woman. In addition, the secretary to the Management Group is a woman. Of Group's employees, 38 per cent hold a higher education degree and 48 per cent have graduated from a university of applied sciences (polytechnic) or completed upper secondary education. Of the women employed by Hypo Group, 24 per cent hold a higher education degree and 48 per cent have graduated from a university of applied sciences (polytechnic) or completed upper secondary education. For the men, the proportions are 52 and 38 per cent, respectively.

All permanent employees are included in Group's incentive and commitment scheme. The incentive scheme considers the success of the company and business area as well as personal performance. The scheme enables employees to earn a discretionary reward that, at its highest, can equal 16 weeks' pay. The Board of Directors decides on rewards for employees and middle management at the proposal of the CEO. Decisions about rewards for the CEO and the COO are made by Hypo's Compensation Committee at the proposal of the Board of Directors. The scheme also takes account of the content of current regulations, particularly with regard to the remuneration of senior management.

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

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

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

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

Statutory pension insurance for Hypo's personnel has been set up with Elo Mutual Pension Insurance Company. Additional benefits are managed by Department A of Hypo's pension foundation, which has a closed sphere of operation and no uncovered liabilities. The additional benefits cover three employees in total. Through Department M, the pension foundation covers a total of 74 people.

Helsinki, 27 February 2017

Board of Directors

CONSOLIDATED INCOME STATEMENT, IFRS

€	Note	1.1.-31.12.2016	1.1.-31.12.2015
Interest income	1	19 951 729,90	20 959 976,26
Interest expenses	1	-14 565 538,76	-16 386 152,01
NET INTEREST INCOME		**5 386 191,14**	**4 573 824,25**
Fee income	2	4 517 097,68	3 396 951,08
Fee expenses	2	-77 646,96	-53 035,71
Net income from currency operations and securities trading			
Net income from securities trading	3	-522 213,59	-569 522,20
Net income from currency operations	3	71,27	453,71
Net income from available-for-sale financial assetst	4	3 634 499,62	2 474 218,27
Net income from hedge accounting	5	-53 717,28	
Net income from investment properties	6	4 881 279,22	6 769 073,79
Other operating income	7	-16 044,71	-6 847,01
Administrative expenses			
Personnel expenses			
Salaries and remuneration		-4 513 368,53	-4 390 008,83
Indirect personnel expenses			
Pension expenses		-1 054 202,59	-982 942,35
Other indirect personnel expenses		-308 218,23	-95 732,10
Other administrative expenses		-2 825 111,47	-2 556 601,29
Total administrative expenses		-8 700 900,82	-8 025 284,57
Depreciation and impairment losses on tangible and intangible assets	9	-327 974,44	-375 132,06
Other operating expenses	8	-1 105 043,91	-746 472,36
Impairment losses on loans and other commitments	10	-268 702,81	5 961,24
OPERATING PROFIT		**7 346 894,41**	**7 444 188,43**
Income taxes	11	-1 228 892,81	-1 314 859,38
PROFIT FROM OPERATIONS AFTER TAXES		**6 118 001,60**	**6 129 329,05**
PROFIT FOR THE PERIOD		**6 118 001,60**	**6 129 329,05**

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT, IFRS

€	1.1.-31.12.2016	1.1.-31.12.2015
Profit for the period	6 118 001,60	6 129 329,05
Other comprehensive income		
Items that may in the future be recognised through profit or loss		
Change in fair value reserve		
Hedging of cash flows	822 539,74	1 241 289,25
Financial assets available for sale	580 501,73	-1 557 033,73
	1 403 041,47	-315 744,48
Items that may not be included in the income statement at a later date		
Revaluation of defined benefit pension plans	185 605,60	324 483,20
Effect of the change in the ownership of Bostads Ab Taos Oy	-299 549,47	3 113,63
Adjustment made to retained earnings	34 917,04	-131 849,59
	-79 026,83	195 747,24
Total other comprehensive income	1 324 014,64	-119 997,24
COMPREHENSIVE INCOME FOR THE PERIOD	**7 442 016,24**	**6 009 331,81**

CONSOLIDATED BALANCE SHEET, IFRS

€	Note	31.12.2016	31.12.2015
ASSETS			
Cash	13,14,33	120 200 000,00	170 000 000,00
Debt securities eligible for refinancing with central banks			
Other	14,17,31,32,33	291 927 798,00	270 650 476,00
		291 927 798,00	270 650 476,00
Receivables from credit institutions			
Payable on-demand	14,15,31,32,33	5 153 280,63	11 404 885,81
Other	14,15,31,32,33	17 874,87	786 403,29
		5 171 155,50	12 191 289,10
Receivables from the public and public sector entities			
Other than those payable on-demand	16,31,32,33	1 806 439 839,71	1 420 711 207,84
Debt securities			
From others	14,17,31,32,33		2 051 460,00
		0,00	2 051 460,00
Shares and holdings	18,32,33	132 374,82	132 374,82
Derivative contracts	19,32,33,34	138 375,69	510 379,50
Intangible assets			
Other long-term expenditure	20,22,32	2 812 638,76	1 927 808,95
Tangible assets			
Investment properties and shares and holdings in investment properties	21,22,32	61 691 380,23	67 784 755,89
Other properties and shares and holdings in housing property corporations	21,22,32	864 680,63	939 235,27
Other tangible assets	22,32	336 736,80	330 505,10
		62 892 797,66	69 054 496,26
Other assets	23,32	9 239 505,48	8 029 679,18
Deferred income and advances paid	24,32	5 964 427,66	3 640 704,16
Deferred tax receivables	25,32	299 536,13	577 761,31
TOTAL ASSETS		**2 305 218 449,41**	**1 959 477 637,12**

CONSOLIDATED BALANCE SHEET, IFRS

€	Note	31.12.2016	31.12.2015
LIABILITIES			
LIABILITIES			
Liabilities to credit institutions			
To central banks		80 000 000,00	20 000 000,00
To credit institutions			
Other than those payable on-demand	31,32,33	38 086 504,12	131 385 748,05
		118 086 504,12	151 385 748,05
Liabilities to the public and public sector entities			
Deposits			
Payable on-demand	31,32,33	641 954 579,59	516 063 021,50
Other than those payable on-demand	31,32,33	561 087 810,28	522 879 471,53
		1 203 042 389,87	1 038 942 493,03
Other liabilities			
Other than those payable on-demand	31,32,33	28 476 903,75	34 028 858,46
		1 231 519 293,62	1 072 971 351,49
Debt securities issued to the public			
Bonds	26,31,32,33	699 076 233,30	521 878 568,91
Other	26,31,32,33	111 433 329,49	69 451 337,15
		810 509 562,79	591 329 906,06
Derivative contracts	19,32,33,34	4 536 332,56	5 627 423,11
Other liabilities			
Other liabilities	27,32	8 660 046,37	7 862 377,14
Deferred expenses and advances received	28,32	4 640 289,33	6 209 344,45
Subordinated liabilities			
Other	29,31,32,33	8 980 060,25	13 469 688,07
Deferred tax liabilities	25,32	9 442 430,04	9 219 884,66
EQUITY			
Basic capital	36	5 000 000,00	5 000 000,00
Other restricted reserves			
Reserve fund		22 796 701,60	22 794 722,01
Fair value reserve			
From cash flow hedging		-591 246,35	-1 413 786,09
From valuation at fair value		-168 588,68	-749 090,41
Defined benefit pension plans			
Actuarial gains/losses		1 717 441,60	1 531 836,00
Unrestricted reserves			
Other reserves		22 923 500,00	22 923 500,00
Retained earnings		51 048 120,56	45 185 403,53
Profit for the period		6 118 001,60	6 129 329,05
	32	108 843 930,33	101 401 914,09
TOTAL LIABILITIES AND EQUITY		**2 305 218 449,41**	**1 959 477 637,12**

CHANGE IN EQUITY

CHANGE IN EQUITY

€	Basic capital	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
Equity 1 Jan 2015	**5 000 000**	**22 793 769**	**-639 779**	**22 923 500**	**45 315 093**	**95 392 582**
Profit for the period					6 129 329	6 129 329
Other comprehensive income						
Adjustment made to retained earnings					-131 850	-131 850
Effect of the change in the ownership of Bostads Ab Taos Oy		9			3 105	3 114
Distribution of profits		945			-945	0
Hedging of cash flow						
Amount recognised in equity			51 936			51 936
Amount transferred to the income statement			1 499 676			1 499 676
Change in deferred taxes			-310 322			-310 322
Financial assets available for sale						
Change in fair value			527 926			527 926
Amount transferred to the income statement			-2 474 218			-2 474 218
Change in deferred taxes			389 258			389 258
Defined benefit pension plans						
Actuarial gains/losses			405 604			405 604
Change in deferred taxes			-81 121			-81 121
Total other comprehensive income	0	953	8 739	0	-129 689	-119 997
Equity 31 Dec 2015	**5 000 000**	**22 794 722**	**-631 041**	**22 923 500**	**51 314 733**	**101 401 914**

Euroa	Basic capital	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
Equity 1 Jan 2016	**5 000 000**	**22 794 722**	**-631 041**	**22 923 500**	**51 314 733**	**101 401 914**
Profit for the period					6 118 002	6 118 002
Other comprehensive income						
Adjustment made to retained earnings					34 917	34 917
Effect of the change in the ownership of Bostads Ab Taos Oy					-299 549	-299 549
Distribution of profits		1 980			-1 980	0
Hedging of cash flow						
Amount recognised in equity			-480 252			-480 252
Amount transferred to the income statement			1 508 427			1 508 427
Change in deferred taxes			-205 635			-205 635
Financial assets available for sale						
Change in fair value			4 360 127			4 360 127
Amount transferred to the income statement			-3 634 500			-3 634 500
Change in deferred taxes			-145 125			-145 125
Defined benefit pension plans						
Actuarial gains/losses			232 007			232 007
Change in deferred taxes			-46 401			-46 401
Total other comprehensive income	0	1 980	1 588 647	0	-266 612	1 324 015
Equity 31 Dec 2016	**5 000 000**	**22 796 702**	**957 607**	**22 923 500**	**57 166 122**	**108 843 930**

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED CASH FLOW STATEMENT €	1.1.-31.12.2016	1.1.-31.12.2015
Cash flow from operating activities		
Interest received	19 143 653,97	20 866 259,40
Interest paid	-15 477 064,21	-15 750 105,28
Fee income	4 073 224,62	3 439 487,47
Fee expenses	-77 646,96	-53 035,71
Net income from currency operations and securities trading	-522 142,32	-569 068,49
Net income from available-for-sale financial assets	3 634 499,62	2 474 218,27
Net income from hedge accounting	-53 717,28	
Net income from investment properties	3 855 962,07	7 925 836,97
Other operating income	-16 044,71	-6 847,01
Administrative expenses	-10 804 636,84	-6 923 455,25
Other operating expenses	-1 225 838,04	-844 719,07
Credit and guarantee losses	-268 702,81	5 961,24
Income taxes	-1 150 130,90	-1 272 553,86
Total net cash flow from operating activities	**1 111 416,21**	**9 291 978,68**
Operating assets increase (-) / decrease (+)		
Receivables from customers (lending)	-384 886 131,93	-214 610 160,82
Cash collaterals, derivatives	-46 077,80	
Investment properties	7 814 428,18	-16 645 761,24
Operating assets increase (-) / decrease (+) total	**-377 117 781,55**	**-231 255 922,06**
Operating liabilities increase (+) / decrease (-)		
Liabilities to the public and public sector entities (deposits)	164 101 112,58	570 878 834,48
Operating liabilities increase (+) / decrease (-) total	164 101 112,58	570 878 834,48
NET CASH FLOWS ACCRUED FROM OPERATING ACTIVITIES	**-211 905 252,76**	**348 914 891,10**
Cash flows from investments		
Change in fixed assets	-1 144 481,31	-1 508 111,55
Equity investments increase (-) / decrease (+)		-18 940,00
NET CASH FLOWS ACCRUED FROM INVESTMENTS	**-1 144 481,31**	**-1 527 051,55**
Cash flows from financing		
Bank loans, new withdrawals	131 830 436,68	40 608 486,52
Bank loans, repayments	-165 129 680,61	-89 597 296,53
Other liabilities increase (+) / decrease (-)	-6 303 740,67	-7 185 632,43
Bonds, new issues	429 857 540,28	180 569 798,31
Bonds, repayments	-252 291 457,73	-178 226 329,33
Certificates of deposit, new issues	180 965 705,10	208 286 530,22
Certificates of deposit, repayments	-138 983 712,76	-268 863 895,32
Subordinated liabilities, new withdrawals	59 013,04	35 914,49
Subordinated liabilities, repayments	-4 548 640,86	-4 528 344,59
NET CASH FLOWS ACCRUED FROM FINANCING	**175 455 462,47**	**-118 900 768,66**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**-37 594 271,60**	**228 487 070,89**
Cash and cash equivalents at the beginning of the period	454 893 225,10	226 406 154,21
Cash and cash equivalents at the end of the period	417 298 953,50	454 893 225,10
CHANGE IN CASH AND CASH EQUIVALENTS	**-37 594 271,60**	**228 487 070,89**

GROUP'S DEVELOPMENT PER QUARTER

GROUP'S DEVELOPMENT PER QUARTER

€ 1.000	10-12/2016	7-9/2016	4-6/2016	1-3/2016	10-12/2015
Interest income	4 991,4	4 991,5	4 903,9	5 064,9	5 301,1
Interest expenses	-3 215,4	-3 430,0	-3 636,9	-4 283,1	-4 340,4
NET INTEREST INCOME	**1 776,0**	**1 561,5**	**1 267,0**	**781,8**	**960,7**
Fee income	906,3	1 072,3	1 462,9	1 075,6	780,5
Fee expenses	-16,4	-21,7	-25,4	-14,2	-16,8
Net income from currency operations and securities trading					
Net income from securities trading	500,4	-139,7	41,9	-924,9	279,4
Net income from currency operations	0,0	0,0	0,0	0,1	0,2
Net income from available-for-sale financial assets	439,8	692,8	955,2	1 546,7	728,4
Net income from hedge accounting	-11,2	-27,8	-14,7	0,0	0,0
Net income from investment properties	692,4	609,0	1 577,5	2 002,4	1 789,1
Other operating income	-9,6	-1,7	-1,8	-2,9	0,2
Administrative expenses					
Personnel expenses					
Salaries and remuneration	-1 275,7	-906,3	-1 153,2	-1 178,2	-1 185,7
Indirect personnel expenses					
Pension expenses	-379,8	-199,0	-223,5	-251,9	-308,8
Other indirect personnel expenses	-94,0	-129,1	8,7	-93,9	-25,1
Other administrative expenses	-849,3	-601,6	-738,6	-635,6	-796,0
Total administrative expenses	-2 598,8	-1 836,0	-2 106,5	-2 159,6	-2 315,6
Depreciation and impairment losses on tangible and intangible assets	-90,9	-82,8	-81,1	-73,2	-93,0
Other operating expenses	-231,4	-177,4	-523,1	-173,1	-414,8
Impairment losses on loans and other commitments	-266,7	1,9	-5,3	1,4	-7,3
OPERATING PROFIT	**1 090,0**	**1 650,4**	**2 546,5**	**2 060,0**	**1 691,0**
Income taxes	-145,2	-283,0	-437,8	-363,0	-305,1
PROFIT FROM OPERATIONS AFTER TAXES	**944,8**	**1 367,4**	**2 108,7**	**1 697,1**	**1 385,9**
PROFIT FOR THE PERIOD	**944,8**	**1 367,4**	**2 108,7**	**1 697,1**	**1 385,9**

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT, IFRS

€ 1.000	10-12/2016	7-9/2016	4-6/2016	1-3/2016	10-12/2015
Profit for the period	944,8	1 367,4	2 108,7	1 697,1	1 385,9
Items that may be included in the income statement later					
Change in fair value reserve					
Hedging of cash flows	211,3	356,9	312,1	-57,7	1,3
Financial assets available for sale	-101,2	348,6	194,8	138,3	-300,9
	110,1	705,5	506,9	80,5	-299,6
Items that may not be included in the income statement at a later date					
Revaluation of defined benefit pension plans	-563,2		748,8		147,0
Effect of the change in the ownership of Bostads Ab Taos Oy			-299,5		-166,8
Adjustment made to retained earnings				34,9	-131,8
	-563,2	0,0	449,2	34,9	-151,7
Total other comprehensive income	-453,1	705,5	956,1	115,4	-451,3
COMPREHENSIVE INCOME FOR THE PERIOD	**491,8**	**2 072,9**	**3 064,8**	**1 812,5**	**934,6**

NOTES TO GROUP'S FINANCIAL STATEMENTS 31 DECEMBER 2016

ACCOUNTING POLICIES

General information

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

Hypo Group's business operations constitute a single segment, retail banking.

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

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

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

The information related to capital adequacy has been prepared and presented in accordance with the EU Capital Requirements Regulation (CRR, EU 575/2013). Part of the information is included in the Annual Report and part in the notes to the consolidated Financial Statements.

Adjustments have been made to certain fee and commission income and expenses related to them. Net effect of the adjustment to the 2016 operating profit is EUR -78.8 thousand. Similar adjustment made to Group Operating Profit for years 2013-2014, totaling EUR -131,8 thousand have been presented as a correction in the Equity.

New standards and interpretations

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

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

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

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

Moreover, application of the standard results in minor changes in classification of funding instruments i.a. classification of debt securities which might change the presentation of change in fair value. The impact of changes in hedge accounting is likely to remain marginal. Group prepares and tests the expected credit loss calculation models as 2017 progresses and reports the progress on the implementation of the standard and when necessary, specifies the impact assessment in the future Interim reports.

- IFRS 15 Revenue from Contracts with Customers will apply to annual reporting periods after January 2018. It includes amendments related to revenue recognition and will not have significant effects on Group's future Financial Statements**.**

- IFRS 16 Leases, which was published in 2016, will come into effect on 1 January 2019. It mainly includes amendments to lessees' accounting policies and will not significantly affect Group's future Financial Statements.

Group

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

Housing companies that are affiliate companies have been accounted for in the same manner as other property investments and included in tangible assets. These companies have a minor effect on Group's result and financial position. The accounting principles applied to property investments are explained later in this document.

Financial instruments

Financial assets

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

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

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

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

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

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

Cash and cash equivalents

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

Financial liabilities

Group’s liabilities are classified under “Other financial liabilities”, recognized initially at fair value and subsequently at amortized cost. If the principal paid or received for a liability is more or less than the nominal value of the liability, the liability is recognized at the amount received. The difference between the nominal value and the amount initially recognized on the balance sheet is amortized over the term of the loan. It is recognized as either an expense or an expense deduction and recorded as an increase or decrease in the book value of the liability. Correspondingly, transaction costs related to the issuance of a liability are amortized using the effective interest method over the term of the liability.

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

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

Financial derivatives

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

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

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

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

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

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

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

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

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

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

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

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

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

The fair values of derivative contracts, most of which consist of plain vanilla interest rate swaps, as well as unquoted fixed-rate liabilities and receivables, are calculated by discounting future cash flows to the present by using market rates. A margin based on the counterparty’s credit risk has been added to the market rates (Euribor and swap rates). When valuing currency and interest rate swaps, currency rates at the time of valuation have also been considered.

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

Intangible assets

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

Tangible assets

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

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

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

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

Rental income from investment properties, maintenance charges and other expenses, as well as depreciation and capital gains, are recognized in “Net profits from investment properties”. Costs and depreciation related to properties in Hypo Group’s own use are recognized in “Other operating expenses”.

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

A small share of the home purchases are based on the Hypo Partial Ownership concept. In practice, this means that Hypo and its customer (private individual) jointly own the home. The partial ownership agreement enables customers to purchase the entire home or sell their share to Hypo. The purchase price has been agreed in advance between parties with binding effect. Moreover, Hypo has concluded so called umbrella agreements with separate construction companies. Hypo has agreed on buying certain housing units at a predetermined price from new buildings at the construction stage

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

The fair values of property investments are included in the notes to the consolidated Financial Statements. The fair values of housing units have mainly been calculated based on Statistics Finland’s statistics on the prices of dwellings in the fourth quarter of 2015, in which dwellings are divided into categories based on type and location. The fair values of flats purchased a year or less than a year ago are assumed to be equal to their acquisition prices. The fair value of land is its acquisition cost adjusted for the increase in the cost of living, which equals the land’s redemption price.

Other tangible assets

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

Voluntary pension benefits

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

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

Taxes

Taxes in the financial year

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

Deferred tax receivables and liabilities

The Financial Statements of the parent company includes, in accordance with section 46 of the Business Income Tax Act, a credit loss provision and the revaluation reserves based on revaluations related to properties, as well as the surplus from the pension foundation, the fair value reserve based on the valuation of available-for-sale investments and interest rate swaps, as well as the revaluation reserves based on revaluations related to properties, which are all recognized at values adjusted for deferred taxes on the consolidated balance sheet. The offset entries are recognized in deferred tax receivables and liabilities.

Recognition principles

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

Segment reporting

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

NOTES TO THE CONSOLIDATED INCOME STATEMENT

€ unless otherwise indicated.

1 Breakdown of interest income and expenses by balance sheet item

	2016	2015
Receivables valued at allocated acquisition cost		
Receivables from credit institutions	1 752,78	-3 163,63
Receivables from the public and public sector entities	18 011 695,73	19 333 139,16
Debt securities held to maturity		73 641,79
Total	18 013 448,51	19 403 617,32
Debt securities available for sale	537 083,49	706 346,53
Derivative contracts	710 942,29	170 923,96
Negative interest expenses of finacial liabilities	76 385,24	
Other interest income	613 870,37	679 088,45
Total interest income	19 951 729,90	20 959 976,26
Liabilities valued at allocated acquisition cost		
Liabilities to credit institutions	-793 082,99	-1 332 712,01
Liabilities to the public and public sector entities	-5 609 904,54	-5 941 164,58
Debt securities issued to the public	-5 024 957,84	-6 561 122,03
Subordinated liabilities	-454 622,57	-616 504,35
Total	-11 882 567,94	-14 451 502,97
Derivative contracts	-2 468 334,20	-1 499 675,58
Negative interst income of cash and cash equivalents	-213 739,06	
Other interest expenses	-897,56	-434 973,46
Total interest expenses	-14 565 538,76	-16 386 152,01

2 Fee income and expense

	2016	2015
From lending and deposits	1 856 423,38	1 418 505,13
From legal assignments	296 093,54	199 097,02
From residential property trustee service	2 011 809,94	1 279 042,40
From other operations	352 770,82	500 306,53
Total fee income	4 517 097,68	3 396 951,08
Other fee expenses	-77 646,96	-53 035,71
Total fee expenses	-77 646,96	-53 035,71

3 Net income from currency opetarions and securities trading

	2016	2015
Gains and losses from disposals of financial instruments (net)		
Net income arising from items recognised based on the fair value option	-71 133,98	37 332,58
Non-hedging derivative contracts	-113 164,00	
Gains and losses arising from measurement at fair value (net)		
Net income arising from items recognised based on the fair value option	-211 662,55	-606 854,78
Non-hedging derivative contracts	-126 253,06	
Net income from securities trading	-522 213,59	-569 522,20
Net income from currency operations	71,27	453,71
Total net income from currency operations and securities trading	-522 142,32	-569 068,49

4 Net income form available-for-sale financial assets

	2016	2015
Capital gains from debt securities	3 634 499,62	2 474 218,27

5 Net income from hedge accounting

	2016	2015
Change in fair value, hedging items	59 483,68	
Change in fair value, hedging instruments	-113 200,96	
Total	-53 717,28	0,00

6 Net income from investment properties

	2016	2015
Rental income	2 612 130,24	3 175 477,67
Capital gains (losses)	2 446 877,40	3 981 153,21
Other income	777 073,75	317 500,98
Maintenance charges and other maintenance costs paid From investment properties that have accrued rental income during the period	-849 282,31	-611 389,28
Other expenses	-46 834,89	-20 430,07
Depreciation according to plan	-58 684,97	-73 238,72
Total	4 881 279,22	6 769 073,79

7 Other operating income

	2016	2015
Rental income, property assets in own use	9 132,00	7 110,00
Other income	-25 176,71	-13 957,01
Total	-16 044,71	-6 847,01

8 Other operating expenses

	2016	2015
Rental expenses	-132 836,34	-144 172,41
Expenses from properties in own use	-52 317,05	-55 637,11
Other expenses	-919 890,52	-546 662,84
Total	-1 105 043,91	-746 472,36

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

9 Depreciation and impairment losses on tangible and intangible assets

	2016	2015
Depreciation according to plan	-327 974,44	-375 132,06

10 Impairment losses on loans and other commitments and other financial assets

	2016	2015
On receivables from the public and public sector entities		
Agreement-specific impairment losses	-289 983,62	-35 467,29
Deductions	21 280,81	41 428,53
Total	-268 702,81	5 961,24

11 Income taxes

	2016	2015
Breakdown of taxes in the income statement		
Tax expense based on taxable income for the financial period	-1 025 787,66	-814 490,31
Change in deferred taxes	-202 813,85	-506 486,37
Taxes from previous periods	-291,30	6 117,30
Taxes in the income statement	**-1 228 892,81**	**-1 314 859,38**
Reconciliation of taxes		
Profit before taxes	7 346 894,41	7 444 188,43
Tax-free income	-1 029 636,34	-850 969,64
Non-deductible expenses	50 445,02	32 169,42
Adjustment made to previous period	-148 074,88	16 225,26
Recognition of previously unrecorded tax losses	-61 620,66	-36 730,08
Total	**6 158 007,56**	**6 604 883,39**
Taxes calculated using the tax rate of 20 %	-1 231 601,51	-1 320 976,68
Taxes from previous periods	-291,30	6 117,30
Other items	3 000,00	
Taxes in the income statement	**-1 228 892,81**	**-1 314 859,38**

12 Information concerning product groups asn geographical market areas

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

	2016				
	Combined amount of income	Operating profit	Total assets	Total liabilities	Personnel
Lending and deposits and other housing products and services	19 072 728	7 089 061	2 304 982 031	2 196 330 326	59
Other operations	285 097	257 834	236 418	44 193	
	19 357 825	7 346 894	2 305 218 449	2 196 374 519	59

	2015				
	Combined amount of income	Operating profit	Total assets	Total liabilities	Personnel
Lending and deposits and other housing products and services	16 825 144	7 107 029	1 959 077 239	1 857 679 965	58
Other operations	468 207	415 709	400 398	247 684	
	17 293 350	7 522 738	1 959 477 637	1 857 927 648	58

NOTES TO THE CONSOLIDATED BALANCE SHEET

13 Liquid assets

	2016	2015
Receivables from central bank	120 200 000,00	170 000 000,00

14 Cash and cash equivalent in the cash flow statement

	2016 Balance sheet value	2015 Balance sheet value
Liquid assets	120 200 000,00	170 000 000,00
Debt securities eligible for refinancing with central banks	291 927 798,00	270 650 476,00
Receivables from credit institutions	5 171 155,50	12 191 289,10
Debt securities		2 051 460,00
	417 298 953,50	454 893 225,10

15 Receivables from credit institutions (loans and receivables)

	2016			2015		
	Payable on-demand	Other than those payable on-demand	Total	Payable on-demand	Other than those payable on-demand	Total
From the central bank		17 874,87	17 874,87		786 403,29	786 403,29
From domestic credit institutions	5 150 403,17		5 150 403,17	8 631 946,42		8 631 946,42
From foreign credit institutions	2 877,46		2 877,46	2 772 939,39		2 772 939,39
Total	5 153 280,63	17 874,87	5 171 155,50	11 404 885,81	786 403,29	12 191 289,10

Receivables payable on-demand from credit institutions consist of balances of bank accounts and deposits with a maturity of no more than one banking day. Receivables other than those payable on-demand from credit institutions are fixed-term deposits with a remaining maturity of no more than three months. The receivable from the central bank is a minimum reserve deposit based on the reserve base, with a floating interest rate. There are restrictions for its use as part of liquidity.

16 Receivables from the public and public sector entities (loans and receivables)

	2016	2015
Companies and housing corporations	1 154 978 566,06	849 024 240,36
Households	635 213 943,99	552 877 611,08
Financial and insurance institutions	8 620 000,00	11 640 000,00
Non-profit organisations serving households	870 891,66	982 326,40
Foreign countries	6 756 438,00	6 187 030,00
Total	1 806 439 839,71	1 420 711 207,84
Subordinated receivables	642 560,92	686 164,62
Non perfoming loans	2 050 863,17	2 271 453,99

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

	2016	2015
Impairment losses on receivables recognised during the period		
Impairment losses at the beginning of the year	354 757,94	349 699,37
Receivable-specific impairment losses recognised during the period	289 983,62	29 923,94
Receivable-specific impairment losses reversed during the period	-21 280,81	-24 865,37
Impairment losses at the end of the year	623 460,75	354 757,94
No group-specific impairment losses have been recognised.		
Final credit losses on receivables recognized during the period	158 738,36	112 739

17 Debt securities

	2016			2015		
	Publicly quoted	Other	Total	Publicly quote	Other	Total
Issued by public sector entities						
Available for sale						
Government bonds	27 235 310,00		27 235 310,00	57 182 250,00		57 182 250,00
Other bonds issued by public sector entities	82 841 070,00		82 841 070,00	14 575 820,00		14 575 820,00
Recognised based on the fair value option						
Government bonds	80 827 400,00		80 827 400,00	60 815 500,00		60 815 500,00
Other bonds issued by public sector entities	6 053 700,00		6 053 700,00	6 006 840,00		6 006 840,00
Those issued by other than public sector entities						
Recognised based on the fair value option						
Bonds issued by banks	23 599 710,00		23 599 710,00	40 181 296,00		40 181 296,00
Available for sale						
Bonds issued by banks	65 328 808,00		65 328 808,00	83 855 410,00		83 855 410,00
Other debt securities	6 041 800,00		6 041 800,00	10 084 820,00		10 084 820,00
Total debt securities	291 927 798,00	0,00	291 927 798,00	272 701 936,00	0,00	272 701 936,00
Subordinated receivables			0,00			0,00
Receivables eligible for refinancing with central banks			291 927 798,00			270 650 476,00

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

18 Shares and holdings (financial assets available for sale)

	2016			2015		
	Publicly quoted	Other	Total	Publicly quoted	Other	Total
Shares and holdings, available for sale		132 374,82	132 374,82		132 374,82	132 374,82
Of which at acquisition cost		132 374,82	132 374,82		132 374,82	132 374,82
Of which in credit institutions		108 500,00	108 500,00		108 500,00	108 500,00

19 Derivative contracts

	2016		2015	
	Book value		Book value	
	Assets	Liabilities	Assets	Liabilities
Hedging derivatives				
Interest rate swaps, cash flow hedge accounting model, fair value		714 461,90		1 822 127,20
Interest rate swaps, fair value hedge accounting model, fair value	477,68	622 124,22		
Interest retae and currency swaps, cash flow hedge accounting model, fair value				2 900 408,86
Non-hedging derivatives				
Interest rate swaps, fair value	137 898,01	3 199 746,44	510 379,50	904 887,05
	138 375,69	4 536 332,56	510 379,50	5 627 423,11
Interest rate and currency swaps, interest carried forward	380 917,34	668 029,22		890 375,21
Total	519 293,03	5 204 361,78	510 379,50	6 517 798,32

	2016			
Remaining maturity	less than one year	1-5 years	>5 years	Total
Nominal values of the underlying instruments	40 000 000,00	320 000 000,00	190 634 500,00	550 634 500,00
Fair value, assets		96 302,05	42 073,64	138 375,69
Fair value, liabilities	392 010,39	1 218 146,00	2 926 176,17	4 536 332,56

	2015			
Remaining maturity	Less than one year	1-5 years	>5 years	Total
Nominal values of the underlying instruments	79 427 687,66	125 000 000,00	61 000 000,00	265 427 687,66
Fair value, assets			510 379,50	510 379,50
Fair value, liabilities	3 096 813,67	1 838 553,67	692 055,77	5 627 423,11

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

20 Intangible assets

	2016	2015
IT programs and projects	1 814 028,34	1 630 287,48
Other intagible assets	998 610,42	297 521,47
	2 812 638,76	1 927 808,95
Amount of agreement-based commitments concerning acquisition of intangible assets	0,00	368 200,00

21 Tangible assets

	2016	2015
Investment properties and investment property shares, balance sheet value		
Land and water areas	11 549 131,87	26 632 022,52
Buildings	1 028 527,03	1 184 392,96
Shares and holdings in housing property corporations	49 113 721,33	39 968 340,41
Total balance sheet value	**61 691 380,23**	**67 784 755,89**
Total fair value of investment properties	65 084 959,14	73 893 953,98
of which share based on assessments of a qualified third-party valuer	10 803 712,27	17 733 548,51

	2016	2015
Non-cancellable land lease agreementst		
Rental receivables within one year	339 043,92	1 201 106,76

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

	2016	2015
Agreement-based obligations of investment properties		
Potential redemptions of partially owned housing units and those to be completed	563 177,00	809 174,48
Liabilities related to construction	2 181 921,00	2 181 921,00
Total	2 745 098,00	2 991 095,48

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

	2016	2015
Other properties and shares in housing property corporations, balance sheet value		
In own use		
Land and water areas	687 017,74	734 648,83
Buildings	177 662,89	204 586,44
Total balance sheet value	**864 680,63**	**939 235,27**
Total fair value of other properties	3 536 468,37	3 611 023,01

22 Changes in intangible and tangible assets during the financial period

	Intangible assets	Investment properties and investment property shares	Other properties and housing property shares	Other tangible assets	Total tangibles
Acquisition cost 1 January 2016	**3 429 564**	**70 016 698**	**1 006 522**	**2 359 259**	**73 382 479**
Increases, new acquisitions	1 314 702	12 600 473		106 854	**12 707 326**
Deductions	-198 456	-18 120 114	-74 555	-14 200	**-18 208 868**
Acquisition cost 31 December 2016	**4 545 809**	**64 497 058**	**931 967**	**2 451 912**	**67 880 937**
Accumulated depreciation and impairment losses 1 Jan 2016	1 501 755	503 475	67 287	2 028 754	**2 599 515**
Accumulated depreciation of deductions and transfers	-603				**0**
Depreciation for the period	232 018	10136,96		86 422	**96 559**
Accumulated depreciation and impairment losses 31 December 2016	**1 733 170**	**513 612**	**67 287**	**2 115 176**	**2 696 074**
Revaluation reserve 1 December 2016		-1 728 468			**-1 728 468**
Adjustments to the revaluation reserve for the period		-563 598			**-563 598**
Book value 31 December 2016	**2 812 639**	**61 691 380**	**864 681**	**336 737**	**62 892 798**
Acquisition cost 1 January 2015	**2 170 197**	**55 237 743**	**897 274**	**2 219 762**	**58 354 779**
Increases, new acquisitions	1 259 367	18 331 827	109 248	206 263	**18 647 338**
Deductions		-3 552 871		-66 767	**-3 619 638**
Acquisition cost 31 December 2015	**3 429 564**	**70 016 698**	**1 006 522**	**2 359 259**	**73 382 479**
Accumulated depreciation and impairment losses 1 Jan 2016	1 221 650	503 475	54 636	1 946 377	**2 504 488**
Depreciation for the period	280 105		12 651	82 377	**95 028**
Accumulated depreciation and impairment losses 31 December 2016	**1 501 755**	**503 475**	**67 287**	**2 028 754**	**2 599 515**
Revaluation reserve 1 December 2016		-377 414			**-377 414**
Adjustments to the revaluation reserve for the period		-1 351 054			**-1 351 054**
Book value 31 December 2015	**1 927 809**	**67 784 756**	**939 235**	**330 505**	**69 054 496**

23 Other assets

	2016	**2015**
Defined benefit pension plans/surplus	5 659 976,36	7 350 302,36
Other receivables	3 579 529,12	679 376,82
Total	9 239 505,48	8 029 679,18

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

24 Deferred income and advances paid

	2016	**2015**
Interest receivables	3 933 676,13	3 125 600,20
Other deferred income	2 030 751,53	515 103,96
Total	5 964 427,66	3 640 704,16

25 Deferred tax receivables and liabilities

	Tax receivable in 2016		Tax liability in 2016		
	Included in the Financial Statements of separate companies	Total Group	Included in the Financial Statements of separate companies	Based on consolidation	Total Group
Deferred tax on the pension foundation's surplus		0,00		1 131 995,57	1 131 995,57
Deferred tax on the old revaluation reserve for property investments		0,00	560 839,46	-274 667,80	286 171,66
Deferred tax on the fair value reserve	299 536,13	299 536,13	109 577,36		109 577,36
Deferred tax on credit loss provisions		0,00	7 914 685,45		7 914 685,45
Total	299 536,13	299 536,13	8 585 102,27	857 327,77	9 442 430,04

	Tax receivable in 2015		Tax liability in 2015		
	Included in the Financial Statements of separate companies	Total Group	Included in the Financial Statements of separate companies	Based on consolidation	Total Group
Deferred tax on the pension foundation's surplus		0,00		1 470 060,77	1 470 060,77
Deferred tax on the old revaluation reserve for property investments		0,00	673 559,01	-175 462,77	498 096,24
Deferred tax on the fair value reserve	577 761,31	577 761,31	37 042,20		37 042,20
Deferred tax on credit loss provisions		0,00	7 214 685,45		7 214 685,45
Total	577 761,31	577 761,31	7 925 286,66	1 294 598,00	9 219 884,66

26 Debt securities issued to the public

	2016		2015	
	Book value	Nominal value	Book value	Nominal value
Other than those payable on-demand				
Bonds	699 076 233,30	700 155 000,00	521 878 568,91	522 329 962,20
Certificates of deposit and commercial papers	111 433 329,49	111 500 000,00	69 451 337,15	69 500 000,00
Total	810 509 562,79	811 655 000,00	591 329 906,06	591 829 962,20

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

27 Other liabilities

	2016	2015
Other liabilities	8 660 046,37	7 862 377,14

28 Deferred expenses and advances received

	2016	2015
Interest liabilities	2 500 904,34	3 412 139,49
Advance payments received	64 770,11	66 047,43
Tax liability based on taxes for the period	436 389,30	357 627,39
Other deferred expenses	1 638 225,58	2 373 530,14
Total	4 640 289,33	6 209 344,45

29 Subordinated Liabilities

	2016		2015	
	Book value	Nominal value	Book value	Nominal value
Debenture loans	8 980 060,25	8 983 600,00	13 469 688,07	13 475 400,00

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

30 Liabilities according to the Act on Resolution of Credit Institutions and Investment Firms

	2016	2015
Unsecured libilities	517 924 777,23	755 732 392,57
of which the remaining maturity is less than one year	243 681 625,20	457 251 124,99
Unsecured subordinated libilities ecl. liabilities recognized in own funds	8 980 060,25	13 469 688,07
of which the remaining maturity is less than one year	4 488 792,05	8 978 535,73
Common Equity Tier 1 (CET1) capital	87 802 614,18	98 102 903,64
Liabilities according to the Act on Resolution of Credit Institutions and Investment Firms total	335 973 031,43	564 332 564,36

31 Maturity distribution of financial assets and liabilities

2016	<3 months	3–12 months	1–5 years	5–10 years	>10 years	Total
Receivables from credit institutions	5 171 156					5 171 156
Receivables from the public and public sector entities	23 472 000	72 354 000	463 666 914	476 564 000	770 382 925	1 806 439 840
Debt securities			203 469 780	88 458 018		291 927 798
Total	28 643 156	72 354 000	667 136 694	565 022 018	770 382 925	2 103 538 793
Liabilities to credit institutions	6 797	22 658 200	85 438 920	9 982 587		118 086 504
Liabilities to the public and public sector entities	873 078 643	318 983 371	38 592 573	864 706		1 231 519 294
Debt securities issued to the public	58 148 390	193 424 364	499 049 501	59 887 308		810 509 563
Subordinated liabilities		4 491 268	4 488 792			8 980 060
Total	931 233 830	539 557 204	627 569 786	70 734 600	0	2 169 095 421

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

2015	<3 months	3–12 months	1–5 years	5–10 years	>10 years	Total
Receivables from credit institutions	12 191 289					12 191 289
Receivables from the public and public sector entities	14 619 000	62 256 000	387 333 977	361 038 000	595 464 231	1 420 711 208
Debt securities			149 230 990	123 470 946		272 701 936
Total	26 810 289	62 256 000	536 564 967	484 508 946	595 464 231	1 705 604 433
Liabilities to credit institutions	1 012 120	48 824 563	91 571 527	9 977 538		151 385 748
Liabilities to the public and public sector entities	753 574 878	282 982 072	35 262 016	1 152 385		1 072 971 351
Debt securities issued to the public	69 078 102	180 452 984	341 798 820			591 329 906
Subordinated liabilities			13 469 688			13 469 688
Total	823 665 100	512 259 619	482 102 051	11 129 924	0	1 829 156 694

32 Breakdown of balance sheet items to those denominated in domestic and foreign currency

	2016 Domestic currency	Foreign currency	Total	2015 Domestic currency	Foreign currency	Total
Receivables from credit institutions	5 171 156		5 171 156	12 191 289		12 191 289
Receivables from the public and public sector entities	1 806 439 840		1 806 439 840	1 420 711 208		1 420 711 208
Debt securities	291 927 798		291 927 798	272 701 936		272 701 936
Derivative contracts	138 376		138 376	510 380		510 380
Other assets	201 541 281		201 541 281	253 362 825		253 362 825
Total	2 305 218 449	0	2 305 218 449	1 959 477 637	0	1 959 477 637
Liabilities to credit institutions	118 086 504		118 086 504	112 561 185	38 824 563	151 385 748
Liabilities to the public and public sector entities	1 231 519 294		1 231 519 294	1 072 971 351		1 072 971 351
Debt securities issued to the public	810 509 563		810 509 563	564 124 944	27 204 962	591 329 906
Derivative contracts and liabilities held for trading	4 536 333		4 536 333	2 727 014	2 900 409	5 627 423
Other liabilities	31 722 826		31 722 826	36 761 294		36 761 294
Equity	108 843 930		108 843 930	101 549 989		101 549 989
Total	2 305 218 449	0	2 305 218 449	1 890 695 778	68 929 934	1 959 625 712

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

33 Fair values of financial assets and liabilities

	Classification	Fair value determination principle	2016 Book value	2016 Fair value	2015 Book value	2015 Fair value
Liquid assets	Loans and receivables		120 200 000	120 200 000	170 000 000	170 000 000
Receivables from credit institutions	Loans and receivables		5 171 156	5 171 156	12 191 289	12 191 289
Receivables from the public and public sector entities	Loans and receivables		1 806 439 840	1 808 096 723	1 420 711 208	1 422 965 542
Debt securities	Financial assets available for sale	1	181 446 988	181 446 988	165 698 300	165 698 300
Debt securities	Items recognised based on the fair value option	1	110 480 810	110 480 810	107 003 636	107 003 636
Shares and holdings	Financial assets available for sale	2	132 375	132 375	132 375	132 375
Derivative contracts		2	138 376	138 376	510 380	510 380
Total			2 224 009 544	2 225 666 427	1 876 247 187	1 878 501 521
Liabilities to credit institutions	Other liabilities		118 086 504	118 086 504	151 385 748	151 385 748
Liabilities to the public and public sector entities	Other liabilities		1 231 519 294	1 233 565 491	1 072 971 351	1 074 580 906
Debt securities issued to the public	Other liabilities		810 509 563	810 509 563	591 329 906	591 329 906
Derivative contracts		2	4 536 333	4 536 333	5 627 423	5 627 423
Subordinated liabilities	Other liabilities		8 980 060	8 980 060	13 469 688	13 469 688
Total			2 173 631 753	2 175 241 308	1 834 784 117	1 836 393 671

Derivative contracts consist of interest rate and currency swaps with various counterparties for hedging purposes. Liabilities to financial institutions mainly consist of unsecured long-term promissory note loans with floating interest rates with various counterparties. Liabilities to the public and public sector entities consist of deposits from the public and long-term financing contracts concluded with certain counterparties.

In the table above, fair value determination principles are presented only with regard to items that, after their initial recognition, are measured at fair value on the balance sheet on a recurring or non-recurring basis. The principles are as follows:
1: Quoted prices in active markets
2: Verifiable price, other than quoted
3: Unverifiable market price

34 Netting of financial assets and liabilities

2016	Gross amounts	Netted on the balance sheet	Amounts shown on the balance sheet	Amounts not offset on the balance sheet: Financial instruments	Cash collateral received/paid	Net amount
Derivative liabilities	4 582 410	-46 078	4 536 333	-	-	4 536 333
Derivative receivables	138 376	-	138 376	-	-	138 376

2015	Gross amounts	Netted on the balance sheet	Amounts shown on the balance sheet	Amounts not offset on the balance sheeta: Financial instruments	Cash collateral received/paid	Net amount
Derivative liabilities	5 627 423	-	5 627 423	-	-	5 627 423
Derivative receivables	510 380	-	510 380	-		510 380

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

35 Non-eliminated items included in the consolidated finacial statements where the counterparty is a subsidiary or associated company of the Group

	2016	2015
Balance sheet items		
Receivables from the public and public sector entities		
Other than those payable on-demand		442 835,82
Tangible assets		
Investment properties and investment property shares	6 787 653,13	6 908 683,73
Income statement items		
Interest income		9 422,52
Net income/maintenance charges from investment properties	-54 834,23	-92 393,03

36 Basic capital

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

37 Pension obligations

The statutory pension security of employees is arranged through pension insurance, and it is recognised as a defined contribution plan in accordance with IFRS accounting practice. Voluntary supplementary pension security is arranged through Department A of the pension foundation and recognised as a defined benefit pension plan. The wealth of the A-section exceeds the amount of liabilities.
Department M, a new department of the pension foundation, was established at the end of 2010. This offered the opportunity to use insurance premiums to improve employees' pension security. Department M is recognised as a defined contribution pension plan.

	2016	2015
Defined benefit pension plans in the income statement		
Service cost	25 106	20 654
Net interest, expense (+) or income (-)	-182 774	-222 688
Net actuarial profit (-)/loss (+) recognised during the period	-232 007	-405 604
Adminstration cost	80 000	75 475
Transfer to Department M	143 498	75 677
Pension expenses (+)/income (-)	-166 177	-456 486

The changes due to the amendments to the Employees Pensions Act, amount of EUR 60,441, have been accounted for a change in actuarial assumptions and are presented through comprehensive income.

	2016	2015
Defined benefit pension plans on the balance sheet		
Present value of obligations	6 688 030	6 489 090
Fair value of plan assets	-14 204 509	-13 839 392
Surplus (-)/deficit (+)	-7 516 479	-7 350 302
Payments from the plan (return of surplus)	1 856 502	
Net liability (+)/receivable (-)	-5 659 977	-7 350 302
Change in the net liability/receivable recognised on the balance sheet		
Net liability (+)/receivable (-) on 1 January	-7 350 302	-6 893 816
Pension expenses (+)/income (-)	-166 177	-456 486
Payments from the plan (return of surplus)	1 856 502	
Net liability (+)/receivable (-) on 31 December	-5 659 977	-7 350 302
Group's own financial instruments included in plan assets		
Deposits in Suomen AsuntoHypoPankki	579 400,45	1 525 297,30
Most significant actuarial assumptions, %		
Discount rate	1,75	2,50
Expected returns on assets	1,75	2,50
Future pay rise assumption	2,10	2,50
Inflation	1,10	1,50

Sensitivity of the projected benefit obligations to changes in the principal assumptions
Year 2016

		Effect on defined benefit obligation	
	Change in assumption	Increase	Decrease
Discount rate	0,50 %	-5,79 %	6,40 %
Rate of wage increases	0,50 %	0,37 %	-0,36 %
Rate of pension increases	0,50 %	6,00 %	-5,66 %

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

Sensitivity of the projected benefit obligations to changes in the principal assumptions
Year 2015

		Effect on defined benefit obligation	
	Change in assumption	Increase	Decrease
Discount rate	0,50 %	-5,60 %	6,17 %
Rate of wage increases	0,50 %	0,39 %	-0,37 %
Rate of pension increases	0,50 %	5,17 %	-4,77 %

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

NOTES CONCERNING GROUP'S COLLATERAL AND CONTINGENT LIABILITIES

38 Collateral pledged

Collateral pledged for own liabilities	2016 Other collaterals	2015 Other collaterals
Liabilities to the central bank	106 943 532	20 031 583
Debt securities issued to the public	494 069 965	
Derivative contracts	1 419 550	
Encumbered assets total	602 433 047	20 031 583

39 Information concerning asset encumbrance

2016

(€ million)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
A - Assets	455,9	52,9	1735,3	237,5
Equity instruments			0,1	0,1
Debt securities	52,9	52,9	237,4	237,4
Other assets, including lending	397,9	--	1510,6	--

B - Collateral received

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

C - Encumbered assets and associated liabilities	Liabilities associated with encumbered assets	Encumbered assets
Book value of selected financial liabilities	52,5	57,7
Debt securities issued to the public	301,7	420,4
Derivative contracts	0,2	0,3
Total	328,7	455,9

D - Information on the importance of encumbrance

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

2015

(€ million)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
A - Assets	21,9	22,0	1730,7	232,1
Equity instruments			0,1	0,1
Debt securities	21,9	22,0	232,0	232,0
Other assets, including		--	1498,6	--

B - Collateral received

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

C - Encumbered assets and associated liabilities	Liabilities associated with encumbered assets	Encumbered assets
Book value of selected financial liabilities	35,0	21,9

D - Information on the importance of encumbrance

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

40 Leasing and other liabilities

	2016	**2015**
Minimum rents paid on the basis of leasing and other rental agreements		
Within one year	107 015,34	107 105,34
Within more than a year and at most within five years	19 512,64	46 830,34
Total	126 527,98	153 935,68

41 Off-balance sheet commitments

	2016	**2015**
Commitments given on behalf of a customer for the benefit of a third party		
Guarantees and other liabilities	2 181 921,00	2 181 921,00
Irrevocable commitments given on behalf of a customer		
Granted but unclaimed loans	301 014 751,85	218 022 741,08
Potential redemptions of partially owned housing units and those to be completed	563 177,00	809 174,48
Total	303 759 849,85	221 013 836,56

NOTES CONCERNING THE AUDITOR'S FEE

42 Auditor's fees

	2016	**2015**
Fees paid to the auditor for the audit	48 218,84	47 015,02
Fees paid to the auditor for tax counselling		0,00
For other services	17 076,83	13 122,79
Total	65 295,67	60 137,81

NOTES CONCERNING GROUP'S PERSONNEL AND INSIDERS

43 Number of personnel

	2016	**2015**
	Average number	Average number
Permanent full-time personnel	50	52
CEO and COO	2	2
Temporary personnel	7	4
Total	59	58

44 Salaries and remuneration paid to management

	2016	2015
Total salaries paid to the CEO and COO	433 440,00	424 160,00

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

Board of Directors	2016	2015
Annual remuneration of the chairman	22 991,82	21 718,62
Annual remuneration of the vice chairman	19 408,30	18 454,52
Other members, annual remuneration	82 694,55	82 499,32
Other members, annual remuneration	125 094,67	122 672,46
Supervisory Board		
Annual remuneration of the chairman	5 990,00	5 860,00
Annual remuneration of the vice chairman	3 000,00	3 360,00
Other members, annual remuneration	30 170,00	27 620,00
Total	39 160,00	36 840,00

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

45 Loans granted to management and other insiders

	2016	2015	Change
CEO and COO	482 952,00	530 828,71	-47 876,71
Board of Directors	290 826,00	156 000,00	134 826,00
Supervisory Board	1 664 256,04	3 108 778,61	-1 444 522,57
Total	2 438 034,04	3 795 607,32	-1 357 573,28

46 Deposits by management and other insiders

	2016	2015	Change
CEO, COO, Board of Directors and Supervisory Board	685 216,20	717 307,14	-32 090,94
The Mortgage Society of Finland's pension foundation	927 880,37	1 801 748,04	-873 867,67
Total	1 613 096,57	2 519 055,18	-905 958,61

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

47 Loans granted to subsidiaries and associated companies

	2016	2015
Bostadsaktiebolaget Taos	2 102 517,17	2 291 695,43
As Oy Kauniaisten Kokka	0,00	1 950 818,59
Total	2 102 517,17	4 242 514,02

The loans have been granted on market terms.

NOTES CONCERNING GROUP'S SHAREHOLDINGS

48 Information about subsidiaries and associated companies **2016**

	Domicile	Holding, %	Equity	Result for the period	Assets	Liabilities	Income
Subsidiaries							
Suomen AsuntoHypoPankki Oy	Helsinki	100,0	21 394 491,36	4 060 943,48	1 228 189 106,49	1 206 794 615,13	6 845 912,49
Bostadsaktiebolaget Taos	Helsinki	54,6	5 922 469,95	257 091,38	8 048 601,69	2 126 131,74	747 621,98
Associated companies							
As Oy Vanhaväylä 17	Helsinki	48,2	1 546 755,67	7 442,82	1 548 140,95	1 385,28	53 629,43
As Oy Eiran Helmi	Helsinki	32,4	2 360 397,90	3 580,50	2 368 257,36	7 859,46	84 640,89
As Oy Hyvinkään Munckinkatu 30	Hyvinkää	25,0	571 090,81	5,92	573 400,93	2 310,12	12 253,84
As Oy Helsingin Lauttasaarenranta	Helsinki	22,8	*)				

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

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

2015

	Domicile	Holding, %	Equity	Result for the period	Assets	Liabilities	Income
Subsidiaries							
Suomen AsuntoHypoPankki Oy	Helsinki	100,0	17 333 547,88	3 288 619,33	1 063 445 856,54	1 046 112 308,66	5 605 820,47
Bostadsaktiebolaget Taos	Helsinki	59,5	5 665 378,57	-1 017 103,80	7 994 061,52	2 328 682,95	753 264,55
Associated companies							
As Oy Vanhaväylä 17	Helsinki	48,2	1 539 312,85	20 616,39	1 544 748,29	5 435,44	55 894,98
As Oy Eiran Helmi	Helsinki	33,8	2 356 817,40	-6 812,45	2 363 301,88	6 484,48	80 885,32
As Oy Hyvinkään Munckinkatu 30	Hyvinkää	25,0	571 084,89	7,48	572 396,43	1 311,54	11 337,73
As Oy Kauniaisten Kokka	Kauniainen	22,7	4 218 695,75	28,44	6 173 165,04	1 954 469,29	62 177,62
As Oy Helsingin Lauttasaarenranta	Helsinki	22,6	*)				

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

The Articles of Association of Bostadsaktiebolag Taos include a provision that a shareholder may have 20 per cent of the votes at a maximum.

*) Company has just been completed and it has no consolidated Financial Statements.

49 NOTES CONCERNING CONTROLLED ENTITIES OF THE GROUP

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

50 Own funds and capital ratios

	2016	2015
Equity	108 843 930,33	101 401 914,12
Fair value reserve	591 246,35	1 413 786,09
Revaluation of defined pension plans	-1 717 441,60	-1 531 836,00
Surplus from defined pension plans	-4 527 981,09	-5 880 241,89
Common Equity Tier 1 (CET1) capital before regulatory adjustments	103 189 753,99	95 403 622,32
Intangible assets	-2 250 111,01	-1 542 247,16
Common Equity Tier 1 (CET1) capital	100 939 642,98	93 861 375,16
Additional Tier 1 (AT1) capital	0,00	0,00
Tier 1 capital (T1 = CET1 + AT1)	100 939 642,98	93 861 375,16
Tier 2 (T2) capital	0,00	0,00
Total Capital (TC = T1 + T2)	100 939 642,98	93 861 375,16
Total risk-weighted items	743 003 695,82	682 150 760,94
of which credit risk	714 038 750,00	653 785 258,02
of which market risk	0,00	2 359,94
of which operational risk	28 964 945,82	28 363 142,98
of which other risks	0,00	0,00
Common Equity Tier 1 (CET1) in relation to risk-weighted items (%)	13,59	13,76
Tier 1 capital (T1) in relation to risk-weighted items (%)	13,59	13,76
Total capital (TC) in relation to risk-weighted items (%)	13,59	13,76
Minimum capital	5 000 000,00	5 000 000,00
Capital conservation buffer in relation to risk-weighted items (%)	2,50	2,50
Countercyclical capital buffer in relation to risk-weighted items (%)	0,00	0,00

The own funds and capital adequacy are presented in accordance with the EU's Capital Requirements Regulation (575/2013).

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

As of 1.1.2015 the unrealised gains and losses are included in CET1.

Until 31.12.2014 the unrealised losses were included in CET1 and the unrealised gains in T2.

51 Credit and counterparty risks, balance sheet and off-balance sheet items according to the standard method

	2016			
	Original exposure pre conversion factors	Exposure value	Risk weighted exposure amount after SME-supporting factor	Own funds requirement
Exposures to central governments or central banks	229 020 080,00	277 958 270,00		
Exposures to regional governments or local authorities	82 866 563,00	93 893 983,00		
Exposures to public sector entities	13 515 474,00	13 515 474,00	2 703 095,00	216 247,60
Exposures to credit institutions	65 147 811,00	84 149 302,00	26 356 105,00	2 108 488,40
Exposures to corporates	144 735 393,00	80 939 954,00	76 275 923,00	6 102 073,84
Retail exposures	65 075 180,00	27 480 596,00	19 330 793,00	1 546 463,44
Exposures secured by mortgages on immovable property	1 902 052 405,00	1 734 863 294,00	514 426 452,00	41 154 116,16
Exposures in default	2 059 697,00	1 675 055,00	1 716 382,00	137 310,56
Exposures in the form of covered bonds	33 845 051,00	33 845 051,00	3 384 505,00	270 760,40
Other items	66 604 701,00	66 604 701,00	66 604 701,00	5 328 376,08
Total	2 604 922 355,00	2 414 925 680,00	710 797 956,00	56 863 836,48

	2015			
	Original exposure pre conversion factors	Exposure value	Risk weighted exposure amount after SME-supporting factor	Own funds requirement
Exposures to central governments or central banks	289 817 386,00	324 751 057,00		
Exposures to regional governments or local authorities	11 074 208,00	11 074 208,00		
Exposures to public sector entities	17 566 167,00	17 566 167,00	1 903 829,00	152 306,32
Exposures to credit institutions	109 598 595,00	130 579 910,00	44 485 950,00	3 558 876,00
Exposures to corporates	160 212 328,00	122 013 748,00	117 129 203,00	9 370 336,24
Retail exposures	68 870 535,00	31 263 629,00	22 154 907,00	1 772 392,56
Exposures secured by mortgages on immovable property	1 415 396 283,00	1 302 460 970,00	391 999 649,00	31 359 971,92
Exposures in default	2 312 074,00	1 955 675,00	2 001 017,00	160 081,36
Exposures in the form of covered bonds	28 244 416,00	28 244 416,00	2 824 442,00	225 955,36
Other items	69 866 248,00	69 866 248,00	69 866 248,00	5 589 299,84
Total	2 172 958 240,00	2 039 776 028,00	652 365 245,00	52 189 219,60

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

52 Maximum amount of credit and counterparty risk

	2016				
	Book values, gross	Book value	Average book value during the period	Interest receivables	Impaired receivables
Lending					
Not fallen due	1 735 061 142,14	1 732 624 485,17	1 484 261 241,45	2 436 656,97	
Past due by 1–2 days*	50 262 273,40	50 091 857,99	102 639 828,75	170 415,41	
Past due by 3 days–1 month	17 144 640,06	17 114 959,09	17 684 321,76	29 680,97	
Past due by 1–3 months	4 900 348,19	4 891 226,39	7 107 490,30	9 121,80	
Non-performing, past due by less than 3 months**	81 858,39	81 858,39	40 929,20		74 166,68
Non-performing, past due by more than 3 months	1 969 004,78	1 709 619,34	1 878 795,67	26 398,98	232 986,46
Total lending	1 809 419 266,96	1 806 514 006,37	1 613 612 607,11	2 672 274,13	307 153,14
Other					
Receivables from credit institutions					
Not fallen due	5 171 155,50	5 171 155,50	8 681 222,30		
Debt securities					
Not fallen due	292 784 702,55	291 927 798,00	282 314 867,00	856 904,55	
Shares and holdings	132 374,82	132 374,82	132 374,82		
Derivative contracts					
Not fallen due	138 375,69	138 375,69	324 377,60		
Total other	298 226 608,56	297 369 704,01	291 452 841,72	856 904,55	0,00
Non-performing loans/total lending, %	0,11 %	0,10 %			

Information concerning recognition of impairment losses related to lending is presented in Notes 10 and 16 and the accounting policies.

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

**) Includes loans that have not fallen due or are past due and that are likely not to be repaid

	2015				
	Book values, gross	Book value	Average book value during the period	Interest receivables	Impaired receivables
Lending					
Not fallen due	1 237 414 349,22	1 235 897 997,72	1 138 149 748,29	1 516 351,50	
Past due by 1–2 days*	155 853 877,43	155 187 799,51	148 345 418,70	666 077,92	
Past due by 3 days–1 month	18 307 670,53	18 253 684,42	15 464 469,37	53 986,11	
Past due by 1–3 months	9 360 969,81	9 323 754,20	8 210 844,50	37 215,61	
Non-performing, past due by less than 3 months**			108 936,32		
Non-performing, past due by more than 3 months	2 271 453,99	2 047 971,99	2 097 083,75	18 601,60	204 880,40
Total lending	1 423 208 320,98	1 420 711 207,84	1 312 376 500,93	2 292 232,74	204 880,40
Other					
Receivables from credit institutions					
Not fallen due	12 191 289,10	12 191 289,10	23 718 188,85		
Debt securities					
Not fallen due	273 493 294,56	272 701 936,00	194 431 500,81	791 358,56	
Shares and holdings	132 374,82	132 374,82	122 904,82		
Total other	286 329 297,98	285 535 979,42	218 527 784,23	791 358,56	0,00
Non-performing loan/total lending, %	0,16 %	0,14 %			

Information concerning recognition of impairment losses related to lending is presented in Notes 10 and 16 and the accounting policies.

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

**) Includes loans that have not fallen due or are past due and that are likely not to be repaid

53 Forbearances

	2016					
	Performing and past due receivables			Non-performing loans		
	Receivables with modified terms	Refinancing	Total	Receivables with amended terms	Refinancing	Total
Forbearances 1 Jan 2016	3 154 925,32	562 034,00	3 716 959,32	61 559,13	62 053,20	123 612,33
Changes during the financial period	284 881,09	-73 017,50	211 863,59	165 229,15	-3 037,32	162 191,83
Book value of forbearances 31 dec 2016	3 439 806,41	489 016,50	3 928 822,91	226 788,28	59 015,88	285 804,16
Interest income recognised from receivables during the financial period	46 472,45	9 826,87	56 299,32	2 107,79	1 224,32	3 332,11
Impairment recognised on receivables during the financial period			0,00			0,00

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

	2015					
	Performing and past due receivables			Non-performing loans		
	Receivables with modified terms	Refinancing	Total	Receivables with amended terms	Refinancing	Total
Forbearances 1 Jan 2015	2 064 539,10	400 120,46	2 464 659,56			0,00
Changes during the financial period	1 090 386,22	161 913,54	1 252 299,76	61 559,13	62 053,20	123 612,33
Book value of forbearances 31 dec 2015	3 154 925,32	562 034,00	3 716 959,32	61 559,13	62 053,20	123 612,33
Interest income recognised from receivables during the financial period	46 828,39	10 587,91	57 416,30	613,80	795,12	1 408,92
Impairment recognised on receivables during the financial period			0,00			0,00

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

54 Concentration of lending

	2016	%	2015	%
Lending by category				
Households	641 087 307	35,5 %	559 064 641	39,4 %
Housing companies	1 067 885 892	59,1 %	764 338 932	53,8 %
Private companies (housing investors)	86 907 989	4,8 %	83 374 748	5,9 %
Other	10 558 651	0,6 %	13 932 887	1,0 %
Total	1 806 439 840	100,0 %	1 420 711 208	100,0 %
Lending by purpose of use				
Permanent dwelling	1 738 057 795	96,2 %	1 346 069 447	94,7 %
Consumer loan	34 346 366	1,9 %	36 081 556	2,5 %
Holiday home	7 969 612	0,4 %	7 285 395	0,5 %
Other	26 066 067	1,4 %	31 274 810	2,2 %
Total	1 806 439 840	100,0 %	1 420 711 208	100,0 %
Lending by province				
Uusimaa	1 436 803 583	79,5 %	1 160 995 230	81,7 %
Rest of Finland	369 636 257	20,5 %	259 715 978	18,3 %
Total	1 806 439 840	100,0 %	1 420 711 208	100,0 %

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

55 Liquidity risk

Cash flows from financial liabilities and derivatives 2016	<3 months	3-12 months	1-5 years	5-10 years	Total
Liabilities to credit institutions	2 205 603	22 331 064	91 717 774	1 119 067	117 373 508
Liabilities to the public and public sector entities	874 047 675	324 367 940	33 722 654	379 505	1 232 517 774
Debt securities issued to the public	58 342 562	196 958 149	504 731 573	60 150 000	820 182 284
Derivative contracts	438 478	647 001	3 331 159	298 259	4 714 896
Subordinated liabilities		4 811 052	4 650 786		9 461 839
Guarantees, granted but undrawn loans, rental liabilities and potential redemptions of partially owned housing units	303 759 850				303 759 850
Total liabilities	1 238 794 168	549 115 206	638 153 946	61 946 830	2 488 010 151

Cash flows from financial liabilities and derivatives 2015	<3 months	3-12 months	1-5 years	5-10 years	Total
Liabilities to credit institutions	4 711 765	52 855 997	92 473 832	3 787 709	153 829 303
Liabilities to the public and public sector entities	755 192 675	288 791 828	30 369 503	547 230	1 074 901 236
Debt securities issued to the public	69 559 541	185 092 439	346 757 818		601 409 798
Derivative contracts	205 999	4 714 199	2 136 397	-1 114 855	5 941 740
Subordinated liabilities		4 972 520	9 463 696		14 436 215
Guarantees, granted but undrawn loans, rental liabilities and potential redemptions of partially owned housing units	223 928 499	76 433			224 004 932
Total liabilities	1 053 598 480	536 503 415	481 201 246	3 220 084	2 074 523 225

56 Information concerning interest rate risk

Repricing time in 2016 (EUR million)	<3 months	3-12 months	1-5 years	5-10 years	Total
Floating-rate items					
Receivables	794,4	1 274,2			2 068,6
Liabilities	425,2	731,0			1 156,1
Net	369,2	543,3	0,0	0,0	912,5
Fixed-rate items					
Receivables	0,5	0,8	370,3	200,0	571,6
Liabilities	482,5	460,5	461,1	140,9	1 545,0
Net	-482,0	-459,7	-90,8	59,1	-973,4

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

Sensitivity analysis

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

Changes in repricing dates and sensitivity analysis

Deposits payable on-demand are revised to reprice within 6 months, previously 3 months. Data in table 2015 is revised accordingly.

Repricing time in 2015 (EUR million)	<3 months	3-12 months	1-5 years	5-10 years	Total
Floating-rate items					
Receivables	926,8	823,5	0,0	0,0	1 750,3
Liabilities	697,7	435,7	0,0	0,0	1 133,4
Net	229,0	387,8	0,0	0,0	616,9
Fixed-rate items					
Receivables	2,8	12,9	120,1	91,4	227,2
Liabilities	663,4	141,5	100,5	61,0	966,5
Net	-660,6	-128,7	19,6	30,4	-739,2

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

Sensitivity analysis

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

57 Other information describing capital adequacy and risk position

Risk type	Indicator	2016	2015
Credit risk	LTV-ratio (Loan to Value, average), %	38,4	41,1
Credit risk	Non-performing loans, % of loan portfolio	0,11	0,16
Credit risk	Net impairment losses, EUR million	-0,27	0,01
Liquidity risk	Long-term funding out of total funding, %	39,9 %	39,5 %
Liquidity risk	Average maturity of liabilities, in years	2,6	1,6
Liquidity risk	LCR-ratio, %	144,3 %	128,0 %
Liquidity risk	Short-term liquidity, EUR million	421	458,6
Liquidity risk	Short-term liquidity, months	23,1	22,0
Liquidity risk	Share of short -term liquidity of the balance sheet total, %	18,3 %	23,4 %
Interest rate risk	Interest rate risk in the banking book, EUR million	-1,8	-2,9
Interest rate risk	Net Present Value risk, EUR million	-1,6	-5,5
Risk related to ownership of housing units and residential land	Book values of investemnt properties, % out of estimated fair values	2,7 %	3,5 %
Risk related to ownership of housing units and residential land	Book values of investemnt properties, % out of estimated fair values	95,0 %	90,0 %
Risk related to ownership of housing units and residential land	Occupancy rate, %	95,5 %	82,2 %
Risk related to ownership of housing units and residential land	Net profit of investment properties calculates by book value	3,8 %	4,6 %
Risk related to ownership of housing units and residential land	Average monthly rent per square metre in housing units EUR per square meter	19,19	22,42

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

NOTES CONCERNING THE CAPITAL ADEQUACY OF THE GROUP AND RISK MANAGEMENT

Risk tolerance

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

Reliable management

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

Capital adequacy management

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

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

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

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

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

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

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

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

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

Risk management and internal auditing

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

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

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

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

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

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

Business units' controls

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

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

Independent control functions

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

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

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

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

Assessment of sufficiency of risk management

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

Risk statement

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

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

Credit risk

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

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

Lending

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

As a rule, shares in housing companies or mortgage deeds registered in a residential property are required as collateral for loans. Generally, depending on the type of housing collateral, 50–70 per cent of the fair value of the site is accepted as collateral.

As a rule, fair value refers to market value, that is, the price received in a voluntary sale between parties that are independent of each other. Almost all of Hypo's personnel working in lending are certified real estate agents, which serves to reinforce Hypo's ability to independently assess the fair value of collateral. With regard to residential property collateral, the provider of the collateral is required to arrange insurance cover for the site. In case of potential neglect of insurance premiums, Hypo Group maintains a special insurance policy to secure its collateral position related to lending. Collateral for lending by Hypo must be located in Finland. In addition to housing collateral, guarantees and deposit collateral are mainly used as techniques to reduce the credit risk.

The credit decisions related to lending are based on a credit decision analysis conducted before making a decision, in compliance with the guidelines and regulations of the authorities and Hypo Group's internal guidelines. The personnel's awareness is ensured through training and compliance controls. Lending authorizations are adjusted according to the employee and their duties. In addition, Group makes use of intensive participation by operational and other management in daily lending activities, risk management analyses of the quality of the loan portfolio, and regular internal auditing of the loan and collateral process.

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

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

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

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

Loan-to-value ratio has developed positively.

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

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

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

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

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

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

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

In the MasterCard business that AsuntoHypoPankki engages in, the credit risk is borne by a card service company that does not belong to Hypo Group.

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

Realized losses

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

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

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

Operational risks

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

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

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

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

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

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

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

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

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

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

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

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

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

Liquidity risks

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

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

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

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

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

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

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

Short-term liquidity risk
The short-term liquidity risk refers to a quantitative and temporal imbalance of Group's short-term cash flow. If the risk is materialized, it means that Group will not be able to meet its payment obligations. The risk is managed by maintaining sufficient liquidity in relation to payment obligations, regulatory minimum amounts and capital needs by distributing the liquidity investments in liquid assets in accordance with the confirmed country and counterparty limits.

When assessing the amount of liquidity that is sufficient in terms of managing the liquidity risk, a potential bank run on sight deposits is taken into account, in which case the share exceeding the deposit guarantee limit of deposits payable on-demand by AsuntoHypoPankki would be withdrawn over a short period of time.

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

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

Refinancing risk
The refinancing risk – that is, the maturity imbalance between receivables and liabilities on the balance sheet – causes the risk of an increase in the refinancing costs. This imbalance is managed by concluding funding agreements that are as long-term as possible, considering the goals set for funding. When loans are granted, the maturity of the receivables is longer than the average maturity of funding, at which time funding matures to be refinanced several times during the term resulting from the contracts related to the loan portfolio. The share of long-term funding of the total funding is monitored regularly.

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

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

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

Market risks

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

A change in the market value of interest-bearing contracts related to Group's business operations may result from a change in the general interest rate level, a change in the credit risk related to the counterparty, limited supply of an instrument on the market (lack of liquidity) or a combination of these. 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. 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.

The management monitors the impact of market valuations on Group's operations and key indicators, such as comprehensive income and fair value reserve, and regularly assesses the management and realization of market risks. Group does not have a trading book. However, a small trading book may be generated as a result of trading in bonds issued by Hypo on the secondary market.

Group does not have a securitization position.

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

Calculations and measurements describing the risk related to market risk have been presented in Notes 56 and 57.

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

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

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

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

Risks related to ownership of housing units and residential land

Group companies’ residential land holdings and shares in housing companies are exposed to impairment, return and damage risks as well as risks related to the concentration of ownership.

The statutory maximum for Hypo Group’s property holdings and comparable loans and guarantees granted to housing property corporations is 13 per cent of the balance sheet total. This limit forms the basis for the management of the risks related to the Group's housing and residential land holdings. The maximum amount for internal housing property holdings is kept at a lower limit than what the law requires by means of internal monitoring limits and, in practice, clearly lower than even that.

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

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

Group's housing and residential land holdings consist of leased-out sites. The majority of the sites are distributed across Finland's largest growth centers, mainly in the Helsinki Metropolitan Area. Sites located abroad are not acquired. The value of the housing units and residential land on the balance sheet corresponds to the actual value of the investments or the value that will at least be obtained for them when sold. The fair value of housing unit holdings is verified annually by making use of statistics and the certified housing property expertise of Hypo's employees and, whenever necessary, with the help of an external appraisal. In residential land holdings, the impairment risk has been eliminated by agreements.

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

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

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

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

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

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

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

Strategic risks

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

The nature of risks related to cyclical and other changes in the operating environment, as well as those affecting the availability of funding, is such that they materialize due to significant changes in the macroeconomy and cause requirements for change in 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 result from decisions made by competitors. Changes in credit institutions' regulation and supervision environment create a regulation risk that affects resourcing in Group over the short term. This risk is managed as part of strategic risks. Any decrease in public visibility and recognizability of Group is also regarded as strategic risks.

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

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

Regulation risk
Regulation risks refer to such changes in the regulatory and supervisory environment of credit institutions which are implemented in a short period of time. Rapid regulatory changes increase costs related to governance and information technology. Considering the size of the Group, these costs may be higher in proportion than those of competitors and weaken the profitability of its operations over the short term. Potential problems also include the fact that the special legislation pertaining to Hypo will not be sufficiently considered by the authorities or when setting new regulations. Rapid changes may also slow the market launch of special product and service packages and affect the Group's competitiveness in relation to other credit institutions.

Regulation risks are managed through compliance operations and human and technological resources management related to the implementation of changes and by maintaining a functional relationship with the authorities. However, the Group is aware that, over the long term, changes in the regulation and supervision environment serve to ensure that credit institution operations in general are on a healthy and profitable basis.

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

Group's recognizability
The Group's recognizability is continuously increased by means of networking, increasing the 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 the 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.

SIGNATURES OF THE FINANCIAL STATEMENTS AND THE ANNUAL REPORT 2016

Helsinki, February 27, 2017

Board of Directors

Sari Lounasmeri chair	Harri Hiltunen vice chair	Kai Heinonen
Pasi Holm	Hannu Kuusela	Teemu Lehtinen
Ari Pauna Chief Executive Officer	Elli Reunanen Chief Operating Officer	Tuija Virtanen

THE AUDITOR'S NOTE

Our Auditor's Report has been issued today.

Helsinki, March 1, 2017

PricewaterhouseCoopers Oy,
Authorised Public Accountant Firm

Juha Tuomala,
Authorised Public Accountant

Auditor's Report *(Translation of the Finnish Original)*

To the Members of the Mortgage Society of Finland

Report on the Audit of the Financial Statements

Opinion

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU

- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

What we have audited

We have audited the financial statements of the Mortgage Society of Finland (business identity code 0116931-8) for the year ended 31 December 2016. The financial statements comprise:

- the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies

- the parent company's balance sheet, income statement, statement of cash flows and notes.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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Our Audit Approach

Overview

- Overall group materiality: 1 million euros, which represents 0.04 % of total assets.

- Audit scope: The scope of the group audit has included the Mortgage Society of Finland (the parent company) and its subsidiaries.

- Impairment of loans and other receivables
- Valuation of investment properties

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality	1 million euros
How we determined it	0.04 % of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because, in our view, it is the benchmark against which the performance of the group is commonly measured by users, and is a generally accepted benchmark. The benchmark of 0.04 % used is within the range of acceptable quantitative materiality thresholds in auditing standards.

How we tailored our group audit scope

The scope of the group audit has included the Mortgage Society of Finland (the parent company) and its subsidiaries.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
Impairment of loans and other receivables	
Refer to the Group accounting policies (financial assets), note 10 Impairment losses on loans and other commitments and other financial assets, note 16 Receivables from the public and public sector entities (loans and receivables) and notes concerning the capital adequacy of the group and risk management. Credit risk is the main risk of the group's business risks. Lending is the largest business area of the group, and according to group financial statements 31.12.2016 the receivables from the public and public sector entities are 1,806 million euros, comprising around 78 % of the group balance sheet total (2,305 million euros). The Group's lending focuses on loans granted to households (private customers) and housing companies against property collateral. Credit risk is regularly measured in the group using both factors that anticipate credit risks and factors that describe the quality and distribution of the loan portfolio. At least quarterly, the group evaluates whether there is objective evidence that a single receivable or a group of receivables is impaired. If the estimate of the future cash flows of a receivable is evaluated to be lower than the book value, an impairment loss is recognised. Impairment losses on receivables are presented under "Impairment losses on credits and other commitments". The valuation of loans and other receivables is a key audit matter in the audit taking into consideration the absolute and relative size of the balance sheet	Our audit of impairment of loans and other receivables included an assessment of the valuation principles and valuation model and also testing of related processes and controls. The purpose of our testing was to ascertain that the group identifies potential bad debts in time. We also examined individual accounting entries and performed detailed substantive procedures related to the accuracy of the details used in the evaluation of the loan receivables (such as repayment history and existence of collaterals and valuations). The substantive procedures were performed on a sample basis for both impaired loans as well as for loans which had not been identified as impaired.

item, and the fact that the accounting for impairment of loan receivables requires management's judgment over timing of recognition of impairment and especially over the present value of future cash flows.

Valuation of investment properties

Refer to the group accounting policies (investment properties), note 6 Net income from investment properties, note 21 Tangible assets, note 22 intangible assets, note 22 changes in intangible assets during the financial period and notes concerning the capital adequacy of the group and risk management.

In the group financial statements 31.12.2016 property investments are divided into investment properties and other properties and totalled 62 million euros, which is around 3 % of the group balance sheet (2,305 million euros). Investment properties mainly consist of land areas intended to be used as residential property as well as shares in housing companies and investments in shares in housing companies under construction. Other properties and shares and stakes in housing property companies refer to property that is used by the Group.

The Group companies' investment properties are exposed to impairment risk. The possible need for impairment on property investments is evaluated at least once a year. If an asset item is recognized on the balance sheet at a value higher than the recoverable amount, an impairment loss is recorded.

The valuation of investment properties is a key audit matter due to the size of the balance sheet item and as the accounting for investment properties requires management's judgment over timing of recognition of impairment and especially over fair valuation of the investment properties.

In our audit of the valuation of investment properties we assessed the control environment and reviewed the valuation principles of the investment properties, impairment principles, as well as the valuation model.

We also examined individual accounting entries and performed detailed testing on a sample basis on the investment properties valuations against the results of external evaluations or the group's valuation model.

In addition to the matters described above, we have no other key audit matters to report with regard to our audit of the parent company financial statements.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance good auditing practice, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our auditor's report thereon. We obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the information included in the report of the Board of Directors, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 1 March 2017

PricewaterhouseCoopers Oy
Authorised Public Accountants

Juha Tuomala
Authorised Public Accountant (KHT)