HYPO

THE MORTGAGE SOCIETY OF FINLAND

ANNUAL REPORT 2017

CONTENTS

Hypo – Urban bank

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

We offer safe, easy and profitable deposit accounts for customers interested in saving. Institutional investors may also invest in Hypo's bonds.

Established already 157 years ago, the Mortgage Society of Finland operates in the century-old Hypo House in the heart of Helsinki. Approximately 50 home financing specialists are at your service in our two-story office. Our customers have access to secure, user-friendly and modern online and telephone banking services.

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

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

Hypo's operations are founded on its strong capital adequacy. Profitable growth over the long term strengthens capital adequacy and enables us to continuously develop our services. Our customer promise –a secure way for better living – guides all of our operations. Nearly 29,000 customers, mainly in growth centers, have already taken us up on our promise.

Hypo's consolidated balance sheet stood at EUR 2.8 billion at the end of 2017. Its loan portfolio was EUR 2.2 billion, and customer deposits EUR 1.5 billion. Hypo's common equity tier 1 ratio was 12.7 percent, calculated using conservative risk weights. Operating profit totaled EUR 6.7 million.

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

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

Debt free housing property assets to Finland

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

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

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

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

Hypo has developed a Loan Calculator to help housing companies to assess their possibilities for execution of necessary renovations as well as to sort out the funding needed.

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

LOANS

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

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

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

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

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

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

INVESTMENT APARTMENT LOAN
Investors are not alike. Our experts help investors to find the best solution in various financing situations.

Hypo at your service

Hypo provides diverse services for depositors. All of our customers have an opportunity to open a profitable deposit account with us easily, effortlessly and quickly. Institutional investors have an opportunity to invest in certificates of deposit, senior bonds as well as covered bonds.

Home savings accounts intended for children and teens are ideal for parents and grandparents wanting to save up and build a nest egg for their children and grandchildren to secure their future. Home savings accounts have better than average deposit interest.

DEPOSITS AND INVESTMENTS

DEPOSIT ACCOUNT

Hypo Deposit Account is a special savings account with a competitive deposit interest. It enables you to grow your contingency fund profitably and effortlessly free of fees. The Deposit Account is also flexible. You can make withdrawals without any fees and use it to manage your loan.

FIXED-TERM DEPOSIT

An easy form of investment especially for institutional investors for example for investing excess cash flows. We will agree on the deposit interest and the deposit period in advance and the deposit interest is fixed for the entire deposit period.

DEPOSIT BUTTON

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

CREDIT CARDS

HYPO MASTERCARD

Hypo MasterCard is an international and user-friendly credit card, which you can use around the world and online to pay for both small and bigger purchases securely. Our private customers can apply for the card offering special conditions only for our private customers.

HOME SAVINGS ACCOUNTS

HYPO BABY

Hypo Baby is an account that enables grandparents, godparents and other relatives to give an especially valuable gift to a child, to start saving for a first home. Hypo Baby account offers an attractive interest rate, encouraging regular saving with additional interest.

HYPO TEEN

Hypo Teen is an unique and profitable home savings account for teenagers. The account is a means for young people to start saving for their first own home at a young age. Hypo Teen can be transformed to Hypo ASP when the account holder turns 18 years.

HYPO ASP

There are several benefits to ASP savings: Through ASP saving the goal of buying your first home is reached faster and more affordably than average. Hypo's experts will draw up a savings plan and provide support when you are buying your first home.

HYPO HOUSING SITE CONCEPT

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

hypo.fi/en

Hypo is the trusted credit institution for a growing number of urban customers

This is my sixth CEO's review. Hypo's operations as a modern mortgage credit bank have stabilized and the reformed structure continues to support the growth of the business in the coming years. The targets have been set, the time has come to work for the challenges of the 2020s. A tight five-year period is long gone and this is a good opportunity to review the past as well as look ahead. In the beginning of 2020s, Hypo turns 160 years old: What will the new decade entail and how does the future of Hypo look like amid fundamental changes in financial sector?

In the course of past five years, we have received loan applications with total worth of EUR 9 billion. During this time, we have granted mortgages worth over EUR 3 billion and our loan portfolio has increased from EUR 0.73 billion to EUR 2.2 billion. Our credit exposure is EUR 2.5 billion, undrawn loans included.

The growth rates indicate that a growing number of urban citizens choose Hypo over a traditional bank to finance their home or housing company mortgage. Not everybody prefers one-stop shops and combining all their financial matters to a single provider. Rather, there is a growing desire to purchase the financial services needed from the best experts in the field.

The past five years have been all about determined growth. Post-financial crisis regulation calls for such a minimum size from an independent and self-sufficient home financing bank to be able to issue annually covered bonds fulfilling the minimum requirements. This on the other hand requires ability to sell mortgages worth one billion euros per annum.

CEO'S OVERVIEW

The ability to reach one billion in sales in the market with Europe's toughest price competition requires comprehensive brand recognition and exceptionally competent personnel throughout the organization. These two crucial elements create both excellent customer experience and highly competitive, client specific, and safe financing solutions, all of which interest a growing number of urban households and housing companies.

Hypo's growing numbers proof this. For five consecutive years, our loan portfolio has increased annually by 20 percent whereas the market growth rate has been approximately 5 percent per annum. However, the growth has been profitable in a risk-conscious manner. Exceptionally positively evolved net interest income and fee income in home financing together with Finland's lowest non-performing receivables and depreciations indicate this.

Non-performing receivables are less than ten percent of Finland's average and depreciations in practice zero. Moreover, with an LTV-ratio of the loan portfolio significantly less than 40 percent, it is safe to say that Hypo's loan portfolio is extremely healthy. Loan portfolio may be the healthiest in the urbanizing Finland and at the same time, on a very healthy level by international comparison. This is essential as funding of mortgages fast and profoundly becomes more international.

International credit rating agencies and investors have more and more influence on credit and collateral policies of Finnish banks and hence on urbanizing Finland's own housing market and housing politics. Finnish custom of discovering own political housing market solutions has come to an end.

We may no longer develop homemade systems in our own country and expect this not to affect - that is to raise - the cost of lenders' funding which in return causes the mortgage rates to increase. International investors assess the national solutions implemented by market terms and in comparison to international development. Only we are able to keep up and further build healthy Finnish housing market. At the same time through our own action we may cause ourselves even more problems. Working and healthy housing market is a stable support to urbanizing Finland, a fact that must be widely accepted.

Measured by the balance sheet, Hypo is soon to be among the ten largest financial institutions in Finland when excluding the artificial group structures. Before in size come Nordea, MuniFin and smaller commercial banks as well as OP Helsinki, OP Tampere, OP Turku and OP Oulu. Hypo's aims to be the largest genuinely independent and self-sufficient mutual bank in Finland in 2020s. The second place is achievable already in a couple of years. The first place just takes a little more time.

The growth will be accomplished by the same good ingredients we have used during the past five years. We concentrate on low risk lending and adapt to ever-tightening competition by improving our operations and increase the personal efficiency and added value of each employee.

We try to avoid at all costs the original sins of mutual banks; being without involved owners, excessive bureaucracy and concentration on management. We comply with the rules required from the listed limited companies within the limits of the special legislation pertaining to Hypo. In the absence of owners, demands of investors are emphasized. We have long been a lucrative safe haven for our investors and we tend to remain that way

Conservative lending policy and transparency are the very essence of our operations and make us stand out from our competitors. As a specialist with a single location, we are easy to understand to the very last detail. We do as we say and promise, this is easily verified. We continue on a path of determined growth in a profitable and risk-conscious manner. Know-how, brand recognition, accessibility, efficiency and profitability are crucial. We increase our performance with technology. We increase our lead in know-how. We grow our business persistently towards a benchmark sized covered bond issue. We are the lender to a growing number of urban households and housing companies, their trusted credit institution.

The year 2017 has passed. Special thanks to our customers. The bigger association of mortgage customers we are, the more competitive home financing solutions we are able to offer to our members. The same goes for our deposit bank. The more members and needs for home financing, the more competitive deposit solutions we are able to offer to the customers of the Finland's best-capitalized deposit bank.

A special thanks to Hypo's personnel and members of the administrative bodies. Determined and persistent work has required assiduous effort year after year exceeding boundaries of personal abilities and questioning one's comfort zone. Faith in renewal objectives and growth targets has been tested and, moreover, commitment has been sought. Yet, now it is safe to say that a workman is known by his work as results are starting to show. On this common effort we build our future as a mortgage credit bank of the 2020s.

I extend my warm thanks to my close colleague, Hypo's former COO Elli Reunanen. She came to Hypo in 2004 and was a member of the Board of Directors for over four years prior accepting the position of CEO of the Finnish Financial Ombudsman Bureau (Fine) last summer. I would also like to thank Hypo's long-term assigned supervisor Pauli Lundén for good and long-term cooperation. He supervised our operations during the terms of three CEOs: Risto Piepponen, Matti Inha and I, the undersigned.

Helsinki, 16 February 2018

Ari Pauna , CEO

One hundred years of Finnish housing market

Long path from a modest stove room to apartments with sauna departments

The housing market in Finland is now more functional and of higher quality than ever before in independent Finland. Over the course of a hundred years, Finland has survived challenges from deep housing deprivation, the war years, serious shortcomings in housing equipment, housing shortage caused by rent control, tightly regulated financing and the depression of the 1990s. However, the trend has been positive and current difficulties are thankfully marginal compared to the pain endured a century ago in Finland.

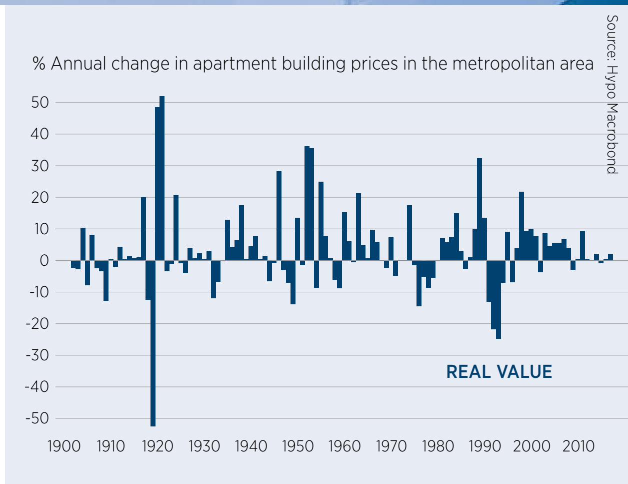
FROM CONFORMITY TO COMFORT

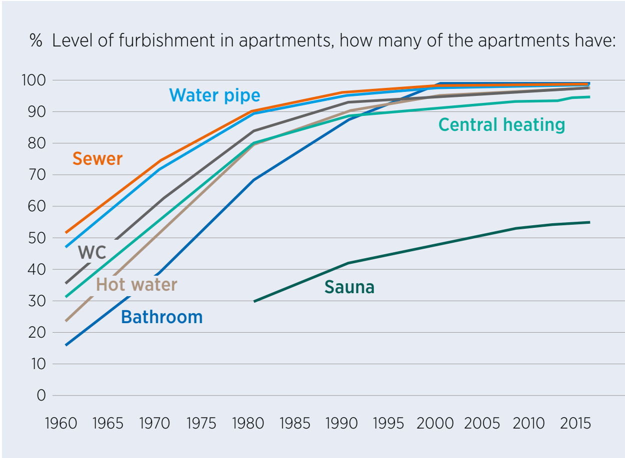
At the time of independence, the average number of people living within the same apartment in Finland was over five persons in less than two rooms. In contemporary terms, the most common way of living was in a studio rental apartment and the most common place to sleep was a bench or a thin mattress on the floor. The Second World War brought new difficulties to the housing market and made a dip to the development in the living conditions. In the war years, housing construction stopped. At the same time, the number of dwellings decreased due to the destruction of houses during the bombardments and on the other hand, Karelia, including all the houses in the region, was lost to Soviet Russia - more than 10 percent of the total population were settled to existing homes. In the 1960s, more than half of the dwellings were without running water, only one third of the homes had a lavatory while central heating and bathroom facilities were rare. Mediocre modern apartments would have been luxury homes only a generation ago. In the century-old Finland, a dwelling will most likely have a private sauna and complaints are mostly directed towards the lack of floor heating or poor quality of the kitchen apparatus than to the draining roof.

FROM TURBULENCE TO TRANQUILITY

Throughout the centuries, housing prices have moved up and down in tandem with the economic. Volatility decreased markedly during the 21st century. In recent years the most significant price observations are related to price differences between different regions rather than a strong rise or fall. The financial crisis affected only mildly the housing market, which is exceptional for an economic crisis of its magnitude.

Nominal housing prices have only fallen rarely, mainly during significant recessions in the 1930s and 1990s. The development of real prices give a more accurate picture of the housing market conditions instead of nominal prices. Otherwise, the large shifts in inflation rate will hide the true development. Housing prices have dropped three times in Finnish history: in the war years, during the oil crisis and in conjunction with the recession of the 1990s. The Finnish civil war and the Second World War devastated not only the economy but also the housing market. After peace, the recovery was fast and the previous trend





was reached quickly. The oil crisis in the 1970s led to significant inflation, which ruined the real value of assets, including apartments. The worst blow to the housing market was, however, the recession in the early 1990s. During the long and deep fall, dwellings lost more than half of their value.

Today, laws protect homeowners, buyers and sellers while digitalization has made selling a house and mortgage borrowing easier than ever before. Finland starts the next century of independence in a favorable position: the housing market is developing and improving inevitably in the wake of economic development. Congratulations to the independent Finland and to a hundred years of independent housing market!

Juhana Brotherus
Chief Economist and Research Director

The use of e-services is the new norm for customers and therefore the need for a variety of e-services is constantly growing

Finance sector has been a forerunner in e-services as electronic services were business as usual already in the 1990s. However, as 2020 approaches we are facing new opportunities as open banking grants access through banks' interfaces for third party operators, who now can create services for consumers based on banks' data. Platform and sharing economies bring new business models at our reach. AI, e-signature and national registries bring real possibilities to automate the mortgage and lending process. Finance sector is undergoing a real transformation.

In the upcoming years, Hypo is going to further develop e-services for customers. We want to offer our customers comprehensive and innovative mobile services which integrate with our banking systems better than before. First steps on this path were taken at the end of 2017 when Hypo's Loan Calculator for Housing Companies was launched. Hypo's Kotibongari (an application for shortlisting home candidates and applying a loan for it) will be launched in spring 2018 and Hypo's new Mobile Bank will be launched in summer 2018.

Try out and become a user of Hypo's e-services.

HYPO'S KOTIBONGARI

Finding a new home can be an emotional process. At stake is not only an apartment or a collateral for a loan, it is your family´s home and often the biggest personal investment of your life. Feelings and rational financial reasoning should walk hand in hand in order to ensure family's happiness and financial balance after the home purchase and beyond.

Hypo's Kotibongari helps a home seeker in balancing homeownership dreams with funding realities with an easy-to-use application. In Kotibongari, you first evaluate with a short finance quiz how big of a loan your household can bear after which you project your dream home candidates against the financial reality.

In Kotibongari you add your home candidates with only a few clicks after which the application gives you instant guidance on estimating the apartment prices. Just click on a few pros and cons in addition to snapping some extra photos and you are all set to share the home candidate with your family and other Kotibongari users. Once you have found your dream home, a loan application to Hypo is only one click away.

Kotibongari and Hypo´s other public e-services are built with top notch information security. Security is a principal theme in the planning and development. In addition, a third party information security company audits all services.

Hypo's Kotibongari is Hypo's first appstore application. Kotibongari provides e-services to a home seeker even before getting a loan is relevant. Kotibongari along with Hypo's other new e-services will bring our current and future customers new tools enabling secure way for better living.

HYPO'S LOAN CALCULATOR FOR HOUSING COMPANIES

In order to successfully meet the serious challenges of accumulation of renovation needs, accelerating indebtedness and fragmentation of housing market, housing companies are to strengthen their financial management.

Housing companies should prepare for upcoming renovations by drawing up a financing plan supporting the renovation plan. Ignorance is not a bliss; rather knowledge provides an opportunity to correctly assess the schedule and extent of the renovations.

The Loan Calculator for Housing Companies has been developed to meet this demand / fulfill this need. With the help of the Loan Calculator, housing companies are now able to evaluate their possibilities for executing the necessary renovations and to sort out the funding needed.

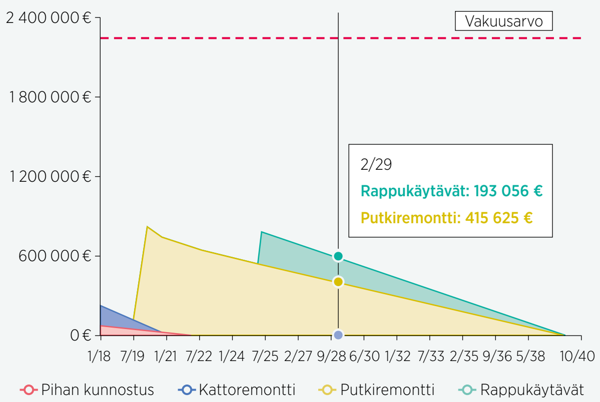
With the help of the Loan Calculator the property manager and the board can now for the first time easily compare impact of different renovation options on company's overall debt, sufficiency of collaterals and development of the charges for common expenses.

The Loan Calculator also strengthens the long term strategic planning of the company. With the help of the Loan Calculator it is much easier for the housing company to paint a picture of how the future of the company will look like, not only a few years from now, but also a few decades from now

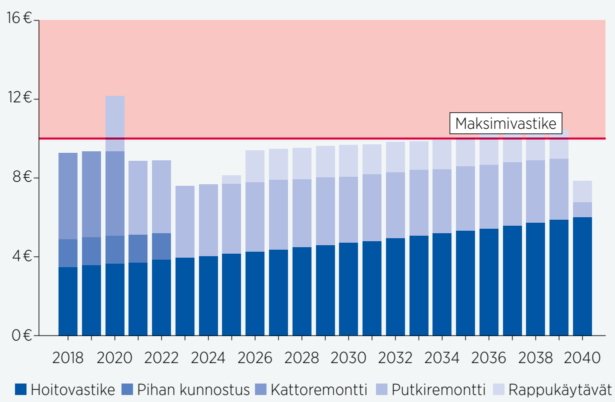
A housing company, which is financially and technically well taken cared of, is an advantage for the stakeholders and residents alike.

Hypo Loan Calculator for Housing companies was developed to help Housing companies plan the financing of major renovations and maintenance work (Available in Finnish).

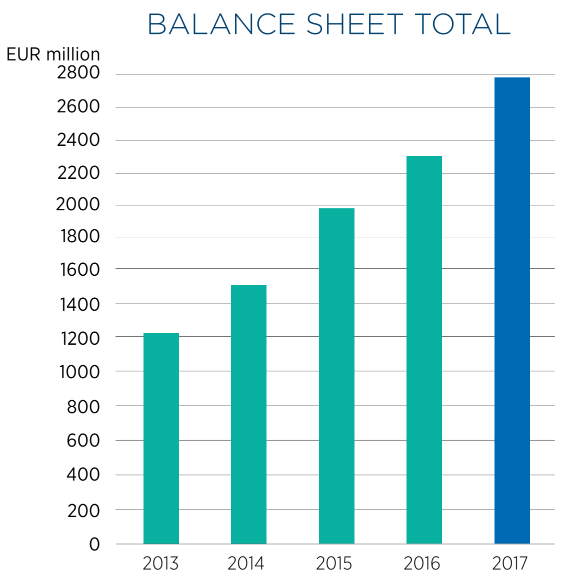
Lainayhteenveto

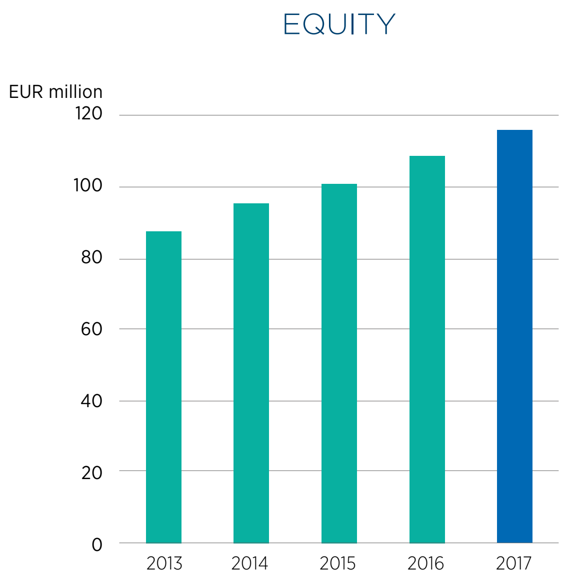


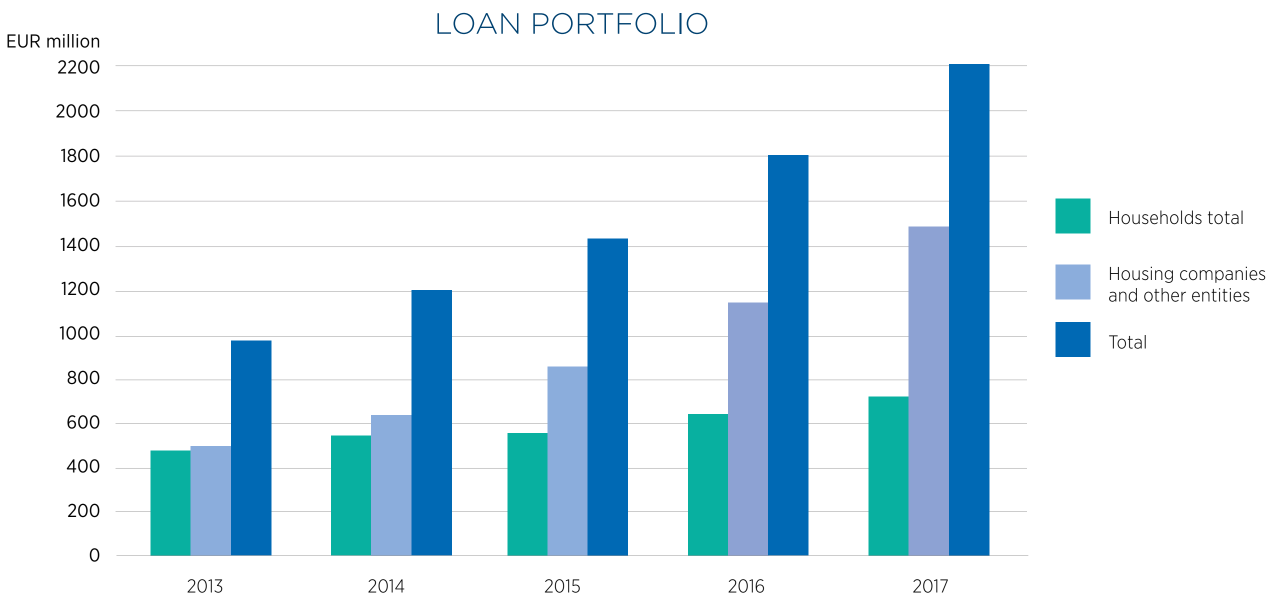
Vastikekehitys



HYPO YEAR 2017







1

JANUARY

Hypo Financial Statements Release Full Year 2016

Hypo Economic Review 1/2017

2

FEBRUARY

Credit Update event for investors

Hypo participates in Financing the Future theme publications

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

3

MARCH

Hypo Housing Market Analysis 1/2016

Hypo to manage a newly founded residential land fund

Financial Statements Full Year 2016

Annual general meeting of the Mortgage Society of Finland. Timo Aro was appointed as new member of the Supervisory Board of the Mortgage Society of Finland.

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

4

APRIL

S&P Global Ratings raises Hypo's short-term counterparty credit rating to 'A-2' from 'A-3'

S&P affirms Hypo's long-term counterparty credit rating at 'BBB' with stable outlook

Annual Report 2016

5

MAY

Our deposit bank Suomen Asuntohypopankki Oy is once again nominated by a Finnish business daily as the best bank in Finland

Hypo Housing Market Analysis 2/2017

Credit Update event for investors

Interim report Q1

6

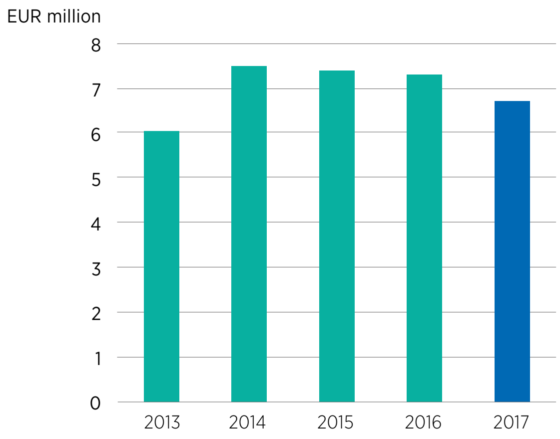
JUNE

International road show for European investors

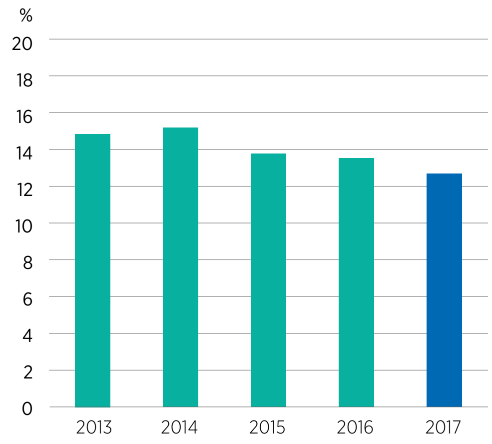
The issuance of Hypo's covered bond, EUR 250 million

Mikko Huopio is elected as a deputy to the CEO and as a member of the Board

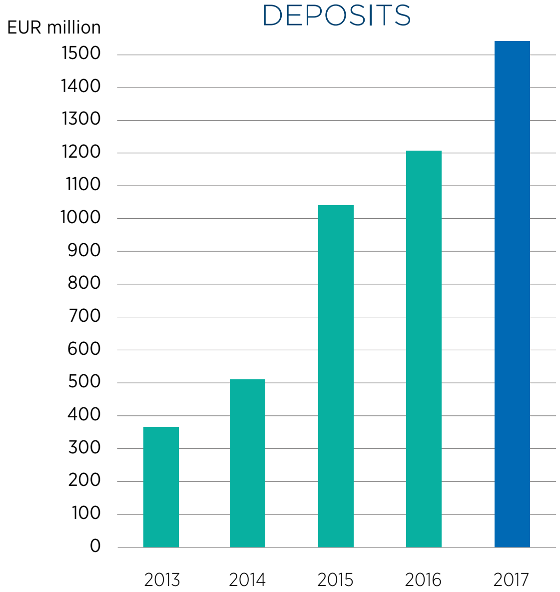
OPERATING PROFIT



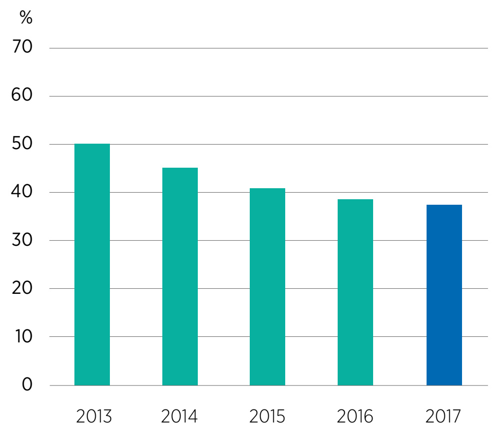
CAPITAL ADEQUACY
own funds



DEPOSITS



LOAN-TO-VALUE RATIO



7

JULY

Hypo attends SuomiAreena's housing discussion in Pori

Hypo Economic Review 2/2017

8

AUGUST

Interim Report Q2

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

9

SEPTEMBER

S&P Global Ratings affirms the stable outlook and Hypo's 'BBB' rating

Hypo Housing Market Analysis 3/2017

10

OCTOBER

Hypo's telephone banking service is reformed

Mortgage deeds registered in property converted into electronic form

EUR 50 million covered bond tap issue

Interim Report Q3

11

NOVEMBER

Hypo's Loan Calculator for Housing Companies is launched

Credit Update event for investors

12

DECEMBER

Hypo donates the funds meant for Christmas greetings to a Finnish NGO Vailla Vakinaista Asuntoa ry

Sustainability – Integral Part of Hypo's Daily Operations

As a credit institution operating since 1860, Hypo has long history in developing the Finnish society, especially in the area of housing.

Hypo started lending to housing companies in early 20th century. At the moment Hypo is a considerable lender especially in housing company renovations, such as energy efficiency enhancing plumbing, façade and window repairs. Since 2010, Hypo has granted private customers and housing companies loans intended to energy efficiency improving renovation, based on a funding agreement with Nordic Investment Bank (NIB). The amount of these green loans was appr. EUR 10 million on 31 December 2017.

As a company and employer, Hypo seeks to minimize its greenhouse gas emissions. Hypo has only one office facility in downtown Helsinki, which is easily accessible to customers and employees by public transportation. Majority of the customer services performed remotely by using various electronic channels, thus avoiding unnecessary and exhaustive traveling. Mortgage process as a whole may be executed remotely. In customer communication, electronic channels are emphasized instead of traditional paper letters.

Hypo encourages its employees to participate in meetings and seminars electronically instead of physical travelling. Employees also have possibility to work remotely. All Management group and Board of Directors meeting material are solely distributed electronically. Unnecessary office lights are always turned off for nights and weekends.

During 2017, Hypo implemented an electronic archiving solution in its deposit and loaning processes. Mortgage notes used as collateral were also converted into electronic form. Both of these solutions increase possibilities to operate electronically and decrease the amount of printed paper in a concrete manner. The use of electronic archiving solutions will be expanded to other functions and processes in the future. Group's financial information and investor material are only available online. Interim reports are no longer printed, and only minimal number of hard copies of annual reports for the financial year 2017 were printed.

Hypo is an active debator in the society and an instigator in topics related to housing finance and housing. With statements targeted to ordinary mortgage customers, Hypo has brought about several central social discourses. Topics raised are for example related to sustainable regional and urbanisation development seen from the perspective of sound and responsible banking operations.

Hypo maintains good relationships with authorities and various operators in the area of housing. Hypo promotes research actitivities on housing and regional development, by being a participant itself, too. Hypo is also a founding member in Nordic Mortgage Council, an association of Nordig mortgage lenders, and in Mortgage Bankers Association, an organization of US mortgage lenders.

Also other relationships to the surrounding society are important to Hypo. Hypo has cooperated with Perho Culinary, Tourism & Business College Ltd by recruiting banking trainees. Some of them have since been offered a permanent employment in Hypo.

Hypo complies with applicable legislation and collective bargaining as well as promotes the implementation of diversity. Among its employees, Hypo promotes principals of unbiased treatment and hiring, and gender equality which are also confirmed in Group's equality and equal opportunities planning. Hypo maintains a zero-tolerance principle for sexual harassment.

In recent years, Hypo has donated the funds meant for Christmas greetings to Vailla Vakinaista Asuntoa ry, an organization advocating the matters of homeless people.

BOARD OF DIRECTOR'S REPORT AND FINANCIAL STATEMENTS 2017

BOARD OF DIRECTOR'S REPORT

THE MORTGAGE SOCIETY OF FINLAND GROUP

The Mortgage Society of Finland Group (hereinafter "Hypo Group") Hypo is the only specialized national organization focusing in home financing and housing in Finland. Hypo Group offers its customers all types of loan services for home financing by granting loans and by developing continuously new ways and models for housing and home financing. Hypo Group has around 29,000 customers.

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

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

Group companies own 54.6 percent of the housing company Bostadsaktiebolaget Taos (hereinafter "Taos"). Taos owns and manages the land and property where Hypo's customer service facilities are located and also rents out office premises from the property.

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

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

S&P Global Ratings has assigned a 'BBB/A-2' issuer credit ratings with stable outlook to Hypo. Rating for Hypo's covered bonds is 'AAA' (S&P Global Ratings). On 26 April 2017 S&P Global Ratings (S&P) raised Hypo's short-term counterparty credit rating to 'A-2' from 'A-3'. At the same time S&P affirmed Hypo's long-term counterparty credit rating at 'BBB' with stable outlook.

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 market share and capital adequacy. The average interest rate on new mortgage loans was declining.

OPERATING ENVIRONMENT

During Hypo's 157th year of operation, housing prices in the Helsinki Metropolitan area and in other growth centers enjoyed increase while in rural areas prices dropped. Also rents continued to increase. The 12-month Euribor, the most common reference rate for lending stayed negative during the whole year. The housing loan stock continued to grow; especially the growth of the housing company loan stock was rapid.

The economic growth picked up at the end of last year. Closely monitored purchase managers indexes rose to record levels in the euro area and in the United States. The financial markets also improved and indicated continuous growth in the world economy continued. The European Central Bank kept the key interest rates unchanged and continued on-going asset purchase programs at a steady pace. Short-term interest rates that follow the ECB's policy rates remained negative without major changes. At the end of December, the 12-month Euribor stood at minus 0.19 percent.

The Finnish economy continued surprisingly strong growth momentum. For the whole year, gross domestic product grew by over 3 percent according to the preliminary data. Household and business confidence surveys remained elevated, new orders in manufacturing increased and construction grew on the back of strong urbanization trend.

Polarization deepened in the housing markets. In the Greater Helsinki Area, housing prices rose by a couple of percent since last year. Other growth centers also enjoyed increase in prices while in rural areas prices dropped by two percent. In November, the housing loan stock rose by 2.3 percent from the previous year and the average interest rate on new mortgage loans fell below 1 percent. The loan stock of housing companies continued to rise by more than 10 percent on an annual basis.

New apartments boosted housing transaction figures. In 2017, more homes were completed in the major cities than in the past 25 years. Last year, construction of over 43 000 homes begun, which will be reflected in the market in the coming years.

Rents went up in the whole country by more than 2 percent from the previous year yet the new rental apartments in the cities as well as decreasing demand in the rural areas helped to smooth the development.

Finally at the end of 2017, the anticipated news came when economic growth was evident also in the labor market. The number of employed persons rose by more than 40 000 last year, while the unemployment rate fell towards 8 percent. There was no material change in consumer purchasing power due to moderate changes in earnings level and inflation.

BALANCE SHEET AND OFF-BALANCE SHEET COMMITMENTS

Most of Hypo's assets are invested in lending, liquidity and investment properties. Balance sheet growth of EUR 487.2 million was, as expected, mainly due to the growth in core business, that is, lending. Amount of liquidity investments was increased to address the needs of the business operations. Housing and residential land holdings decreased slightly.

Group's funding operations benefit from a strong CET 1 ratio and a good liquidity position, both of which are valued by investors, and an entirely property-secured loan portfolio, as well as Hypo's investment grade credit rating. More and more international investors choose to finance Hypo's operations as covered bonds have established their position along with deposit funding. The deposits grew by EUR 328.4 million. At the end of 2017, the share of long-term deposit and other funding was 36.8% (39.9%) of total funding.

The off-balance sheet commitments consisted mainly of granted but undrawn loans.

The balance sheet total was EUR 2,792.5 million (EUR 2,305.2 million) on 31 December 2017. The off-balance sheet commitments amounted to EUR 280.1 million (EUR 303.8 million).

Lending

Hypo has an entirely property-secured loan portfolio. 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. The key financial indicators portraying the quality of the loan portfolio continued to strengthen. Its loan-to-value (LTV) ratio was 37.4 percent (38.4%). The total amount of non-performing loans, which describes the quality of the loan portfolio, was low at EUR 3.1 million (EUR 2.1 million), representing only 0.14 percent (0.11%) of the total loan portfolio.

At the end of the year, Hypo's loan portfolio stood at EUR 2,212.6 million (EUR 1,806.4 million). Granted but undrawn loans totaled EUR 275.1 million (EUR 301.0 million).

Liquidity

Group continued to strengthen its liquidity during the financial year. The cash and cash equivalents which totaled EUR 502.3 million consisted of assets distributed widely across various counterparties, and of debt securities tradable on the secondary market, of which 92% had a credit rating of at least 'AA-' or were of equivalent credit quality and 100.0% were ECB repo eligible. The Liquidity Coverage Ratio was 147.6% (144.4%). Regulatory general requirement for the liquidity coverage ratio (LCR) increased at the beginning of year to minimum level of 80 % whereas the requirement during year 2016 was 70 %.

The cash and cash equivalents in accordance with the cash flow statement, combined with current account and other binding credit facilities, totaled EUR 506,1 million (EUR 421.0 million). In addition to cash and cash equivalents and committed credit facilities, Hypo has domestic programs for issuing covered bonds, senior unsecured bonds and certificates of deposit.

Investment properties and property investments in own use

Homes and residential land owned and rented out by Hypo enables Group to offer its customers a more comprehensive selection of housing products and services. Hypo's customer service facilities and office premises in own use are located in the housing company Bostadsaktiebolaget Taos. At the end of the financial year, the fair value of property holdings was EUR 5.6 million (EUR 6.1 million) higher than their book value. Change in fair value was caused by house price increases and property holding divestments. Property investments constituted 2.2 percent (2.7 percent) of the balance sheet total, which is clearly less than the 13 percent maximum allowed in the Act on Credit Institutions. Group's housing, residential land and car park holdings decreased to EUR 59.7 million (61.7 million).

Pension benefits

The additional pension cover for Hypo's employees, which is classified as a defined benefit plan, has been arranged through Department A of Hypo's pension foundation, which was closed in 1991. The surplus from the assets and obligations of the pension foundation, which totaled EUR 6.4 million (EUR 5.7 million), is part of Group's assets and may with a separate permission from FIN-FSA be returned to the parent company thus benefiting Group's capital adequacy.

Derivative contracts

The interest rate risk related to funding and other financial instruments is managed with interest rate derivatives. The notional amount of contracts as well as their average remaining maturity increased. The changes in market interest rates cause volatility in the fair value of derivative contracts. On 31 December 2017, the balance sheet value of derivative receivables was EUR 0.3 million (EUR 0.1 million), and that of derivative liabilities was EUR 6.9 million (EUR 4.5 million).

Deposits

Group's financing position remained stable, and deposit funding increased in comparison to the previous year. The Bank lowered Prime rate by 0.10 percentage points to 0.30 percent. The decrease was based on the development of general market rates and came into effect as of 3 March 2017. Deposits grew to EUR 1,540.4 million (EUR 1,203.1 million), representing 58.2 percent (56.9 percent) of total funding. The ratio between deposits and loans increased to 143.6 percent (150.2 percent).

Covered bonds and other funding

In June, the Mortgage Society of Finland issued a covered bond with a nominal amount of EUR 250.0 million. In October a EUR 50.0 tap issue followed increasing the issue's nominal amount. The proceeds were used for Hypo's general lending purposes and for refinancing of existing senior debt and other maturing funding.

The outstanding amount of bonds and certificates of deposits on 31 December 2017 was EUR 987.2 million (EUR 810.5 million). Hypo Group's funding totaled EUR 2,645.5 million (EUR 2,169.1 million).

EQUITY

The changes in equity are presented in more detail in the Financial Statements for 2017 under "Statement of changes in equity between 1 January and 31 December 2017."Equity stood at EUR 115.8 million at the end of the financial year (EUR 108.8 million). The figure includes Hypo's basic capital of five million euros. The Mortgage Society of Finland is is a mutual company governed by its members.

CAPITAL ADEQUACY

Group's Common Equity Tier 1, CET 1, in relation to total risk was 12.7% on 31 December 2017 (13.6% on 31 December 2016). Own funds was EUR 115.8 million (EUR 108.8 million). Minimum CET1 requirement is 10.5 percent. Group's leverage ratio at the end of the year was 3.7% (4.2%).

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. Disclosures required under the EU Capital Requirements Regulation Part Eight are published in the consolidated Financial Statements.

HYPO GROUP'S RESULT AND PROFITABILITY

Group's operating profit for the financial period 1 January to 31 December 2017 was EUR 6.7 million (EUR 7.3 million for 1 January to 31 December 2016). An increasing amount of operating profit originated from core business operations. Net interest income continued to grow. Operating profit included nearly EUR 2 million less net income from investment properties than the reference financial period. Expenses grew moderately despite the increase in Contribution to Financial Stability Authority.

Income totaled EUR 17.7 million (EUR 17.8 million) and expenses EUR 11.1 million (EUR 10.4 million). Group's cost-to-income ratio was 62.5% (57.1%).

Income

Net interest income strengthened and grew to EUR 9.0 million (EUR 5.4 million) due to loan portfolio growth and lower funding costs. Net fee and commission income totaled EUR 3.5 million (EUR 4.4 million). Decrease in fee and commission income resulted from intensified competition in land trustee services. Net income from investment properties (housing units and residential land) amounted to EUR 2.9 million (EUR 4.9 million). Capital gains from the sales of investment properties decreased as envisaged, totaling 0.6 million (EUR 2.4 million). Capital gains generated from liquidity investments and interest rate swaps hedging the portfolio totaled to 2.2 million euros (3.1. million).

Expenses

Administrative expenses totaled EUR 9.0 million (8.7 million). Salaries and indirect employee costs increased by EUR 0.3 million in comparison to the previous year, constituting 70.2 percent (67.5 percent) of total administrative expenses. Savings were achieved in other administrative costs compared with previous year. Other administrative costs amounted to EUR 2.7 million (EUR 2.8 million).

Depreciation amounted to EUR 0.5 million (EUR 0.3 million) and consisted mainly of items related to start the mortgage banking and other system investments.

Other operating expenses totaled EUR 1.6 million (EUR 1.1 million) as a result of growing contribution payments to the Financial Stability Fund and other regulatory fees.

Loan impairments

Loan impairments during the financial period totaled EUR 0.0 million (EUR 0.3 million).

Comprehensive income

Group's comprehensive income was EUR 7.0 million (EUR 7.7 million). Group's profit for the period, net of income taxes for the period was EUR 5.5 million (EUR 6.1 million). Income taxes totaled EUR 1.1 million (EUR 1.2 million). Comprehensive income includes profit for the financial period as well as the change in the fair value reserve EUR 0.7 million (EUR 1.4 million) and the revaluation of defined benefit pension plans EUR 0.7 million (EUR 0.2 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. Changes caused by amendments in actuary assumptions in defined benefit pension plan are recognized as other comprehensive income.

KEY FINANCIAL INDICATORS 2013–2017

Group	IFRS 2013	IFRS 2014	IFRS 2015	IFRS 2016	**IFRS 2017**
Turnover, EUR million	27.1	32.7	33.0	32.4	**29.2**
Operating profit/profit before appropriations and taxes, EUR million	6.0	7.5	7.4	7.3	**6.7**
Operating profit/turnover, %	22.2	22.9	22.5	22.6	**22.7**
Return on equity (ROE), %	5.8	6.7	6.2	5.8	**4.9**
Return on assets (ROA), %	0.5	0.5	0.4	0.3	**0.2**
Equity ratio, %	7.2	6.4	5.2	4.7	**4.1**
Cost-to-income ratio, %	57.4	56.4	55.2	57.1	**62.5**
Non-performing loans, % of loan portfolio	0.14	0.23	0.16	0.11	**0.14**
Loan-to-value ratio (average LTV), %	50.0	44.9	41.1	38.4	**37.4**
Loans/Deposits, %	271.8	237.3	136.7	150.2	**143.6**
Key figures as set out in EU's Capital Requirements regulation and in national legislation					
Leverage Ratio, %		5.2	4.3	4.2	**3.7**
Common Equity Tier 1 (CET1) ratio, %	14.7	15.1	13.8	13.6	**12.7**
Capital adequacy, %	14.7	15.2	13.8	13.6	**12.7**
Total Capital, EUR million	84.4	90.6	93.9	100.9	**106.1**
Minimum requirement of Total Capital, EUR million*	45.8	47.6	71.6	78.0	**87.9**
Common Equity Tier 1 (CET1), EUR million	84.2	89.8	93.9	100.9	**106.1**
LCR-ratio, %			128.0	144.0	**147.6**
Other key figures					
Receivables from the public and public sector entities	977.9	1,204.0	1,420.7	1,806.4	**2,212.6**
Deposits (incl. deposits of financial institutions)	359.7	507.4	1,040.0	1,203.0	**1,540.4**
Balance sheet total, EUR million	1,219.6	1,499.9	1,959.5	2,305.2	**2,792.5**
Average number of personnel	36	52	55	57	**58**
Salaries and remuneration, EUR million	2.9	4.1	3.8	3.9	**4.3**

* Since the beginning of 2015 the total capital adequacy requirement was 10.5%, prior to that 8%. Hypo Group's credit institutions have not been set a countercyclical capital buffer requirement.

DEFINITIONS OF ALTERNATIVE PERFORMANCE MEASURES

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

Turnover	Interest income + income from equity investments + fee income + net income from available-for-sale financial assets + net income from currency operations and securities trading + net income from hedge accounting + income from investment properties + other operating income	
Operating profit/profit before appropriations and taxes, EUR million	Interest income + income from equity investments + fee income + net income from available-for-sale financial assets + net income from currency operations and securities trading + net income from hedge accounting + income from investment properties + other operating income – (administrative expenses + depreciation and impairment losses on tangible and intangible assets + other operating expenses+ impairment losses on loans and other commitments)	
Operating profit/Turnover, %	Operating profit ――― turnover	x 100
Return on equity % (ROE)	Operating profit - income taxes ――― Equity + accumulated appropriations less deferred tax liabilities (average total at the beginning and end of the year)	x 100
Return on assets % (ROA)	Operating profit - income taxes ――― Average balance sheet total (average total at the beginning and end of the year)	x 100
Equity ratio, %	Equity + accumulated appropriations less deferred tax liabilities ――― Balance sheet total	x 100
Cost-to-income ratio, %	Administrative expenses + depreciation and impairment losses on tangible and intangible assets + other operating expenses ――― Net interest income + income from equity investments + net fee 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	x 100
LTV-ratio (Loan to Value, average), %	Receivables from the public and public sector entities ――― Fair value of collateral received against the receivables from the public and public sector entities 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.	x 100
Loans/deposits %	Receivables from the public and public sector entities ――― Deposits	x 100
Deposits out of total funding, %	Deposits ――― Total funding Total funding includes liabilities to credit institutions, liabilities to the public and public sector entities, debt securities issued to the public as well as subordinated liabilities.	x 100
Long-term funding out of total funding, %	Total funding with a remaining maturity of 12 months ――― Total funding Total funding includes liabilities to credit institutions, liabilities to the public and public sector entities, debt securities issued to the public as well as subordinated liabilities.	x 100
Average number of personnel	Number of personnel includes those in employment relationship during the financial year (excl. The CEO and deputy to the CEO). Average number of personnel is calculated by dividing the sum of the number of permanent full-time personnel at the end of each month by the total number of months.	
Salaries and remuneration, EUR million	Total of personnel's salaries and remuneration.	

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

Non-performing assets, % of the loan portfolio	Receivables from the public and public sector entities deemed unlikely to be paid + receivables past due and unpaid over 90 days / Receivables from the public and public sector entities	x 100
	Non-performing assets are presented in accordance with the EU's Capital Requirements Regulation (575/2013).	
LCR-ratio, %	Liquid assets / Outflow of liquidity – Inflow of liquidity (within 30 days)	x 100
	LCR-ratio is calculated in accordance with the EU's Capital Requirement Regulation CRR (EU 575/2013).	
Leverage Ratio, %	Equity + accumulated appropriations less deferred tax liabilities / Balance sheet total	x 100
Common Equity Tier 1 (CET1) ratio %	Common Equity Tier 1, CET1 / Total risk	x 100
	The capital requirement for total risk is calculated using the standard method. The capital requirement for operational risk is calculated using the basic method.	

DESCRIPTION OF ALTERNATIVE PERFORMANCE MEASURES

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

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

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

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

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

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

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

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

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

Average number of personnel describes the personnel resources available.

Salaries and remuneration, EUR million 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 PERIOD

There have been no significant changes in Hypo's or Group's future prospects nor financial position since the end of the financial period from 1 January 2017 to 31 December 2017.

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

FUTURE OUTLOOK

Finnish economy develops positively in 2018, which has positive repercussions on housing market and loan demand. The urbanization in Finland continues and supports the housing and mortgage markets in the biggest growth centers yet, at the same time, the decline of regions experiencing net population outflows continues. Uncertainties in the European and world economies may weaken the outlook.

Following the increase in loan portfolio and net interest income, Hypo's core business' share of the profit for the financial period keeps growing. The operating profit for 2018 is expected to reach at least the 2017 level. Hypo concentrates on its core business operations, whereupon risk level of lending is expected to become more moderate and capital adequacy to remain almost unchanged.

BOARD'S PROPOSAL FOR THE USE OF PROFITS

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

The Board of Directors proposes that EUR 10,721.51 of Hypo's result for 2017 (EUR 21,443.02) 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. The provision of investment services has ended in 2017.

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 audit and risk management systems related to financial reporting process, have been published on its website (http://www.hypo.fi/en) 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

During financial year, the average number of permanent employees was 50 (50) whereas the average number of fixed-term employees was 8 (7). Total of combined person years was 58 (57). At the end of the financial year, permanent employees numbered 51 (48) while the number of fixed-term employees was 6 (10). These figures do not include the CEO and deputy to the CEO. All employment contracts were full-time contracts.

Five new employees were hired for permanent employment during the financial year, three temporary employment relationship were made permanent and six 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, 65 percent work in direct customer service duties and 35 percent in administration. The average age of employees is 44.6 years. At the end of the year, the youngest employee was 25.1 years of age and the oldest was 60.7. The average length of an employment relationship is 7.7 years. Of all employees, 37 percent are men and 63 percent are women. Four of the five 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, 41 percent hold a higher education degree and 55 percent have graduated from a university of applied sciences (polytechnic) or completed upper secondary education. Of the women employed by Hypo Group, 28 percent hold a higher education degree and 66 percent have graduated from a university of applied sciences (polytechnic) or completed upper secondary education. For the men, the proportions are 63 and 37 percent, respectively. The above mentioned figures do not include temporary staff or the CEO.

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 76 people.

Helsinki, 27 February 2018

Board of Directors

GROUP'S DEVELOPMENT PER QUARTER

€ 1,000	10-12/2017	7-9/2017	4-6/2017	1-3/2017	10-12/2016
Interest income	5,323.1	5,426.7	4,900.4	4,764.4	4,991.4
Interest expenses	-2,611.4	-3,097.9	-2,717.9	-2,996.1	-3,215.4
NET INTEREST INCOME	**2,711.6**	**2,328.8**	**2,182.5**	**1,768.3**	**1,776.0**
Income from equity investments					
From other companies				39.9	
Fee income	853.5	829.8	1,080.1	854.6	906.3
Fee expenses	-19.2	-22.7	-28.9	-22.5	-16.4
Net income from currency operations and securities trading					
Net income from securities trading	-136.2	-116.3	821.5	-147.6	500.4
Net income from available-for-sale financial assets	530.5	541.3	360.6	317.1	439.8
Net income from hedge accounting	6.8	1.3	-32.7	-2.5	-11.2
Net income from investment properties	773.8	546.3	449.6	1,154.3	692.4
Other operating income	-33.3	6.7	111.3	-2.4	-9.6
Administrative expenses					
Personnel expenses					
Salaries and remuneration	-1,290.0	-1,064.4	-1,397.9	-1,216.2	-1,275.7
Indirect personnel expenses					
Pension expenses	-411.2	-215.1	-276.4	-232.4	-379.8
Other indirect personnel expenses	-72.9	-63.4	-15.4	-66.6	-94.0
Other administrative expenses	-712.3	-614.0	-655.0	-706.2	-849.3
Total administrative expenses	-2,486.5	-1,956.9	-2,344.7	-2,221.4	-2,598.8
Depreciation and impairment losses on					
tangible and intangible assets	-139.4	-140.5	-107.8	-87.3	-90.9
Other operating expenses	-309.0	-247.0	-394.1	-626.1	-231.4
Impairment losses on loans and other commitments	-10.7	4.1	6.7	5.9	-266.7
OPERATING PROFIT	**1,742.1**	**1,774.9**	**2,104.0**	**1,030.4**	**1,090.0**
Income taxes	-311.8	-315.0	-356.9	-160.4	-145.2
PROFIT FROM OPERATIONS AFTER TAXES	**1,430.3**	**1,460.0**	**1,747.2**	**870.0**	**944.8**
PROFIT FOR THE PERIOD	**1,430.3**	**1,460.0**	**1,747.2**	**870.0**	**944.8**

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT, IFRS

€ 1,000	10-12/2017	7-9/2017	4-6/2017	1-3/2017	10-12/2016
Profit for the period	1,430.3	1,460.0	1,747.2	870.0	944.8
Items that may be included in the income statement later					
Change in fair value reserve					
Hedging of cash flows	64.4	152.2	149.5	160.1	211.3
Financial assets available for sale	-165.2	540.1	-12.2	-160.1	-101.2
	-100.8	692.3	137.3	0.1	110.1
Items that may not be included in the income statement at a later date					
Revaluation of defined benefit pension plans	134.3	54.5	44.4	509.0	-563.2
	134.3	54.5	44.4	509.0	-563.2
Total other comprehensive income	33.5	746.8	181.7	509.1	-453.1
COMPREHENSIVE INCOME FOR THE PERIOD	**1,463.8**	**2,206.7**	**1,928.8**	**1,379.1**	**491.8**

CONSOLIDATED INCOME STATEMENT, IFRS

€ 1,000	Note	1.1.-31.12.2017	1.1.-31.12.2016
Interest income	1	20,414.6	19,951.7
Interest expenses	1	-11,423.4	-14,565.5
NET INTEREST INCOME		**8,991.2**	**5,386.2**
Income from equity investments			
From other companies	2	39.9	
Fee income	3	3,618.0	4,517.1
Fee expenses	3	-93.3	-77.6
Net income from currency operations and securities trading			
Net income from securities trading	4	421.4	-522.2
Net income from currency operations	4		0.1
Net income from available-for-sale financial assets	5	1,749.6	3,634.5
Net income from hedge accounting	6	-27.1	-53.7
Net income from investment properties	7	2,924.0	4,881.3
Other operating income	8	82.4	-16.0
Administrative expenses			
Personnel expenses			
Salaries and remuneration		-4,968.5	-4,513.4
Indirect personnel expenses			
Pension expenses		-1,135.2	-1,054.2
Other indirect personnel expenses		-218.2	-308.2
Other administrative expenses		-2,687.5	-2,825.1
Total administrative expenses		-9,009.4	-8,700.9
Depreciation and impairment losses on tangible and			
intangible assets	10	-475.0	-328.0
Other operating expenses	9	-1,576.3	-1,105.0
Impairment losses on loans and other commitments	11	6.0	-268.7
OPERATING PROFIT		**6,651.4**	**7,346.9**
Income taxes	12	-1,144.0	-1,228.9
PROFIT FROM OPERATIONS AFTER TAXES		**5,507.4**	**6,118.0**
PROFIT FOR THE PERIOD		**5,507.4**	**6,118.0**

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT, IFRS

€ 1,000	1.1.-31.12.2017	1.1.-31.12.2016
Profit for the period	5,507.4	6,118.0
Other comprehensive income		
Items that may in the future be recognized through profit or loss		
Change in fair value reserve		
Hedging of cash flows	526.2	822.5
Financial assets available for sale	202.6	580.5
	728.8	1,403.0
Items that may not be included in the income statement at a later date		
Revaluation of defined benefit pension plans	742.1	185.6
Adjustment made to retained earnings*		34.9
	742.1	220.5
Total other comprehensive income	1,471.0	1,623.6
COMPREHENSIVE INCOME FOR THE PERIOD	**6,978.4**	**7,741.6**

* Amendment of 34 917 euros related to taxes from joint operations.

CONSOLIDATED BALANCE SHEET, IFRS

€ 1,000	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Cash	14, 15, 32, 34	**201,200.0**	**120,200.0**
Debt securities eligible for refinancing with central banks			
Other	15, 18, 32, 34	284,718.7	291,927.8
		284,718.7	291,927.8
Receivables from credit institutions			
Payable on demand	15, 16, 32, 34	16,322.0	5,153.3
Other	15, 16, 32, 34	77.5	17.9
		16,399.5	5,171.2
Receivables from the public and public sector entities			
Other than those payable on demand	17, 32, 34	2,212,574.4	1,806,439.8
Shares and holdings	19, 34	132.4	132.4
Derivative contracts	20, 34, 35	258.9	138.4
Intangible assets	21, 23	2,816.9	2,812.6
Tangible assets			
Investment properties and shares and holdings in investment properties	22, 23	59,686.0	61,691.4
Other properties and shares and holdings in housing property corporations	22, 23	854.5	864.7
Other tangible assets	23	295.6	336.7
		60,836.2	62,892.8
Other assets	24	8,568.8	9,239.5
Deferred income and advances paid	25	4,843.8	5,964.4
Deferred tax receivables	26	139.3	299.5
TOTAL ASSETS		**2,792,488.8**	**2,305,218.4**
LIABILITIES			
LIABILITIES			
Liabilities to credit institutions			
To central banks	32, 34	80,000.0	80,000.0
To credit institutions			
Payable on demand			
Other than those payable on demand	32, 34	13,873.8	38,086.5
		93,873.8	118,086.5
Liabilities to the public and public sector entities			
Deposits			
Payable on demand	32, 34	749,110.9	641,954.6
Other than those payable on demand	32, 34	791,289.6	561,087.8
		1,540,400.5	1,203,042.4
Other liabilities			
Other than those payable on demand	32, 34	19,545.5	28,476.9
		1,559,946.0	1,231,519.3
Debt securities issued to the public			
Bonds	27, 32, 34	852,292.2	699,076.2
Other	27, 32, 34	134,929.0	111,433.3
		987,221.2	810,509.6
Derivative contracts	20, 34, 35	6,944.6	4,536.3
Other liabilities			
Other liabilities	28	9,636.3	8,660.0
Deferred expenses and advances received	29	4,524.1	4,640.3
Subordinated liabilities			
Other	30, 31, 32, 34	4,490.1	8,980.1
Deferred tax liabilities	26	10,030.3	9,442.4
EQUITY			
Basic capital	36	5,000.0	5,000.0
Other restricted reserves			
Reserve fund		22,799.9	22,796.7
Fair value reserve			
From cash flow hedging		-65.0	-591.2
From valuation at fair value		34.0	-168.6
Defined benefit pension plans			
Actuarial gains/losses		2,459.6	1,717.4
Unrestricted reserves			
Other reserves		22,923.5	22,923.5
Retained earnings		57,162.9	51,048.1
Profit for the period		5,507.4	6,118.0
		115,822.3	108,843.9
TOTAL LIABILITIES AND EQUITY		**2,792,488.8**	**2,305,218.4**

STATEMENT OF CHANGES IN EQUITY

€ 1,000	Basic capital	Reserve fund	Fair value reserve	Other reserves	Retained earnings*	Total
Equity 1 Jan 2016	**5,000.0**	**22,794.7**	**-631.0**	**22,923.5**	**51,015.2**	**101,102.4**
Profit for the period					6,118.0	6,118.0
Other comprehensive income						
Adjustment made to retained earnings					34.9	34.9
Distribution of profits		2.0			-2.0	0.0
Hedging of cash flow						
Amount recognized in equity			-480.3			-480.3
Amount transferred to the income statement			1,508.4			1,508.4
Change in deferred taxes			-205.6			-205.6
Financial assets available for sale						
Change in fair value			4,360.1			4,360.1
Amount transferred to the income statement			-3,634.5			-3,634.5
Change in deferred taxes			-145.1			-145.1
Defined benefit pension plans						
Actuarial gains/losses			232.0			232.0
Change in deferred taxes			-46.4			-46.4
Total other comprehensive income	0.0	2.0	1,588.6	0.0	32.9	1,623.6
Equity 31 Dec 2016	**5,000.0**	**22,796.7**	**957.6**	**22,923.5**	**57,166.1**	**108,843.9**

* Retained earnings 1 January 2016 have been allocated for amount of EUR -299,549 due to allocation of sale of real estate.
Amendment of EUR 34,917 related to taxes from joint operations.

€ 1,000	Basic capital	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
Equity 1 Jan 2017	**5,000.0**	**22,796.7**	**957.6**	**22,923.5**	**57,166.1**	**108,843.9**
Profit for the period					5,507.4	5,507.4
Other comprehensive income						
Distribution of profits		3.2			-3.2	0.0
Hedging of cash flow						
Amount recognized in equity			-58.4			-58.4
Amount transferred to the income statement			716.2			716.2
Change in deferred taxes			-131.6			-131.6
Financial assets available for sale						
Change in fair value			2,002.8			2,002.8
Amount transferred to the income statement			-1,749.6			-1,749.6
Change in deferred taxes			-50.7			-50.7
Defined benefit pension plans						
Actuarial gains/losses			927.7			927.7
Change in deferred taxes			-185.5			-185.5
Total other comprehensive income	0.0	3.2	1,471.0	0.0	-3.2	1,471.0
Equity 31 Dec 2017	**5,000.0**	**22,799.9**	**2,428.6**	**22,923.5**	**62,670.3**	**115,822.3**

"Since the end of the financial period of 1 January–31 December 2017, there have not been any significant changes in the outlook or financial standing of the Mortgage Society of Finland or its Group. After the financial year, neither Hypo nor Group companies have been involved in administrative or legal proceedings, arbitrations or other events that would have had a material effect on Hypo's financial position. Furthermore, Hypo is not aware. of such proceedings or events being under consideration or being otherwise threatened.

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

The Board of Directors proposes that EUR 10 721.51 of Hypo's result for 2017 (EUR 21,443.00) be transferred to the reserve fund and the rest remain unused.

CONSOLIDATED CASH FLOW STATEMENT

€ 1,000	Note	1.1.-31.12.2017	1.1.-31.12.2016
Cash flow from operating activities			
Interest received		20,094.9	19,143.7
Interest paid		-11,478.6	-15,477.1
Fee income		3,856.5	4,073.2
Fee expenses		-93.3	-77.6
Net income from currency operations and securities trading		421.4	-522.1
Net income from available-for-sale financial assets		1,749.6	3,634.5
Net income from hedge accounting		-27.1	-53.7
Net income from investment properties		2,986.8	3,856.0
Other operating income		82.4	-16.0
Administrative expenses		-7,145.8	-10,804.6
Other operating expenses		-1,682.9	-1,225.8
Credit and guarantee losses		6.0	-268.7
Income taxes		-1,580.4	-1,150.1
Total net cash flow from operating activities		**7,189.5**	**1,111.4**
Operating assets increase (-) / decrease (+)			
Receivables from customers (lending)		-406,340.9	-384,886.1
Cash collaterals, derivatives		345.4	-46.1
Investment properties		5,294.4	7,814.4
Operating assets increase (-) / decrease (+) total		**-400,701.1**	**-377,117.8**
Operating liabilities increase (+) / decrease (-)			
Liabilities to the public and public sector entities (deposits)		337,357.8	164,101.1
Operating liabilities increase (+) / decrease (-) total		**337,357.8**	**164,101.1**
NET CASH FLOWS ACCRUED FROM OPERATING ACTIVITIES		**-56,153.8**	**-211,905.3**
Cash flows from investments			
Change in fixed assets		-428.0	-1,144.5
Equity investments increase (-) / decrease (+)		39.9	
NET CASH FLOWS ACCRUED FROM INVESTMENTS		**-388.1**	**-1,144.5**
Cash flows from financing			
Bank loans, new withdrawals		80,297.2	131,830.4
Bank loans, repayments		-104,509.9	-165,129.7
Other liabilities increase (+) / decrease (-)		-8,995.6	-6,303.7
Bonds, new issues		344,297.3	429,857.5
Bonds, repayments		-188,533.6	-252,291.5
Certificates of deposit, new issues		217,964.2	180,965.7
Certificates of deposit, repayments		-194,468.4	-138,983.7
Subordinated liabilities, new withdrawals		34.0	59.0
Subordinated liabilities, repayments		-4,523.9	-4,548.6
NET CASH FLOWS ACCRUED FROM FINANCING		**141,561.1**	**175,455.5**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**85,019.2**	**-37,594.3**
Cash and cash equivalents at the beginning of the period		417,299.0	454,893.2
Cash and cash equivalents at the end of the period	15	502,318.1	417,299.0
CHANGE IN CASH AND CASH EQUIVALENTS		**85,019.2**	**-37,594.3**

ACCOUNTING POLICIES

GROUP

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

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

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

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

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

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

Board of Directors has approved to release the Financial Statements Release 1.1. – 31.12.2017 on 30 January and on 27 February 2018 to present this Financial Statements to Auditor and to Supervisory Board for verification. Supervisory Board meeting is held on 28 February 2018. Financial Statements is presented for confirmation to the Annual General Meeting of the Mortgage Society of Finland, which will be held on 23 March 2018.

BASIS OF PREPARATION

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. In addition, the applicable national legislation and regulatory requirements have been taken into account.

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

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

AsuntoHypoPankki is accounted for using the acquisition method of accounting.

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

Inter-company transactions and balances between Group companies are eliminated. The information related to capital adequacy has been prepared and presented in accordance with the EU Capital Requirements Regulation (CRR, EU 575/2013). The capital requirement for credit risk is calculated using the standard method. The capital requirement for operational risk is calculated using the basic method. Disclosures required under the EU Capital Requirements Regulation Part Eight are published in the consolidated Financial Statements.

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

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

NEW IFRS-STANDARDS AND INTERPRETATIONS

In preparing these financial statements, the group has followed the same accounting policies as in the annual financial statements for 2016 except for the effect of changes required by the adoption of the following new standards, interpretations and amendments to existing standards since 1 January 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12. The impact of the initial application of the amendments on the group is that deferred tax receivable is recognized in income statement to the probable maximum amount of future taxable income. The impact of the initial application of the amendments on the group is not material.
- Disclosure Initiative – Amendment to IAS 7. The impact of the initial application of the amendments on the group is not material. Withdrawals and redemptions in funding arrangements have already been presented in gross amounts and the group includes changes in liquidity portfolio into cash flows of operating activities.

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

IFRS 9 Financial Instruments

The Group applies IFRS 9 Financial instruments standard beginning on 1 January 2018. The new standard replaces the standard IAS 39 Financial Instruments: Recognition and Measurement.

Impact assessment of IFRS 9 to financial status and capital in Hypo Group

The most significant changes relate to calculating and recording expected credit losses and to classification and measurement of financial instruments.

Application of the standard will not materially affect Hypo Group's consolidated financial statements nor capital adequacy position as lending is secured by mortgage collateral, average loan-to-value ratio in the loan portfolio is low, and liquidity is invested in accordance with conservative counterparty limits. Changes in classification and measurement of financial instruments or in hedge accounting are not expected to materially affect the Group's financial position, result nor equity. The adoption of IFRS 9 does not cause significant changes to Hypo's accounting policies for recognition and de-recognition of financial instruments.

Implementation of IFRS 9 proceeds as scheduled. Systems and models for calculating expected credit loss (ECL model) required by IFRS 9 were taken into use on 1 January 2018. On 1 January 2018 Group´s both equity and own funds will be adjusted with negative net amount, in range of 50,000 – 100.000 euros, which represents the net amount of IAS 39 reversal of impairments and IFRS 9 expected credit loss. In Interim Reports and Financial Statements released concerning the financial year 2018, information of year 2017 shall not be restated.

Hypo shall not apply transitional arrangements of EU Capital Requirements Regulation (CRR, EU 575/2013) Article 473a in order to mitigate the impact of the impairment requirements from IFRS 9 on capital and leverage ratios.

Significant judgements and assumptions

The following areas of the ECL calculations involve significant judgements and assumptions:

- Estimate of whether the financial instruments' credit risk has increased significantly since initial recognition
- Estimate of the business environment's future development

Expected credit losses

In Hypo Group's consolidated income statement, the switch from recognition of impairment and credit losses of the loan portfolio in accordance with IAS 39 to expected credit losses based on forecasting models in accordance with IFRS 9 takes place as of 1 January 2018.

IFRS 9 significantly changes the principles for calculating and recording expected credit losses (ECL). The ECL principles are applied to financial assets measured at amortised cost or fair value through other comprehensive income, to lease receivables, contract assets or loan commitments and to off-balance sheet items such as loan commitments and financial guarantee contracts.

Data utilized in Hypo's forecast-based ECL model consists of information such as amount of previously realized losses in Hypo's loan portfolio, contract-related collateral, estimates of expected future value of the housing collateral as well as economic prognosis of unemployment rate. Concerning expected credit loss impairments of debt securities, ECL model utilizes data of counterparty credit ratings, probability of default (PD) and loss given defaults (LGD).

Should the credit risk increase significantly after initial recognition of 12 month expected credit loss, the group switches off to expected credit loss recognition based on life-time calculation.

ECL for Hypo's loan portfolio

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

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

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

All other loans than the ones on level 2 or 3 are considered as LEVEL 1 receivables. On level 1, ECL is calculated on a 12-month basis. ECL is calculated only for receivables that do not meet the condition of high collateralisation, i.e. LTV exceeding 85%. The calculations incorporate data regarding exposure at default, historical impairment and credit loss (which are used to approximate probability of default and loss given default), as well as statistical forward-looking factors, which are included in a so-called future coefficient (future factor). The future coefficient is based on data collected by the Statistics Finland. Hypo's Chief Economist has developed the calculation method of the future factor. Weight factors of indicators used in calculation method are assigned by Hypo's risk management. In the coefficient, the expected future business environment is determined using following variables:

- Real estate collateral value development, which is predicted by the annual change in housing sales.
- Rise in unemployment rate, which precedes payment defaults and which is predicted by consumer confidence index.

As LEVEL 2 receivables are considered loans:

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

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

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

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

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

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

In Level 3/Phase 2 ECL calculation result is recognized once loan collateral has been fully realised at the end of the debt collection process and when the debt collection process has been finished and all debtors have been declared insolvent by the enforcement authorities.

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

ECL calculation for debt securities

In the ECL calculations for debt securities Hypo applies:

- regulation conformant counterparty Credit Quality Steps derived from credit ratings,
- regulation conformant average Probability of Default, PD, and
- Loss Given Default, LGD, as described more in detail below.

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

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

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

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

On LEVEL 2, lifetime ECL is calculated as the product of the instrument´s market value, counterparty Probability of Default (adapted on the security's term to maturity) and the security's Loss Given Default.

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

Classification and measurement of financial instruments

IFRS 9 requires financial assets to be classified on the basis of business model and contractual cash flow characteristics into one of the following classes:

- amortised cost, when business model is to hold the financial asset in order to collect contractual cash flows, and the contractual cash flows are solely payments of principal and interest,
- fair value through other comprehensive income, when the asset is held within a business model with objective to collect contractual cash flows and sell financial assets and the contractual cash flows are solely payments of principal and interest,
- fair value through profit or loss, when the abovementioned conditions are not met.

However, in addition to the aforementioned, an entity can irrevocably:

- measure certain equity instruments at fair value through other comprehensive income (conditioned on i.a. that the instrument is not held for trading).
- designate a financial asset as measured at fair value through profit or loss, if doing so eliminates or significantly reduces an accounting mismatch, that would otherwise arise from measuring assets or liabilities on different bases.

IFRS 9 requires financial liabilities to be measured at amortised cost, i.a. with the following exceptions:

- financial liabilities at fair value through profit or loss, including derivative liabilities.
- financial liabilities measured at fair value through profit or loss that the entity voluntarily and irrevocably designates as such, with the aim of reducing or eliminating an accounting mismatch, that would otherwise arise from measuring assets or liabilities on different bases.

Based on the abovementioned principles the instrument classes adopted by Hypo beginning on 1 January 2018 are:
- financial assets measured at amortised cost: cash, receivables from credit institutions and receivables from the public and public sector entities.
- financial assets measured at fair value through other comprehensive income: equity instruments and part of the liquidity portfolio's debt instruments
- financial assets mandatorily measured at fair value through profit or loss: derivative assets.
- financial assets voluntarily measured at fair value through profit or loss: part of the liquidity portfolio's debt instruments that are managed as part of a portfolio also containing derivatives.
- financial liabilities mandatorily measured at fair value through profit or loss: derivative liabilities
- financial liabilities measured at amortised cost: all financial liabilities except for derivative liabilities.

The aforementioned items' business models have been analysed and documented separately for each asset class by describing the business models' strategies, management, decision making process, responsibilities, objectives and reporting. The financial assets' cash flows have been analysed in accordance with the standard. Based on the analysis, Hypo has concluded that the cash flows of items measured at amortised cost or at fair value through other comprehensive income consist only of principal and interest payments. Hypo's assets' interest payments are consideration for the time value of money, credit risk and liquidity risk and they are not exposed to changes in e.g. equity prices or commodity prices.

Hedge accounting

Hypo Group applies IFRS 9 hedge accounting from 1 January 2018. Hedge accounting method based on IFRS 9 is considered not to have any negative impact in the hedge accounting results in comparison to hedge accounting method based on IAS 39 as Hypo applies IFRS 9 hedge accounting to corresponding items compared to IAS 39 hedge accounting. No material numerical changes will arise from adopting IFRS 9 hedge accounting.

Disclosures in Financial Statements and in Interim Reports

Due to application of IFRS 9, Financial Statements and Interim reports covering the periods commencing from 1 January 2018 will set out information on reclassification on financial instruments, further explain material changes in accounting principles and set out the exact amount recorded to equity and own funds on transition date 1 January 2018. Hypo also further specifies impacts of the transition and changed accounting policies on Hypo Group's financial position, results or equity. Interim Reports and Financial Statements concerning the financial year beginning 1 January 2018 will present more extensive qualitative and quantitative information on financial instruments.

IFRS 15 Revenue from Contracts with Customers

Impact assessment on IFRS 15

Hypo Group will apply IFRS 15 as of 1 January 2018 instead of the previously applied IAS 18 on revenue recognition. IFRS 15 concerns mainly fee income from land trustee services and certain fee income from mortgage lending. The implementation of the standard is not expected to have material effect on revenue recognition.

Hypo Group has analyzed its customer contracts as required by the IFRS 15. The analysis has defined by contract type the promises given to customers (performance obligation), the sales revenue Hypo is entitled to, and finally when the performance obligation is satisfied and the sales revenue is recognized.

FINANCIAL ASSETS

€ 1,000	Classification and measurement		
	IAS 39	**IFRS 9**	**Book value 31 Dec 2017**
Liquid assets	Amortised cost	Amortised cost	**201,200**
Receivables from credit institutions	Amortised cost	Amortised cost	**16,399**
Receivables from the public and public sector entities	Amortised cost	Amortised cost	**2,212,574**
Debt securities	Financial assets available for sale	Fair value through other comprehensive income	**213,489**
Debt securities	Items recognized based on the fair value option	Option to designate a financial asset at fair value	**71,230**
Shares and holdings	Financial assets available for sale	Fair value through other comprehensive income	**132**
Derivative contracts	Fair value through profit or loss	Fair value through profit or loss	**259**
Financial assets total			**2,715,284**

FINANCIAL LIABILITIES

€ 1,000	Classification and measurement		
	IAS 39	**IFRS 9**	**Book value 31 Dec 2017**
Liabilities to credit institutions	Amortised cost	Amortised cost	**93,874**
Liabilities to the public and public sector entities	Amortised cost	Amortised cost	**1,559,946**
Debt securities issued to the public	Amortised cost	Amortised cost	**987,221**
Derivative contracts	Fair value through profit or loss	Fair value through profit or loss	**6,945**
Subordinated liabilities	Amortised cost	Amortised cost	**4,490**
Financial liabilities total			**2,652,476**

The standard is applied with full retrospective method.

The effective interest method as per IFRS 9 is still applied on recognition of income from financial instruments and IAS 17 on recognition of rental income from apartments owned and rented by Hypo or its group entities. Financial Statements for the financial year starting on 1 January 2018 will present more extensive qualitative and quantitative information on customer contracts and related revenue as required by the IFRS 15.

IFRS 16 Leases

IAS 16 Leases is endorsed by EU. Hypo will adopt the new standard from 1 January 2019 and onwards. Impacts of IFRS 16 will be assessed closely during 2018. Standard will apply to contracts where Hypo's group entity is either lessor or lessee. Application of the standard is not expected to materially affect Hypo Group's consolidated financial position nor capital position.

SIGNIFICANT JUDGEMENTS AND ASSUMPTIONS

Due to uncertainty of future, preparation of financial statements requires use of accounting estimates. Accounting estimates involves judgements based on the latest available, reliable information.

Following areas of financial statements involve significant judgements and assumptions:

- write-downs of loans.
- impairment of financial assets not measured at fair value through the income statement.
- estimation of fair values of certain financial instruments,
- estimations used in hedge accounting,
- estimation of fair values of investment property,
- estimated useful life on intangible assets,
- estimations of defined benefit plan asset and actuarial assumptions and
- estimation of fair values of certain off-balance sheet commitments.

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

FINANCIAL INSTRUMENTS

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.

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.

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.

The purchases and sales of debt securities and shares are recognized and de-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 are recognized in, or de-recognized from, the balance sheet using trade date accounting.

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.

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, repricing 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 percent. 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 fixed-rate liabilities issued by Hypo and to fixed-rate assets as well as to the derivate contracts marked as hedging instruments used to hedge the aforementioned items.. The purpose of fair value hedge accounting is to allocate the profit or loss impact of change in fair value 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, repricing 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 percent. 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 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 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.

Offsetting financial assets and financial liabilities

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

INTANGIBLE ASSETS

The costs recognized in "Intangible assets" consist of IT projects, start-up costs related to deferred debit cards as well as strategic development and system project in order to obtain a license for mortgage credit bank operations and issuing covered bonds. On the balance sheet, intangible assets are recognized in acquisition costs less accrued depreciation and possible impairment losses.

TANGIBLE ASSETS

Investment properties and other properties

On the balance sheet, property investments are divided into investment properties and other properties. Investment properties mainly consist of land intended to be used as residential land as well as shares in housing companies and investments in shares in housing companies under construction. Investment properties are held for collecting rental income as well as possible increase in value. Other properties and shares and stakes in housing companies refer to the part of the property that is in own use.

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

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

Group has chosen not to recognize investment properties in their fair value in balance sheet. The fair values of property investments are disclosed in the notes to the consolidated financial statements.

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

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

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

Other tangible assets

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

EMPLOYEE BENEFITS

Pension expenses and other post-employment benefits

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

Defined contribution plans

In defined contribution plan, Hypo as an employer pays fixed contributions into the M Department of a separate pension foundation and/or to an insurance company. Hypo will not have a legal or constructive obligation to pay further contributions should the fund not hold sufficient income from assets to pay all employee benefits relating to employee service.

Hypo pays insurance premiums to an insurance company in order to fund the statutory post-employment plan, which is recognized as defined contribution plan.

Expenses caused by defined contribution plans are recognized in the accounting period in which the expense is rendered. Expenses are recognized undiscounted and presented as pension expenses in the consolidated income statement.

The voluntary defined contribution plan is arranged by the M Department of Hypo's separate pension foundation.

Defined benefit plans

Voluntary supplementary pension plan arranged in Department A of the pension foundation is recognized as a defined benefit plan. Obligation amount of the arrangement, net asset or net liability, is accounted by deducting the fair value of plan assets from the discounted obligation amount. Net defined benefit asset is presented as other assets in the consolidated balance sheet.

Changes caused by amendments in actuary assumptions in defined benefit pension plan are recognized as other comprehensive income (and as equity's fair value reserve, net of deferred tax).

Accounting of discounted obligation value requires use of certain actuarial estimations such as discount rate, expected disability rate and expected salary levels. Possible deviations between actual and expected levels of actuarial estimations cause uncertainty of future amount of discounted obligation.

DEFERRED TAX RECEIVABLES AND LIABILITIES

Amounts generated due to negative fair values from financial assets available for sale and from interest rate swaps are recognized as deferred tax receivables.

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

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

Fair value reserve from available for sale investments and from interest rate swaps, recognized in equity is presented net of deferred tax assets and liabilities.

REVENUE AND EXPENSES RECOGNITION

Net interest income

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

Net fee income

As a rule, fee income is earned and recognized when a service or a specific measure has been performed. Entry fees collected during the financial year are also recognized in fee income.

Income from equity investments

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

Net income from currency operations and securities trading

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

Net income from available-for-sale financial assets

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

Net income from investment properties

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

Salaries and other administrative costs

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

Depreciation, depreciation calculation and the useful life

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

Intangible assets

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

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

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

Tangible assets

Depreciation is calculated by dividing the acquisition cost at residual value less the estimated useful life of the asset as follows:

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

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

Impairment losses on loans and other commitments

Impairment losses on receivables, as well as any reversals of recognized impairment losses, are recognized as impairment losses on credits and other commitments.

Taxes in income statement

Taxes in the income statement include tax expenses based on taxable income in the financial year and adjustments for previous years' taxes. In addition, taxes include deferred taxes, which are recognized through profit or loss. Deferred tax receivable is recognized in income statement to probable maximum amount of future taxable income.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

€ 1,000 unless otherwise indicated.

1. BREAKDOWN OF INTEREST INCOME AND EXPENSES BY BALANCE SHEET ITEM	2017	2016
Receivables valued at allocated acquisition cost		
Receivables from credit institutions		1.8
Receivables from the public and public sector entities	17,781.8	18,011.7
Total	17,781.8	18,013.4
Debt securities available for sale	114.0	537.1
Derivative contracts	1,795.7	710.9
Negative interest expenses of finacial liabilities	324.4	76.4
Other interest income	398.7	613.9
Total interest income	20,414.6	19,951.7
Liabilities valued at allocated acquisition cost		
Liabilities to credit institutions	-308.1	-793.1
Liabilities to the public and public sector entities	-4,177.4	-5,609.9
Debt securities issued to the public	-4,147.3	-5,025.0
Subordinated liabilities	-292.5	-454.6
Total	-8,925.2	-11,882.6
Derivative contracts	-2,021.5	-2,468.3
Negative interst income of cash and cash equivalents	-475.8	-213.7
Other interest expenses	-0.9	-0.9
Total interest expenses	-11,423.4	-14,565.5

2. INCOME FROM EQUITY INVESTMENTS	2017	2016
From available-for-sale financial assets	39.9	

3. FEE INCOME AND EXPENSE	2017	2016
From lending and deposits	1,782.3	1,856.4
From legal assignments	224.8	296.1
From residential property trustee service	1,267.1	2,011.8
From other operations	343.7	352.8
Total fee income	3,618.0	4,517.1
Other fee expenses	-93.3	-77.6
Total fee expenses	-93.3	-77.6

4. NET INCOME FROM CURRENCY OPETARIONS AND SECURITIES TRADING	2017	2016
Gains and losses from disposals of financial instruments (net)		
Net income arising from items recognized based on the fair value option	203.9	-71.1
Derivative contracts not in hedge accounting relationships		-113.2
Gains and losses arising from measurement at fair value (net)		
Net income arising from items recognized based on the fair value option	432.2	-211.7
Derivative contracts not in hedge accounting relationships	-214.6	-126.3
Net income from securities trading	421.4	-522.2
Net income from currency operations		0.1
Total net income from currency operations and securities trading	421.4	-522.1

5. NET INCOME FORM AVAILABLE-FOR-SALE FINANCIAL ASSETS	2017	2016
Capital gains from debt securities	1,749.6	3,634.5

6. NET INCOME FROM HEDGE ACCOUNTING	2017	2016
Change in fair value, hedging items	3,904.8	59.5
Change in fair value, hedging instruments	-3,931.9	-113.2
Total	-27.1	-53.7

7. NET INCOME FROM INVESTMENT PROPERTIES	2017	2016
Rental income	2,480.6	2,612.1
Capital gains (losses)	596.5	2,446.9
Other income	819.8	777.1
Maintenance charges and other maintenance costs paid		
From investment properties that have accrued rental income during the period	-879.0	-849.3
Other expenses	-35.2	-46.8
Depreciation according to plan	-58.7	-58.7
Total	2,924.0	4,881.3

8. OTHER OPERATING INCOME	2017	2016
Rental income, property assets in own use	12.0	9.1
Other income	70.4	-25.2
Total	82.4	-16.0

9. OTHER OPERATING EXPENSES	2017	2016
Rental expenses	-202.5	-132.8
Expenses from properties in own use	-57.5	-52.3
Other expenses	-1,316.2	-919.9
Total	-1,576.3	-1,105.0
Contribution of EUR 547,374.64 (EUR 362,027.41) to Finacial Stability Authority are included in Other expenses.		

10. DEPRECIATION AND IMPAIRMENT LOSSES ON TANGIBLE AMD INTANGIBLE ASSETS	2017	2016
Depreciation according to plan	-475.0	-328.0

11. IMPAIRMENT LOSSES ON LOANS AND OTHER COMMITMENTS AND OTHER FINANCIAL ASSETS	2017	2016
On receivables from the public and public sector entities		
Agreement-specific impairment losses	-44.6	-290.0
Deductions	50.6	21.3
Total	6.0	-268.7

12. INCOME TAXES	2017	2016
Breakdown of taxes in the income statement		
Tax expense based on taxable income for the financial period	-760.6	-1,025.8
Change in deferred taxes	-380.4	-202.8
Taxes from previous periods	-3.0	-0.3
Taxes in the income statement	**-1,144.0**	**-1,228.9**
Reconciliation of taxes		
Profit before taxes	6,651.4	7,346.9
Tax-free income	-919.4	-1,029.6
Non-deductible expenses	29.8	50.4
Adjustment made to previous period*		-148.1
Recognition of previously unrecorded tax losses	-56.8	-61.6
Total	**5,705.1**	**6,158.0**
Taxes calculated using the tax rate of 20 %	-1,141.0	-1,231.6
Taxes from previous periods	-3.0	-0.3
Other items		3.0
Taxes in the income statement	**-1,144.0**	**-1,228.9**

*Correction due to change in VAT treatment

13. INFORMATION CONCERNING PRODUCT GROUPS AND GEOGRAPHICAL MARKET AREAS

The Mortgage Society of Finland Group has only one segment, retail banking. By product group, Group's main income is made up of lending and deposits and other housing products and services. Lending and deposits, including other housing products and services, are considered to constitute one business area due to the special characteristics of Hypo's customers and products (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.

2017	Combined amount of income	Operating profit	Total assets	Total liabilities	Personnel
Lending and deposits and other housing products and services	17,438.1	6,511.0	2,792,311.0	2,676,539.2	58
Other operations	388.4	330.7	224.5	21.8	
	17,826.5	**6,841.7**	**2,792,535.5**	**2,676,561.0**	**58**

2016	Combined amount of income	Operating profit	Total assets	Total liabilities	Personnel
Lending and deposits and other housing products and services	19,072.7	7,089.1	2,304,982.0	2,196,330.3	59
Other operations	285.1	257.8	236.4	44.2	
	19,357.8	**7,346.9**	**2,305,218.4**	**2,196,374.5**	**59**

NOTES TO THE CONSOLIDATED BALANCE SHEET

14. LIQUID ASSETS	2017	2016
Receivables from central bank	201,200.0	120,200.0

15. CASH AND CASH EQUIVALENTS AND NET DEBT IN THE CASH FLOW STATEMENT	2017	2016
	book value	book value
Liquid assets	201,200.0	120,200.0
Debt securities eligible for refinancing with central banks	284,718.7	291,927.8
Receivables from credit institutions	16,399.5	5,171.2
	502,318.1	417,299.0

Net debt	2017
Cash and cash equivalents	502,318.1
Funding. repayable within one year	-134,929.0
Funding. repayable after one year	-977,435.7
Net debt	-610,046.6
Cash and cash equivalents	502,318.1
Funding. fixed rate	-139,419.1
Funding. floating rate	-972,945.6
Net debt	-610,046.6

Net debt	Cash and cash equivalents			Funding		
	Liquid assets	Debt securities eligible for refinancing with central banks	Receivables from credit institutions	Funding, repayable within one year	Funding, repayable after one year	Total
Net debt 1.1.2017	120,200.0	291,927.8	5,171.2	-111,433.3	-859,370.3	-553,504.7
Cash flows	81,000.0	-7,209.1	11,228.3	-23,437.4	-117,565.4	-55,983.6
Other non-cash movements				-58.4	-500.0	-558.3
Net debt 31.12.2017	201,200.0	284,718.7	16,399.5	-134,929.0	-977,435.7	-610,046.6

Group manages liquidity risks by maintaining sufficient liquidity compared to Group's payment obligations. Funding presented in cash flows from financing together with cash and cash equivalents presented in consolidated cash flow statement form net cash position (net debt). Group presents net debt reconciliation for the first time from date 31 December 2017 and therefore, does not present comparatives.

16. REVEIVABLES FROM CREDIT INSTITUTIONS (LOANS AND RECEIVABLES)

	2017			2016		
	Payable on demand	Other than those payable on demand	Total	Payable on demand	Other than those payable on demand	Total
From the central bank		77.5	77.5		17.9	17.9
From domestic credit institutions	1,444.5		1,444.5	5,150.4		5,150.4
From foreign credit institutions	14,877.5		14,877.5	2.9		2.9
Total	16,322.0	77.5	16,399.5	5,153.3	17.9	5,171.2

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.

17. RECEIVABLES FROM THE PUBLIC AND PUBLIC SECTOR ENTITIES (LOANS AND RECEIVABLES)	2017	2016
Companies and housing corporations	1,485,557.2	1,154,978.6
Households	716,199.3	635,213.9
Financial and insurance institutions	1,750.0	8,620.0
Non-profit organizations serving households	731.8	870.9
Foreign countries	8,336.1	6,756.4
Total	2,212,574.4	1,806,439.8
Subordinated receivables	632.1	642.6
Non perfoming loans	3,053.3	2,050.9

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

Impairment losses on receivables recognized during the period	2017	2016*
Impairment losses at the beginning of the year	307.2	204.9
Receivable-specific impairment losses recognized during the period	44.6	123.6
Receivable-specific impairment losses reversed during the period	-50.6	-21.3
Impairment losses at the end of the year	301.2	307.2

No group-specific impairment losses have been recognized.
* Impairment losses at the beginning of the year and during the period has been adjusted at year 2016.

Final credit losses on receivables recognized during the period	0.0	158.7

18. DEBT SECURITIES	2017			2016		
	Publicly quoted	Other	Total	Publicly quoted	Other	Total
Issued by public sector entities						
Available for sale						
Government bonds	42,187.2		42,187.2	27,235.3		27,235.3
Other bonds issued by public sector entities	107,094.5		107,094.5	82,841.1		82,841.1
Recognized based on the fair value option						
Government bonds	41,706.7		41,706.7	80,827.4		80,827.4
Other bonds issued by public sector entities	6,029.3		6,029.3	6,053.7		6,053.7
Those issued by other than public sector entities						
Held to maturity						
Bonds issued by banks	23,494.0		23,494.0	23,599.7		23,599.7
Available for sale						
Bonds issued by banks	58,346.8		58,346.8	65,328.8		65,328.8
Other debt securities	5,860.2		5,860.2	6,041.8		6 041.8
Total debt securities	284,718.7	0.0	284,718.7	291,927.8	0.0	291,927.8
Subordinated receivables			0.0			0.0
Receivables eligible for refinancing with central banks			284,718.7			291,927.8

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

19. SHARES AND HOLDINGS (FINANCIAL ASSETS AVAILABLE FOR SALE)	2017			2016		
	Publicly quoted	Other	Total	Publicly quoted	Other	Total
Shares and holdings, available for sale		132.3	132.4		132.4	132.4
Of which at acquisition cost		132.3	132.4		132.4	132.4
Of which in credit institutions		108.5	108.5		108.5	108.5

20. DERIVATIVE CONTRACTS	2017		2016	
	Book value		Book value	
	Assets	Liabilities	Assets	Liabilities
Derivative contracts in hedge accounting relationships				
OTC Interest rate swaps, cash flow hedge accounting model, fair value		81.3		714.5
OTC Interest rate swaps, fair value hedge accounting model, fair value	1.3	4,448.0	0.5	622.1
Derivative contracts not in hedge accounting relationships				
OTC Interest rate swaps, fair value	257.6	2,415.3	137.9	3,199.7
of which: cleared by a central counterparty	232.1	8.2		45.9
	258.9	6,944.6	138.4	4,536.3
OTC Interest rate and currency swaps, accrued interest	1,173.7	1,734.9	380.9	668.0
Total	1,432.7	8,679.6	519.3	5,204.4

	2017			
Remaining maturity	less than one year	1-5 years	>5 years	Total
Nominal values of the underlying instruments	5,000.0	461,000.0	394,634.5	860,634.5
of which: cleared by a central counterparty		45,000.0	40,000.0	85,000.0
Fair value, assets		162.0	97.0	258.9
of which: cleared by a central counterparty		162.0	70.2	232.1
Fair value, liabilities	81.3	2,308.6	4,554.7	6,944.6
of which: cleared by a central counterparty		8.2		8.2

	2016			
Remaining maturity	less than one year	1-5 years	>5 years	Total
Nominal values of the underlying instruments	40,000.0	320,000.0	190,634.5	550,634.5
of which: cleared by a central counterparty			10,000.0	10,000.0
Fair value, assets		96.3	42.1	138.4
of which: cleared by a central counterparty				0.0
Fair value, liabilities	392.0	1,218.1	2,926.2	4,536.3
of which: cleared by a central counterparty			46.9	46.9

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.

Open counterparty credit risk related to derivatives agreements consists of mark-to-market value of the contracts and the delivered collateral. Some of the derivatives and collateral form netting sets. Counterparty credit risk related to derivative contracts is managed through careful selection of counterparties, use of master service agreements and collateral. All Hypo's derivative counterparties have at least 'A' credit rating, and majority of contracts have been made under the ISDA/CSA master agreements. Hypo's open derivative counterparty credit risk as at 31 December 2017 totaled EUR 223,889. The amount of risk is calculated over the netting sets and taking into account the collateral delivered.

21. INTANGIBLE ASSETS	2017	2016
IT programs and projects	1,763.1	1,814.0
Other intagible assets	1,053.8	998.6
	2,816.9	2,812.6
Amount of agreement-based commitments concerning acquisition of intangible assets	247.5	0.0

22. TANGIBLE ASSETS	2017	2016
Investment properties and investment property shares, balance sheet value		
Land and water areas	9,338.9	11,549.1
Buildings	969.8	1,028.5
Shares and holdings in housing property corporations	49,377.3	49,113.7
Total balance sheet value	**59,686.0**	**61,691.4**
Total fair value of investment properties	62,615.7	65,085.0
of which share based on assessments of a qualified third-party valuer	13,964.5	10,803.7

	2017	2016
Non-cancellable land lease agreementst		
Rental receivables within one year	159.8	339.0

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

	2017	2016
Agreement-based obligations of investment properties		
Purchase commitments of housing units	2,875.1	563.2
Liabilities related to construction	2,181.9	2,181.9
Total	5,057.0	2,745.1

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

	2017	2016
Other properties and shares in housing property corporations, balance sheet value		
In own use		
Land and water areas	687.0	687.0
Buildings	167.5	177.7
Total balance sheet value	**854.5**	**864.7**
Total fair value of other properties	3,526.3	3,536.5
Obligations related to sites under construction		
Unpaid purchase prices of sites under construction	0.0	0.0

Hypo's properties are located in growth centers, mainly in the Helsinki Metropolitan Area, distributed across key residential areas. These properties consist mainly of apartments that have been rented out as well as residential land that has been rented for the long term to housing companies. The fair values of housing units have mainly been assessed using the Statistics Finland's most recent released statistics on the prices of dwellings, in which dwellings are divided into categories based on type and location. The fair values of apartments purchased a year or less than a year ago are assumed to be equal to their acquisition prices. The fair value of the land is its acquisition cost adjusted for the increase in the living cost index, which equals the land's redemption price.

23. 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 2017	**4,545.8**	**64,497.1**	**932.0**	**2,451.9**	**67,880.9**
Increases, new acquisitions	400.8	9,846.2		27.3	9,873.5
Deductions		-11,851.6	0.0		-11,851.6
Acquisition cost 31 December 2017	**4,946.6**	**62,491.7**	**932.0**	**2,479.2**	**65,902.8**
Accumulated depreciation and impairment losses 1 Jan 2017	1 733.2	513.6	67.3	2,115.2	2,696.1
Accumulated depreciation of deductions and transfers					0.0
Depreciation for the period	396.5		10.1	68.4	78.5
Accumulated depreciation and impairment losses 31 December 2017	**2,129.7**	**513.6**	**77.4**	**2,183.6**	**2,774.6**
Revaluation reserve 1 December 2017		-2 292.1			-2,292.1
Adjustments to the revaluation reserve for the period					0.0
Book value 31 December 2017	**2,816.9**	**59,686.0**	**854.5**	**295.6**	**60,836.2**
Acquisition cost 1 January 2016	**3,429.6**	**70,016.7**	**1,006.5**	**2,359.3**	**73,382.5**
Increases, new acquisitions	1 314.7	12,600.5		106.9	12,707.3
Deductions	-198.5	-18 120.1	-74.6	-14.2	-18,208.9
Acquisition cost 31 December 2016	**4,545.8**	**64,497.1**	**932.0**	**2,451.9**	**67,880.9**
Accumulated depreciation and impairment losses 1 Jan 2016	1 501.8	503.5	67.3	2,028.8	2,599.5
Accumulated depreciation of deductions and transfers	-0.6				0.0
Depreciation for the period	232.0	10.1		86.4	96.6
Accumulated depreciation and impairment losses 31 December 2016	**1,733.2**	**513.6**	**67.3**	**2,115.2**	**2,696.1**
Revaluation reserve 1 December 2016		-1,728.5			-1,728.5
Adjustments to the revaluation reserve for the period		-563.6			-563.6
Book value 31 December 2016	**2,812.6**	**61,691.4**	**864.7**	**336.7**	**62,892.8**

24. OTHER ASSETS	2017	2016
Defined benefit pension plans/surplus	6,379.5	5,660.0
Other receivables	2,189.3	3,579.5
Total	8,568.8	9,239.5

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

25. DEFERRED INCOME AND ADVANCES PAID	2017	2016
Interest receivables	4,253.4	3,933.7
Other deferred income	590.4	2,030.8
Total	4,843.8	5,964.4

26. TAX RECEIVABLES AND LIABILITIES	2017	2016
Income tax receivables	15.1	
Deferred tax receivables	139.3	299.5
Total tax receivables	154.4	299.5
Income tax liabilities		436.4
Deferred tax liabilities	10,030.3	9,442.4
Total tax liabilities	10,030.3	9,878.8
Deferred tax receivables		
Fair value reserve	139.3	299.5
Total	139.3	299.5
Deferred tax liabilities		
Earnings-related pensions	1,275.9	1,132.0
Revaluation reserve	286.2	286.2
Fair value reserve	131.6	109.6
Credit loss provisions	8,336.7	7,914.7
Total	10,030.3	9,442.4
Net deferred tax receivable (+)/liability (-)	-9,891.0	-9,142.9
Changes in deferred taxes		
Deferred tax receivables/liabilities 1 January	-9,142.9	-8,577.8
Recognized in the income statement:		
Provision for doubful debts	-422.0	-700.0
IAS 19 calculation	41.6	13.2
Occupational retirement benefits		371.3
Elimination of revaluation reserve		112.7
Recognized in the consolidated comprehensive income statement and equity:		
Hedging of cash flows	-131.6	-205.6
Financial assets available for sale	-50.7	-145.1
Revaluation of defined benefit pension plans	-185.5	-46.4
Adjustment made to retained earnings of join operations		34.9
Net deferred tax receivables (+)/liabilities (-), total 31 December	**-9,891.0**	**-9,142.9**
Income tax receivables (+)/liabilities (-), net	**15.1**	**-436.4**
Total tax receivables (+)/liabilities (-), net	**-9,875.9**	**-9,579.3**

*Amendment of EUR 34,917.04 related to taxes from joint operations
Mortgage Society of Finland has allowable losses of amount EUR 9,429.96 (expiration in year 2026), which hasn't been recognized as net deferred tax receivable.

27. DEBT SECURITIES ISSUED TO THE PUBLIC	2017		2016	
	Book value	Nominal value	Book value	Nominal value
Other than those payable on demand				
Bonds	852,292.2	860,000.0	699,076.2	700,155.0
Certificates of deposit and commercial papers	134,929.0	135,000.0	111,433.3	111,500.0
Total	987,221.2	995,000.0	810,509.6	811,655.0

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

28. OTHER LIABILITIES	2017	2016
Other liabilities	9,636.3	8,660.0

29. DEFERRED EXPENSES AND ADVANCES RECEIVED	2017	2016
Interest liabilities	2,420.2	2,500.9
Advance payments received	312.0	64.8
Tax liability based on taxes for the period	0.0	436.4
Other deferred expenses	1,791.9	1,638,2
Total	4,524.1	4,640,3

30. SUBORDINATED LIABILITIES	2017		2016	
	Book value	Nominal value	Book value	Nominal value
Debenture loans	4,490.1	4,491.8	8,980.1	8,983.6

Debenture loan 7/2013, with a balance sheet value of EUR 3,999 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 0,491 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.

31. LIABILITIES ACCORDING TO THE ACT ON RESOLUTION OF CREDIT INSTITUTIONS AND INVESTMENT FIRMS	2017	2016
Unsecured libilities	368,260.8	517,924.8
of which the remaining maturity is less than one year	33,415.0	243,681.6
Unsecured subordinated libilities ecl. liabilities recognized in own funds	4,490.1	8,980.1
of which the remaining maturity is less than one year	0.0	4,488.8
Common Equity Tier 1 (CET1) capital	106,070.7	100,939.6
Liabilities according to the Act on Resolution of Credit Institutions and Investment Firms total	139,485.7	349 110.1

32. MATURITY DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES

2017	<3 months	3–12 months	1–5 years	5–10 years	>10 years	Total
Receivables from credit institutions	16,399.5					16,399.5
Receivables from the public and public sector entities	22,537.0	114,096.0	513,725.1	577,548.0	984,668.3	2,212,574.4
Debt securities		31,111.1	189,419.3	64,188.3		284,718.7
Total	38,936.5	145,207.1	703,144.4	641,736.3	984,668.3	2,513,692.6
Liabilities to credit institutions			93,873.8			93,873.8
Liabilities to the public and public sector entities	1,224,728.4	313,127.1	21,300.4	790.1		1,559,946.0
Debt securities issued to the public	39,993.7	294,847.8	358,531.7	293,847.9		987,221.2
Subordinated liabilities		4,490.1				4,490.1
Total	1,264,722.1	612,465.0	473,705.9	294,638.0	0.0	2,645,531.1

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 2017, such loans totalled EUR 25,397,940.46.

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

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

Balance sheet items do not include foreign currency items.

34. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

	Classification	Fair value determination principle	2017 Book value	2017 Fair value	2016 Book value	2016 Fair value
Liquid assets	Loans and receivables		201,200.0	201,200.0	120,200.0	120,200.0
Receivables from credit institutions	Loans and receivables		16,399.5	16,399.5	5,171.2	5,171.2
Receivables from the public and public sector entities	Loans and receivables		2,212,574.4	2,212,574.4	1,806,439.8	1,808,096.7
Debt securities	Financial assets available for sale	1	213,488.7	213,488.7	181,447.0	181,447.0
Debt securities	Items recognized based on the fair value option	1	71,230.0	71,230.0	110,480.8	110,480.8
Shares and holdings	Financial assets available for sale	2	132.4	132.4	132.4	132.4
Derivative contracts		2	258.9	258.9	138.4	138.4
Total			2,715,283.9	2,715,283.9	2,224,009.5	2,225,666.4
Liabilities to credit institutions	Other liabilities		93,873.8	93.9	118,086.5	118,086.5
Liabilities to the public and public sector entities	Other liabilities		1,559,946.0	1,559.9	1,231,519.3	1,233,565.5
Debt securities issued to the public	Other liabilities		987,221.2	987.2	810,509.6	810,509.6
Derivative contracts		2	6,944.6	6.9	4,536.3	4,536.3
Subordinated liabilities	Other liabilities		4,490.1	4.5	8,980.1	8,980.1
Total			2,652,475.7	2,652.5	2,173,631.8	2,175,678.0

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

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

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

35. NETTING OF FINANCIAL ASSETS AND LIABILITIES

				Amounts not offset on the balance sheet		
2017	Gross amounts	Netted on the balance sheet	Amounts shown on the balance sheet	Financial instruments	Cash collateral received/paid	Net amount
Derivative liabilities	6,944.6	-	6,944.6	-	-	6,944.6
Derivative receivables	558.3	-299.4	258.9	-	-	258.9

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

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

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

37. EMPLOYEE BENEFITS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Employee benefits in Consolidated Income Statement

2017	Salaries and other short term employee benefits	Defined contribution plans	Defined benefit plans	Total
Interest income			98.4	98.4
Other operating income (+) / expense (-)			-62.1	-62.1
Salaries and remuneration	-4,968.5			-4,968.5
Pension expenses		-1,111.1	-24.1	-1,135.2
Other indirect personnel expenses		-218.2		-218.2
Other adminsitrative expenses	-5.4			-5.4
Total	-4,973.9	-1,329.3	12.2	-6,291.0

2016	Salaries and other short term employee benefits	Defined contribution plans	Defined benefit plans	Total
Interest income			182.8	182.8
Other operating income (+) / expense (-)			-80.0	-80.0
Salaries and remuneration	-4,513.4			-4,513.4
Pension expenses		-1,029.1	-25.1	-1,054.2
Other indirect personnel expenses		-308.2		-308.2
Other adminsitrative expenses	-9.3			-9.3
Total	-4,522.6	-1,337.3	77.7	-5,782.3

Employee benefits in Consolidated Conprehensive Income Statement

	2017	2016
	Defined benefit plans	Defined benefit plans
Net acturial profit (+) / loss (-)	927.7	232.0

Employee benefits in Consolidated Balance Sheet Assets

2017	Defined contribu-tion plans	Defined benefit plans	Total
Other assets		6,379.5	6,379.5
Deferred income and advances paid	43.6		43.6
Total	43.6	6,379.5	6,423.0

2016	Defined contribu-tion plans	Defined benefit plans	Total
Other assets		7,516.5	7,516.5
Deferred income and advances paid	1,286.4		1,286.4
Total	1,286.4	7,516.5	8,802.9

Employee benefits in Consolidated Balance Sheet Liabilities

2017	Salaries and other short term employee benefits	Defined contribution plans	Defined benefit plans	Total
Other liabilities		146.1		146.1
Deferred tax liabilities			1,275.9	1,275.9
Deferred expenses and advances received	857.2			857.2
Fair value reserve, net actuarial gain (+) / loss (-)			3,074.5	3,074.5
Fair value reserve, deferred tax liabilities			-614.9	-614.9
Total	857.2	146.1	3,735.5	4,738.8

2016	Salaries and other short term employee benefits	Defined contribution plans	Defined benefit plans	Total
Other liabilities		132.9		132.9
Deferred tax liabilities			1,132.0	1,132.0
Deferred expenses and advances received	856.9			856.9
Fair value reserve, net actuarial gain (+) / loss (-)			2,146.8	2,146.8
Fair value reserve, deferred tax liabilities			-429.4	-429.4
Total	856.9	132.9	2,849,.4	3,839.3

Defined benefit plans	2017	2016
The defined benefit obligation and Plan assets		
Present value of Defined benefit obligation	-6,476.5	-6,688.0
Fair value of Plan assets	12,855.9	12,348.0
Net denined benefit asset (+) / liability (-)	6,379.5	5,660.0
Change in Net defined benefit assets	2,017.0	2,016.0
Net defined benefit asset as of 1.1.	5,660.0	7,350.3
Current service cost	-24.1	-25.1
Interest income of the net defined benefit asset (+), cost (-)	98.4	182.8
Adminstrative cost	-62.1	-80.0
Contributions paid to M-Department	-220.4	-143.5
Net actuarial gain (+) / loss (-) for the period	927.7	232.0
Contributions		-1,856.5
Net defined benefit asset as of 31.12.	6,379.5	5,660.0

Fair value of Plan assets	2017			2016		
	Listed	Non-listed	Total	Listed	Non-listed	Total
Equity instruments	1,742.0	1,072.4	2,814.4	1,685.6	537.9	2,223.5
Debt instruments	226.2		226.2	539.6		539.6
Investment funds	1,299.0	4.4	1,303.4	1,148.4	4.5	1,152.9
Properties and land	8,511.9		8,511.9	8,432.0		8,432.0
Fair value of Plan assets	11,779.1	1,076.9	12,855.9	11,805.7	542.3	12,348.0

	2017	2016
Group's own financial instruments included in plan assets	230.7	579.4
Duratio, years	12.36	12.80
Most significant actuarial assumptions, %		
Discount rate	1.60	1.75
Expected returns on assets	1.60	1.75
Future pay rise assumption	2.10	2.10
Inflation	1.10	1.10

Sensitivity of the projected benefit obligations to changes in the principal assumptions		2017		2016	
		Effect on defined benefit obligation		Effect on defined benefit obligation	
	Change in assumption	Increase	Decrease	Increase	Decrease
Discount rate	0.50 %	-5.61 %	6.18 %	-5.79 %	6.40 %
Rate of wage increases	0.50 %	0.29 %	-0.29 %	0.37 %	-0.36 %
Rate of pension increases	0.50 %	5.85 %	-5.53 %	6.00 %	-5.66 %
Life expectancy at birth	by one year	3.93 %	-3.78 %	3.76 %	-3.62 %

NOTES CONCERNING GROUP'S COLLATERAL AND CONTINGENT LIABILITIES

38. COLLATERAL PLEDGED	2017	2016
Collateral pledged for own liabilities	Other collaterals	Other collaterals
Liabilities to the central bank	100,826.6	106,943.5
Debt securities issued to the public	849,597.2	494,070.0
Derivative contracts	4,863.3	1,419.5
Encumbered assets total	955,287.1	602,433.0

39. INFORMATION CONCERNING ASSET ENCUMBRANCE	2017			
(€ million)	Book value of en-cumbered assets	Fair value of en-cumbered assets	Book value of un-encumbered asset	Fair value of un-encumbered assets
A - Assets	955.3	54.2	1,837.2	231.2
Equity instruments	-	-	0.1	0.1
Debt securities	54.2	54.2	231.0	231.0
Other assets, including lending	901.1	-	1,606.1	-

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	79.6	100.8
Debt securities issued to the public	653.4	849.6
Derivative contracts		4.9
Total	733.0	955.3

D - Information on the importance of encumbrance

Provided figures are based on the situation as at 31 December 2017. 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 955,3 million, out of which of covered bonds was EUR 900,0 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 231,0 on 31 December 2016 EUR 1 079,0 million of unencumbered loans may be used as collateral for covered bonds.

2016

(€ million)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
A - Assets	602.4	51.9	1,702.8	240.2
Equity instruments			0.1	0.1
Debt securities	51.9	51.9	2,40.0	240.0
Other assets, including	550.5		1,462.6	

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	80.0	106.9
Debt securities issued to the public	359.1	494.1
Derivative contracts		1.4
Total	439.1	602.4

D - Information on the importance of encumbrance

Provided figures are based on the situation as at 31 December 2016.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. There has been no significant changes in Group's encumbered assets during the past period. Group's encumbered assets increased due to issuance of covered bonds. Encumbered assets totaled EUR 602.4 million, out of which of covered 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 million on 31 December 2016. EUR 987 million of unencumbered loans can be used as collateral for covered bonds.

40. LEASING AND OTHER LIABILITIES	2017	2016
Minimum rents paid on the basis of leasing and other rental agreements		
Within one year	6.2	107.0
Within more than a year and at most within five years		19.5
Total	6.2	126.5

41. OFF-BALANCE SHEET COMMITMENTS	2017	2016
Commitments given on behalf of a customer for the benefit of a third party		
Guarantees and other liabilities	2,181.9	2,181.9
Irrevocable commitments given on behalf of a customer		
Granted but unclaimed loans	275,063.9	301,014.8
Purchase commitments of housing units	2,875.1	563.2
Total	280,120.8	303,759.8

NOTES CONCERNING THE THE AUDIT SERVICE FEES

42. AUDIT SERVICE FEES	2017	2016
Fees paid to the auditor for the audit services	86.4	62.6
Fees paid to the auditor for non-audit services, parent company	31.3	10.8
Fees paid to the auditor for non-audit services, Group	37.0	25.2

Amounts (VAT 0%) are presented by assignment for year 2017 and 2016 accordingly.
Audit fees concerning year's 2017 audit services include EUR 21,845.00 of IFRS 9 assessment work.

NOTES CONCERNING GROUP'S PERSONNEL, MANAGEMENT AND RELATED PARTIES

Hypo Group's related parties include its subsidiary, members of the Board of Directors and the Supervisory Board, CEO and debuty to the CEO, members of the Management Group and their immediate family. In addition, related parties are included in The Mortgage Society of Finland's pension foundation and joint operations. The subsidiary and joint operations are presented in the Note 48. Those related party transactions that have not been eliminated in the consolidated financial statements are presented.

43. NUMBER OF PERSONNEL	2017	2016
	Average number	Average number
Permanent full-time personnel	50	50
CEO and debuty to the CEO	2	2
Temporary personnel	8	7
Total	60	59

44. SALARIES AND REMUNERATION PAID TO MANAGEMENT	2017	2016
CEO total salaries	291.8	282.2

In the event of a termination of the employment, the CEO is 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 is 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 2017.

Board of Directors	2017	2016
Annual remuneration of the Chair	30.8	23.0
Annual remuneration of the Vice Chair	23.6	19.4
Other members, annual remuneration	95.7	82.7
Other members, annual remuneration	150.0	125.1
Supervisory Board		
Annual remuneration of the chairman	5.6	6.0
Annual remuneration of the vice chairman	3.1	3.0
Other members, annual remuneration	26.7	30.2
Total	35.4	39.2
Members of the Management Group (exc. CEO)		
Total salaries	610.1	563.8

Information about the salaries and remuneration paid to individual members of the management and related parties, as well as the type of remuneration, is available in the salary and remuneration statement for 2017, 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 RELATED PARTIES	2017	2016	Change
CEO and debuty to the CEO	217.6	241.5	-23.9
Management Group	528.2	567.4	-39.3
Board of Directors	209.4	290.8	-81.4
Supervisory Board	1,435.5	1,664.3	-228.8
Joint operations	888.2	955.1	-66.9
Other related party	303.0	334.9	-31.8
Total	3,581.9	4,054.0	-472.0

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

46. DEPOSITS BY RELATED PARTY	2017	2016	Muutos
CEO, debuty to the CEO, Board of Directors and Supervisory Board	831.3	685.2	146.1
Management Group	142.3	114.7	27.7
The Mortgage Society of Finland's pension foundation	555.2	927.9	-372.7
Other related party	43.2	46.5	-3.3
Total	1 ,572.0	1,774.3	-202.3

Deposits made by related parties are provided on market terms.

47. RELATED PARTY TRANSACTIONS

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

The Mortgage Society of Finland's pension foundation	2017	2016	Muutos
Sales of investment properties	370.8		370.8
Sales of services	20.4	53.6	-33.2
Purchases of services	74.2	84.6	-10.4
Receivables	370.8	1,910.1	-1,539.3

All transactions have been carried out with arm´s length principle. Unpaid amounts of transactions listed above are presented as receivables/liabilities.
Hypo´s disbursements to and amounts due to the pension foundation based on Hypo´s performance and incentive scheme of employee benefits are described in Note 37, Employee benefits.

NOTES CONCERNING GROUP'S SHAREHOLDINGS

48 INFORMATION ABOUT SUBSIDIARIES AND JOINT OPERATIONS

2017	Domicile	Holding, %	Equity	Result for the period	Assets	Liabilities	Income
Subsidiaries							
Suomen AsuntoHypoPankki Oy	Helsinki	100,0	24 396,3	3 001,8	1 567 948,5	1 543 552,3	5 679,8
Joint operations							
Bostadsaktiebolaget Taos	Helsinki	54,6	6 160,3	237,8	8 139,4	1 979,2	761,3

Amounts presented as result for the period and as equity for Bostadsaktiebolaget Taos is based on unaudited financial statements from financial year 2017.
The Articles of Association of Bostadsaktiebolag Taos include a provision that a shareholder may have 20 per cent of the votes at a maximum.

2016	Domicile	Holding, %	Equity	Result for the period	Assets	Liabilities	Income
Subsidiaries							
Suomen AsuntoHypoPankki Oy	Helsinki	100,0	21 394,5	4 060,9	1 228 189,1	1 206 794,6	6 845,9
Joint operations							
Bostadsaktiebolaget Taos	Helsinki	54,6	5 922,5	257,1	8 048,6	2 126,1	747,6

Amounts presented as result for the period and as equity for Bostadsaktiebolaget Taos is based on unaudited financial statements from financial year 2016.
The Articles of Association of Bostadsaktiebolag Taos include a provision that a shareholder may have 20 per cent of the votes at a maximum.

NOTES CONCERNING CONTROLLED ENTITIES OF THE GROUP

49. 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.

INFORMATION REQUIRED BY SECTION EIGHT OF THE CAPITAL REQUIREMENT REGULATION (EU 575/2013) AND NOTES CONCERNING GROUP'S 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 GOVERNANCE

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 Oy ("AsuntoHypoPankki"). More information about corporate governance and fees and remuneration within Group is available in the notes to the consolidated financial statements and on the Hypo website at www.hypo.fi.

CAPITAL ADEQUACY MANAGEMENT

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

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

Capital adequacy of the Group is evaluated and guided with legal obligations as well as with requirements from external credit assessment institution S&P Global Ratings. Besides the compulsory minimum quantity, an internal minimum targets and monitoring limits have been set for the key indicators. The Group companies are not subject to a varying additional capital requirement and none of the Group companies have been identified as globally systemically important institutions.

The minimum amount of Group's own funds allocated to the credit 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 Note 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 its 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.

RESPONSIBILITY AND ORGANIZATION OF RISK MANAGEMENT

Members of the Managment Group responsible for business operations and independent control functions run risk management in accordance with the principles confirmed by the Board of Directors.

Chief Banking Officer identifies, assesses and follows credit risk related to lending. Functions of the Chief Banking Officer are guided by the General Terms of Lending confirmed by the Board. A separate controller functions together with risk management and compliance are responsible for credit risk reporting.

The member of the Management Group responsible for treasury identifies, assesses and hedges liquidity investments and related credit, market and liquidity risks in accordance with the principles confirmed by the Board. A separate controller functions together with risk managment and compliance are responsible for market and liquidity risk reporting.

The member of the Management Group in charge of housing and residential land investments is responsible for identification, assessments and management of risks related to their ownership.

RISK MANAGEMENT AND INTERNAL AUDIT

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 audit, 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 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 Directors' Risk Management Committee has been established in order to assess Group's risk position. The Committee assembled four times in 2017.

Business units' controls

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

The objective of risk management within 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 losses caused by them. 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 monitoring, evaluation and reporting of risk-taking, in all areas of Group's operations.

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

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

Internal and compliance audits carried out within Group are based on separate action plans. If necessary, audits can also be conducted outside these plans. The Chief Risk Officer, the Compliance Officer and Chief Auditing Officer regularly report their observations directly to the boards of directors of Group's 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 Group's companies have assessed that the risk management systems used are sufficient in relation to profiles and strategies of the Group and Group companies.

RISK STATEMENT

In light of the figures concerning Group's risk position presented in 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 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 percent of the fair value of the site is accepted as collateral. As a rule, fair value refers to market value, that is, the price received in a voluntary sale between parties that are independent of each other. Market value of the collateral is monitored on a regular basis by using statistical methods. Large exposure collateral is evaluated in a separate process as requires in regulation. Almost all of Hypo's personnel working in lending are certified real estate agents, which serves to reinforce Hypo's ability to independently assess the fair value of collateral. With regard to residential property collateral, the provider of the collateral is required to arrange insurance cover for the site. In case of potential neglect of insurance premiums, Hypo Group maintains a special insurance policy to secure its collateral position related to lending. Collateral for lending by Hypo must be located in Finland. In addition to housing collateral, guarantees given by the state of Finland or by an insurance company with adequate credit rating and deposit collateral are the most used credit risk mitigation techniques.

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

Group's loan portfolio is distributed across loans with housing collateral throughout Finland. In these loans, the debtor is usually a household (private customer) or a housing company or a corresponding housing corporation. The 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. The most significant risk concentarion arising out of use of the credit risk mitigation techinques.

Calculations and measurements describing the risk related to credit risk have been presented in Notes 51, 53 to 57 and 61.

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.

In calculation of LTV-ratio, only real estate collateral, i.e. mortgage notes registered in land or in a leasehold thereof and buildings, shares of housing companies or similar as well as rights of occupancy housing are taken into account.

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

Credit value adjustments i.e. impairments and final credit losses are recorded in accordance with applicable principles immediately after the grounds for their recording appears. Due to the low number of these recordings and their clear grounds, the basic information disclosed thereof, i.e. recordings and returns received is deemed as sufficient disclosure taking into account the nature and scope of the group's functions. As of 2018, new regulation (IFRS 9) concerning expected credit losses will change the basis and informing of impairments.

The amount of forbearances has decrease during 2017. A forbearance is a credit whose payment scheme or terms have been temporary modified with e.g. amortization-free periods (primary method), lengthening of the loan maturity, or other arrangement, due to the debtor's existing or anticipated financial difficulties.

The net amount of impairment losses has remained at a very low level.

Liquidity investments and derivatives

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

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

Other credit risk counterparties

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

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

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

Use of external credit rating agencies

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

- sovereigns and central banks
- regional governments or local authorities
- public corporations and bodies governed by public
- institutions
- companies

Realized losses

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

Impact on capital adequacy

The capital adequacy requirement for the credit risk is calculated using the standard method in accordance with capital adequacy regulations. 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 percent of total assets at most and always EUR 20 million or 6 percent 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 audit. 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.

Mortgage credit bank operations

Parent company Hypo started mortgage credit bank operations in 2016 and accordingly issued 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 instructed separately.

Realized losses

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

Impact on capital adequacy

In Hypo Group, the capital adequacy requirement for operational risks is calculated using the basic method in accordance with 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 58 and 60 to 61.

The long-term i.e. 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 80 percent in 2017 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.

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

MARKET RISKS

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

A change in the market value of interest-bearing contracts related to Group's business operations may result from a change in the general interest rate level, a change in the credit risk related to the counterparty, limited supply of an instrument on the market (lack of liquidity) or a combination of these. Group aims to maintain the changes in the market value of balance sheet items measured at fair value – that is, debt securities and interest rate derivatives – as well as the net interest rate risk of interest-bearing receivables and liabilities at such levels that they do not jeopardize the achievement of profitability and capital adequacy goals. Items on the balance sheet other than interest-bearing receivables related to lending are held for liquidity purposes. An impairment of market value during the holding period of debt securities decreases the related collectable returns if the investment is realized.

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

Group does not have a securitization position.

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

Calculations and measurements describing the risk related to market risk have been presented in Notes 59 and 61.

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. In Group interest rate balance sheet. Group's interest rate risk on balance sheet equals interest rate risk in banking book.

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

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

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

Currency risk

The currency risk refers to the possibility of loss that results from the fluctuation of currency rates and has an effect on the

Group's result. Hypo Group operates in euros or its operations are contractually converted into euros. It does not engage in foreign exchange trading on its own account. In foreign currency funding, the currency risk is managed with cross currency swaps contracted with internally approved counterparties.

Realized losses

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

Impact on capital adequacy

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

RISKS RELATED TO OWNERSHIP OF HOUSING UNITS AND RESIDENTIAL LAND

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

The statutory maximum for Hypo Group's property holdings and comparable loans and guarantees granted to housing property corporations is 13 percent of the balance sheet total. This limit forms the basis for the management of the risks related to the Group's housing and residential 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 62.

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.

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 land were recognized in Hypo's business operations during the financial year.

Impact on capital adequacy

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

STRATEGIC RISKS

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

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

Changes in the operating environment

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

Competition

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

Regulation risk

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

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

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

Group's recognizability

Group's recognizability is continuously increased by means of networking, increasing Group's visibility in various media in a balanced and cost-effective manner and particularly by carrying out individual customer contacts with an active approach. This has clearly increased the number of Group's customer contacts and partners. The key business indicators for recognizability are the number of customer contacts and the content of customer feedback, which are monitored regularly.

Realized losses

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

Impact on capital adequacy

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

STATEMENT ON NON-DISCLOSED INFORMATION

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

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

50. OWN FUNDS AND CAPITAL RATIOS	2017	2016
Common Equity Tier 1 (CET1) capital: Instruments and reserves		
Capital instruments and the related share premium accounts	5,000.0	5,000.0
of which: Basic capital	5,000.0	5,000.0
Retained earnings	57,162.9	51,048.1
Accumulated other comprehensive income and other reserves	48,152.0	46,677.8
Independently reviewed interim profits net of any foreseeable charge or dividend	5,507.4	6,118.0
Common Equity Tier 1 (CET1) capital before regulatory adjustments	115,822.3	108,843.9
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets	-2,253.5	-2,250.1
Fair value reserves related to gains or losses on cash flow hedges	65.0	591.2
Defined-benefit pension fund assets	-7,563.1	-6,245.4
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-9,751.6	-7,904.3
Common Equity Tier 1 (CET1) capital	106,070.7	100,939.6
Additional Tier 1 (AT1) capital	0.0	0.0
Tier 2 (T2) capital	0.0	0.0
Total capital (TC = T1 + T2)	106,070.7	100,939.6
Total risk weighted assets	836,775.6	743,003.7
Capital ratios and buffers		
Common Equity Tier 1 (CET1) as a percentage of total risk exposure amount	12.7	13.6
Tier 1 (T1) as a percentage of total risk exposure amount	12.7	13.6
Total capital as a percentage of total risk exposure amount	12.7	13.6
Institution specific buffer requirement, %	7.0	7.0
of which: capital conservation buffer requirement, %	2.5	2.5
of which: countercyclical buffer requirement, %	0.0	0.0
of which: systemic risk buffer requirement, %	0.0	0.0
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer, %	0.0	0.0
Commom Equity Tier 1 available to meet buffers, %	9.2	10.1

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. The other risk-weighted items consist of credit valuation risk (CVA). No restrictions applied in the EU's Capital Requirements Regulation (575/2013) compliant own funds calculation and no elements of own funds other than what is laid down in this regulation is used.

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

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

2017	Original exposure pre conversion factors	Exposure value	Risk weighted exposure amount after SME-supporting factor	Own funds requirement
Credit and counterparty risks				
Exposures to central governments or central banks	285,536.7	341,569.4		
Exposures to regional governments or local authorities	107,120.8	117,387.9		
Exposures to public sector entities	12,066.7	12,066.7	2,413.3	193.1
Exposures to credit institutions	74,280.3	84,612.7	25,835.0	2,066.8
Exposures to corporates	97,443.5	45,993.2	40,694.0	3,255.5
Retail exposures	57,487.6	20,767.1	13,993.8	1,119.5
Exposures secured by mortgages on immovable property	2,338,432.0	2,179,657.6	647,467.1	51,797.4
Exposures in default	2,762.4	2,372.2	2,394.9	191.6
Exposures in the form of covered bonds	33,650.7	33,650.7	3,365.1	269.2
Other items	63,157.8	63,157.8	63,157.8	5,052.6
Total	3,071,938.6	2,901,235.4	799,321.0	63,945.7
Operational risk			29,782.5	2,382.6
Other risks			7,672.1	613.8
All items in total	3,071,938.6	2,901,235.4	836,775.6	66,942.0

2016	Original exposure pre conversion factors	Exposure value	Risk weighted exposure amount after SME-supporting factor	Own funds requirement
Credit and counterparty risks				
Exposures to central governments or central banks	229,020.1	277,958.3		
Exposures to regional governments or local authorities	82,866.6	93,894.0		
Exposures to public sector entities	13,515.5	13,515.5	2,703.1	216.2
Exposures to credit institutions	65,147.8	84,149.3	26,356.1	2,108.5
Exposures to corporates	144,735.4	80,940.0	76,275.9	6,102.1
Retail exposures	65,075.2	27,480.6	19,330.8	1,546.5
Exposures secured by mortgages on immovable property	1,902,052.4	1,734,863.3	514,426.5	41,154.1
Exposures in default	2,059.7	1,675.1	1,716.4	137.3
Exposures in the form of covered bonds	33,845.1	33,845.1	3,384.5	270.8
Other items	66,604.7	66,604.7	66,604.7	5,328.4
Total	2,604,922.4	2,414,925.7	710,798.0	56,863.8
Operational risk			28,964.9	2,317.2
Other risks			3,240.8	259.3
All items in total	2,604,922.4	2,414,925.7	743,003.7	59,440.3

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

Total exposure values covered by eligible financial collateral or other eligible collateral	**2017**	**2016**
Exposures to corporates	1,156.0	5,831.8
Retail exposures	3,325.1	5,091.3
Exposures in default	10.0	10.0
Total	4,491.2	10,933.1
Total exposure values covered by guarantees or credit derivatives		
Exposures to corporates	52,962.7	51,344.2
Retail exposures	32,030.2	31,142.4
Exposures in default	63.1	67.5
Total	85,055.9	82,554.1

52. LEVERAGE RATIO

	2017	2016
Leverage ratio, %	3.7	4.2

53. MAXIMUM AMOUNT OF CREDIT AND COUNTERPARTY RISK

2017	Book values, gross	Book value	Average book value during the period	Interest receivables	Impaired receivables
Lending					
Not fallen due	2,180,006.0	2,177,536.3	1,955,080.4	2,469.7	
Past due by 1–2 days*	3,842.5	3,825.9	26,958.9	16.6	
Past due by 3 days–1 month	25,733.1	25,680.8	21,397.9	52.3	
Past due by 1–3 months	2,823.1	2,817.5	3,854.4	5.6	
Non-performing, past due by less than 3 months**	321.8	321.6	201.7	0.3	
Non-performing, past due by more than 3 months	2,731.5	2,392.3	2,050.9	38.0	301.2
Total lending	**2,215,458.1**	**2,212,574.4**	**2,009,544.2**	**2,582.5**	**301.2**
Other					
Receivables from credit institutions					
Not fallen due	16,399.5	16,399.5	10,785.3		
Debt securities					
Not fallen due	285,216.0	284,718.7	288,323.2	497.3	
Shares and holdings	132.4	132.4	132.4		
Derivative contracts					
Not fallen due	1,432.7	258.9	198.6	1,173.7	
Total other	**303,180.5**	**301,509.4**	**299,439.6**	**1,671.0**	**0.0**
Non-performing loans/total lending, %	0.14 %	0.12 %			

Information concerning recognition of impairment losses related to lending is presented in Notes 11 and 17 and the accounting policies.
*) Past due by 1–2 days also includes loans the payment of which is delayed due to a delay in payment traffic.
**) Includes loans that have not fallen due or are past due and that are likely not to be repaid

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

Information concerning recognition of impairment losses related to lending is presented in Notes 11 and 17 and the accounting policies.
*) Past due by 1–2 days also includes loans the payment of which is delayed due to a delay in payment traffic.
**) Includes loans that have not fallen due or are past due and that are likely not to be repaid.

54. DEBT SECURITIES BY CREDIT RATING

Credit rating		**2017**		
S&P equivalency	Goverments and public sector entities	Companies and banks	Covered bonds	Total
AAA			33,555.1	33,555.1
AA+ - AA-	197,017.7	29,997.4		227,015.1
A+ - A-		14,053.8		14,053.8
BBB+ - BBB-		10,094.7		10,094.7
BB+ or below				0.0

Credit rating		**2016**		
S&P equivalency	Goverments and public sector entities	Companies and banks	Covered bonds	Total
AAA			33,759.5	33,759.5
AA+ - AA-	191,787.7	30,137.6		221,925.4
A+ - A-		11,382.0		11,382.0
BBB+ - BBB-	5,169.8	19,691.2		24,861.0
BB+ or below				0.0

55. FORBEARANCES

2017	Performing and past due receivables			Non-performing loans		
	Receivables with modified terms	Refinancing	Total	Receivables with amended terms	Refinancing	Total
Forbearances 1 Jan 2017	3,439.8	489.0	3,928.8	226.8	59.0	285.8
Changes during the financial period	-2,390.8	-282.1	-2,672.8	176.1	-0.6	175.5
Book value of forbearances 31 dec 2017	1,049.1	207.0	1,256.0	402.8	58.5	461.3
Impairment recognized on receivables during the financial period			0.0			0.0

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

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

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

56. CONCENTRATION OF LENDING

	2017	%	2016	%
Lending by category				
Households	723,730.7	32.7 %	641,087.3	35.5 %
Housing companies	1,399,732.7	63.3 %	1,067,885.9	59.1 %
Private companies (housing investors)	85,637.9	3.9 %	86,908.0	4.8 %
Other	3,473.1	0.2 %	10,558.7	0.6 %
Total	2,212,574.4	100.0 %	1,806,439.8	100.0 %
Lending by purpose of use				
Permanent dwelling	2,144,425.6	96.9 %	1,738,057.8	96.2 %
Consumer loan	34,061.0	1.5 %	34,346.4	1.9 %
Holiday home	8,256.4	0.4 %	7,969.6	0.4 %
Other	25,831.4	1.2 %	26,066.1	1.4 %
Total	2,212,574.4	100.0 %	1,806,439.8	100.0 %
Lending by province				
Uusimaa	1,727,032.1	78.1 %	1,436,803.6	79.5 %
Rest of Finland	485,542.3	21.9 %	369,636.3	20.5 %
Total	2,212,574.4	100.0 %	1,806,439.8	100.0 %

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

57. LOAN TO VALUE BY CATEGORY

Loan to value in percent by households:	2017	%	2016	%
<10	6,698.9	0.3 %	6,913.3	0.4 %
10-20	24,012.1	1.1 %	22,286.4	1.2 %
20-30	42,717.0	1.9 %	40,193.0	2.2 %
30-40	73,024.3	3.3 %	61,483.7	3.4 %
40-50	97,739.9	4.4 %	91,117.8	5.0 %
50-60	111,410.8	5.0 %	109,506.4	6.1 %
60-70	163,138.8	7.4 %	124,652.2	6.9 %
70-80	110,520.3	5.0 %	84,051.1	4.7 %
80-90	73,361.1	3.3 %	72,046.4	4.0 %
90-100	18,699.0	0.8 %	26,010.3	1.4 %
>100	2,069.9	0.1 %	1,600.9	0.1 %
Loans that are not included in LTV calculation	832.6	0.0 %	1,782.6	0.1 %
	724,224.9	32.7 %	641,644.1	35.5 %

Loan to value in percent by housing companies, private companies and other:	2017	%	2016	%
<10	271,369.6	12.3 %	220,836.6	12.2 %
10-20	365,172.6	16.5 %	267,454.9	14.8 %
20-30	295,872.3	13.4 %	225,609.8	12.5 %
30-40	258,861.1	11.7 %	170,992.7	9.5 %
40-50	109,081.3	4.9 %	121,566.8	6.7 %
50-60	93,109.9	4.2 %	73,449.6	4.1 %
60-70	30,938.6	1.4 %	37,871.6	2.1 %
70-80	6,724.3	0.3 %	10,130.0	0.6 %
80-90	38,668.3	1.7 %	10,117.0	0.6 %
90-100	2,300.2	0.1 %	10,181.3	0.6 %
>100	5,621.6	0.3 %	5,150.6	0.3 %
Loans that are not included in LTV calculation	10,629.8	0.5 %	11,435.0	0.6 %
	1,488,349.6	67.3 %	1,164,795.7	64.5 %

LTV-ratio (Loan to Value, average), % compares the outstanding balance of credit owed by a customer to the fair value of the collaterals provided by the customer. The ratio reflects a credit institution's lending in relation to its collateral position. All loans have securing housing collateral. One credit is presented only in one LTV category. LTV calculations is including only property-secured loans.

58. LIQUIDITY RISK

Cash flows from financial liabilities and derivatives 2017	<3 months	3-12 months	1-5 years	5-10 years	Total
Liabilities to credit institutions	799.6	3,076.6	88,977.5		92.9
Liabilities to the public and public sector entities	1,225,368.5	314,906.6	20,342.4	173.5	1,560.8
Debt securities issued to the public	40,000.0	298,078.9	367,350.0	302,250.0	1,007.7
Derivative contracts	464.5	-1,490.1	4,603.9	2,258.3	5.8
Subordinated liabilities		4,650.8			4.7
Guarantees, granted but undrawn loans, rental liabilities and potential redemptions of partially owned housing units	305,938.5				305.9
Total liabilities	1,572,571.2	619,222.8	481,273.8	304,681.8	2,977.7

Cash flows from financial liabilities and derivatives 2016	<3 months	3-12 months	1-5 years	5-10 years	Total
Liabilities to credit institutions	2,205.6	22,331.1	91,717.8	1,119.1	117.4
Liabilities to the public and public sector entities	874,047.7	324,367.9	33,722.7	379.5	1,232.5
Debt securities issued to the public	58,342.6	196,958.1	504,731.6	60,150.0	820.2
Derivative contracts	438.5	647.0	3,331.2	298.3	4.7
Subordinated liabilities		4,811.1	4,650.8		9.5
Guarantees, granted but undrawn loans, rental liabilities and potential redemptions of partially owned housing units	303,759.8				303.8
Total liabilities	1,238,794.2	549,115.2	638,153.9	61,946.8	2,488.0

59. INFORMATION CONCERNING INTEREST RATE RISK

Repricing time in 2017 (EUR million)	<3 months	3-12 months	1-5 years	5-10 years	Total
Floating-rate items					
Receivables	1,267.7	1,234.7			2,502.4
Liabilities	463.7	840.2			1,303.9
Net	804.0	394.5	0.0		1,198.5
Fixed-rate items					
Receivables	4.3	8.2	443.7	400.2	856.4
Liabilities	678.8	582.4	552.7	388.5	2,202.3
Net	-674.6	-574.2	-109.0	11.8	-1,345.9

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

Sensitivity analysis
If market interest rates would have increased by 2 per cent (decreased by 0.25 per cent) on the balance sheet date, Group's net interest income would decrease by EUR 7.9 million (increase by EUR 1.0 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 increase the value of items measured at fair value by EUR 0,5 million. The financial value of Hypo would decrease by EUR 1.9 million due to a rise of 2 per cent in interest rates.

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

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

Sensitivity analysis
If market interest rates would have increased by 2 per cent (decreased by 0.25 per cent) on the balance sheet date, Group's net interest income would decrease by EUR 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.

60. LIQUIDITY INFORMATION REQUIREMENTS

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

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

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

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

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

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

	1-3 / 2017	4-6 / 2017	7-9 / 2017	10-12 / 2017
Liquidity buffer	371,734.5	335,993.0	360,209.6	346,090.4
Total net cash outflows	281,753.8	287,549.2	322,410.0	269,802.5
Liquidity coverage ratio (%)	132.7 %	119.4 %	115.1 %	128.0 %

Values are calculated as the simple averages of month-end observations. (January-March, April-June, July-September, October-December)

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

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

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

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

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

61. OTHER INFORMATION DESCRIBING CAPITAL ADEQUACY AND RISK POSITION

Risk type	Indicator	2017	2016
Credit risk	LTV-ratio (Loan to Value, average), %	37.4 %	38.4 %
Credit risk	Non-performing loans, % of loan portfolio	0.14 %	0.11 %
Credit risk	Net impairment losses, EUR million	0.01	-0.27
Liquidity risk	Long-term funding out of total funding, %	36.8 %	39.9 %
Liquidity risk	Deposits out of total funding, %	58.2 %	55.5 %
Liquidity risk	Average maturity of liabilities, in years	3.4	2.6
Liquidity risk	LCR-ratio, %	147.6 %	144.3 %
Liquidity risk	Short-term liquidity, EUR million	506.1	421.0
Liquidity risk	Short-term liquidity, months	40.3	23.1
Liquidity risk	Share of short -term liquidity of the balance sheet total, %	18.1 %	18.3 %
Interest rate risk	Interest rate risk in the banking book, EUR million	-4.0	-1.8
Interest rate risk	Net Present Value risk, EUR million	-1.0	-1.6
Risk related to ownership of housing units and residential land	Total amount of housing property holdings of the balance sheet total, %	2.2 %	2.7 %
Risk related to ownership of housing units and residential land	Book values of investement properties, % out of estimated fair values	95.3 %	95.0 %
Risk related to ownership of housing units and residential land	Occupancy rate, %	95.1 %	95.5 %
Risk related to ownership of housing units and residential land	Net profit of investment properties calculates by book value	3.8 %	3.8 %
Risk related to ownership of housing units and residential land	Average monthly rent per square metre in housing units EUR per square meter	21.3	19.2

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

STATEMENT OF THE SUPERVISORY BOARD

After confirming the Mortgage Society of Finland's accounting principles, we have certified the financial statements for 2017 to be presented to the auditors and the Annual General Meeting. We hereby accept the Board of Directors' proposal for the distribution of profits.

The following members of the Supervisory Board have reached the end of their term in office:
Elina Bergroth, Timo Hietanen, Hannu Hokka, Kari Joutsa, Markku Koskinen ja Kallepekka Osara.

Helsinki, February 28, 2018

Markku Koskela

Hannu Hokka

Timo Aro

Mikael Englund

Markus Heino

Timo Hietanen

Kari Joutsa

Timo Kaisanlahti

Markku Koskinen

Juha Metsälä

Kallepekka Osara

Mari Vaattovaara

Riitta Vahela-Kohonen

Ira van der Pals

AUDITOR'S REPORT
(Translation of the Finnish Original)

Auditor's Report has been issued today.

Helsinki 1 March 2018

PricewaterhouseCoopers Oy
Authorized Public Accountants

Jukka Paunonen
Authorized Public Accountant (KHT)

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

CORPORATE GOVERNANCE

Pictured from left, front row: Consultant, Markku Koskinen, Chief Investment Officer Ira van der Pals, Professor Markku Koskela, Vice Dean Mari Vaattovaara and Development Manager Riitta Vahela-Kohonen. Pictured from left, back row: Director Timo Kaisanlahti, D.Soc. Sc. Timo Aro, Farmer Kallepekka Osara, Managing Director Markus Heino, Debuty Managing Director Timo Hietanen, L.L.M. (Trained on the bench) Kari Joutsa and Managing Director Mikael Englund.

As an issuer of bonds, the Mortgage Society of Finland (Hypo) adheres to the recommendations on the governance of listed companies. The Finnish Corporate Governance Code issued by the Securities Market Association is available at www.cgfinland.fi. A statement on compliance with, and exemptions from, corporate governance code in the Hypo Group is available at www.hypo.fi, along with the statutory 2017 Corporate Governance Statement. The following is a general outline of Hypo's governance system and its administrative bodies and their duties.

SUPERVISORY BOARD

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

The Supervisory Board and its auditors monitor financial reporting, internal audit, risk management and auditing of the accounts. They also evaluate the auditor's independence and the quality of non-audit services. Twice a year, the auditors examine the management and administration of the Mortgage Society of Finland's cash balance, liquidity, securities, obligations and loan and collateral documents. The Supervisory Board must consist of 12 to 18 members. The members are appointed by the Annual General Meeting for a maximum term of three years. The members of the Supervisory Board must be voting members of the Mortgage Society of Finland.

Members of the Supervisory Board as of 31 March 2017

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

Auditors of the Supervisory Board as of 31 March 2017

Markku Koskela, Chair, D.Sc. (Econ.), Professor
Hannu Hokka, Vice Chair, M.Sc. (Econ.), Managing Director
Timo Hietanen, M.Sc. (Econ.), Deputy Managing Director
Kari Joutsa, LL.M. (Trained on the bench)

Deputy auditors as of 31 March 2017

Markku Koskinen, Construction Engineer, Consultant
Elias Oikarinen, D.Sc. (Econ.), Academy Research Fellow, Adjunct Professor

COMMITTEES

Nomination Committee

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

Nomination Committee 2017

Markku Koskela, Chair, D.Sc. (Econ.), Professor
Hannu Hokka, Vice Chair, M.S.c (Econ.), Managing Director
Sari Lounasmeri, M.Sc. (Econ.), Managing Director
Harri Hiltunen, M.Sc. (Econ.), Managing Director

Compensation Committee

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

Compensation Committee 2017

Markku Koskela, Chair, D.Sc. (Econ.), Professor
Hannu Hokka, Vice Chair, M.S.c (Econ.), Managing Director
Timo Hietanen, M.Sc. (Econ.), Deputy Managing Director
Kari Joutsa, LL.M. (Trained on the bench)

BOARD OF DIRECTORS

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

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

Members of the Board: Ari Pauna, Pasi Holm, Harri Hiltunen, Kai Heinonen, Teemu Lehtinen, Mikko Huopio, Tuija Virtanen, Sari Lounasmeri and Hannu Kuusela.

Members of the Board as of 31 March 2017

Sari Lounasmeri (b. 1975), Chair, M.Sc. (Econ.), Managing Director, member of the Board since 2011
Kai Heinonen (b. 1956), LL.M., Real Estate Director, member of the Board since 2014
Harri Hiltunen (b. 1961), Vice Chair, MSc (Econ.), Managing Director, member of the Board since 2012
Pasi Holm (b. 1962), D.Soc.Sc., Research Director, member of the Board since 2015
Mikko Huopio (b. 1968) LL.M. (Trained on the bench), Chief Risk Officer, member of the Board since 2017
Hannu Kuusela (b. 1956), D.Sc. (Econ.), Professor, member of the Board since 2001
Teemu Lehtinen (b. 1961), D.Soc.Sc., M.Sc. (Tech.), Managing Director, member of the Board since 2005
Ari Pauna (b. 1967), LL.M., Chief Executive Officer, member of the Board since 2006
Tuija Virtanen (b. 1958), D.Sc. (Econ.), University Lecturer, member of the board since 2009

Mikko Huopio serves as Secretary to the Board.

CHIEF EXECUTIVE OFFICER AND MANAGEMENT GROUP

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

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

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

The Management Group assists Hypo's Chief Executive Officer, operating under his supervision and responsibility. The

Board of Directors has confirmed the composition of the Management Group and its charter. The Management Group prepares strategic matters, significant operational matters and operational matters of principle for the meetings of the Board of Directors. It also plans, implements and monitors the Group's ongoing operations. The Management Group makes decisions concerning Hypo's internal rules and authorities and the organization of personnel within the framework of the authorities delegated to the chairperson. The Management Group also has the special task of granting exceptional loans within the framework of the authorities delegated to it.

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

ANNUAL GENERAL MEETING

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

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

AUDITORS

Auditing of the accounts

The Annual General Meeting must select an authorised public accountant or two auditors and their deputies during each financial period for the purposes of auditing the accounts, financial statements and administration. All of the aforementioned must be auditors or public accountants authorised by the Finnish Chambers of Commerce. In 2017, PricewaterhouseCoopers Oy, Authorised Public Accountants, was selected to carry out auditing. The chief auditor is Jukka Paunonen, KHT Auditor, M.Sc. (Econ.).

Internal audit

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

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

PERMANENT PERSONNEL ON 1 MARCH 2018

Chief Executive Officer **Ari Pauna**
Chief Economist and Research Director **Juhana Brotherus**
Chief Audit Officer **Sari Ojala**

LENDING AND CUSTOMER SERVICE

Chief Banking Officer **Sami Vallinkoski**

Private Customers

Home Financing Director **Päivi Salo**, LKV
Home Financing Manager **Juha Kolari**
Home Financing Manager **Pauli Lange**, LKV
Home Credit Manager **Anu Maliranta**, LKV
Home Financing Manager **Risto Marila**, LKV
Home Financing Manager **Marjut Nummelin**, LKV
Home Financing Specialist **Nea Nykänen**
Home Financing Manager **Hannele Nyström**, LKV
Home Financing Manager **Kati Ryhänen**, KED
Home Financing Manager **Sirpa Soikkeli**
Home Financing Manager **Maarit Valkeajärvi**, LKV
Financing Manager **Teemu Venäläinen**, LKV

Institutional Customers

Home Financing Director **Tom Lönnroth**
Home Financing Manager **Ksenia Akkonen**, LKV
Home Financing Manager **Jari Häkkinen**, LKV
Financing Manager **Pekka Nuutinen**, LKV
Home Financing Manager **Petra Pironetti**, KED

Customer Service and Sales Support

Customer Service Director **Kirsti Heikura**
Service Advisor **Joanna Bremer**
Home Financing Specialist **Katja Grönholm**
Home Financing Manager **Anne Hiltunen**, LKV
Debt Collection Manager **Päivi Hietamies**, LKV
Home Financing Specialist **Krista Kumpulainen**
Home Financing Specialist **Anja Kymäläinen**, LKV
Property Specialist **Marja Niemelä**, LVV, KED
Home Financing Manager **Elisa Petrell**, LKV

FUNDING AND TREASURY

Chief Treasury and Funding Officer **Petteri Bollmann**
Director, treasury, funding and rating **Maiju Harava**
Financing Manager **Kristiina Aitala**, LKV
Senior Manager **Julia Grahn**
Financing Manager **Tiina Helokivi**
Financing Manager **Anttimatti Sipilä**
Back Office Specialist **Tiina Vartiainen**

RESIDENTIAL LAND FUNDS AND TRUSTEE SERVICES

Investment Director, Managing Director **Juho Pajari**

FINANCIAL ADMINISTRATION

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

RISK MANAGEMENT, COMPLIANCE LEGAL AFFAIRS AND DEVELOPMENT

Chief Risk Officer, deputy to the CEO **Mikko Huopio**
Director **Sami Aarnio**
Technical Manager **Ari Korkia-Aho**
ICT Manager **Pekka Turunen**

THE FIRST 157 YEARS OF HYPO

Hypo is the only specialized national organization focusing in home financing and housing in Finland. Hypo's loan book grew to EUR 2.2 billion and the deposits exceeded EUR 1.5 billion.

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

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

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

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

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

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

1 Feb 1862 First private bond issue in Finland.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1929 The Great Depression.

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

1939–1945 Second World War.

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

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

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

1967–1976 **Pentti Huhanantti**, LL.M. (trained on the bench), serves as president.

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

1979–1987 **Osmo Kalliala**, LL.M. (trained on the bench) serves as managing director. Lending expands into home building and apartment purchasing, into housing companies for renovation projects, and into new developments.

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

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

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

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

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

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

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

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

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

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

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

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

2017 S&P Global Ratings raises Hypo's short-term counterparty credit rating to 'A-2' from 'A-3' and affirms the 'BBB' long-term rating with stable outlook.

Hypo's credit portfolio grew to EUR 2.2 billion and the deposits exceeded EUR 1.5 billion.

HYPO

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

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

Full contact details