THE MORTGAGE SOCIETY OF FINLAND

FINANCIAL STATEMENTS 2017

157th operational year

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Interim report Q1 2017 will be published 27 April 2018

This is an unofficial English language translation of the original Finnish language release (Toimintakertomus ja tilinpäätös 2017) and it has not been approved by any competent authority. Should there be any discrepancies between the Finnish language and the English language versions, the Finnish version shall prevail.

BOARD OF DIRECTORS' 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

Key financial indicators 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.

The formulas for Key Financial Indicators and their definitions are presented in the accounting policies.

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, milj. €

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

Operating profit/Turnover, %

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

Return on equity % (ROE)

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

Return on assets % (ROA)

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

Equity ratio, %

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

Cost-to-income ratio, %

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

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

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

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

Loans/deposits %

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

Deposits out of total funding, %

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

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

Long-term funding out of total funding, %

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

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

Average number of personnel	Number of personnel includes those in employment relationship during the financial year (excl. The CEO and deputy to the CEO). Average number of personnel is calculated by dividing the sum of the number of permanent full-time personnel at the end of each month by the total number of months.
Salaries and remuneration, milj. €	Total of personnel's salaries and remuneration

Description of Alternative Performance Measures:

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

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

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

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

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

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

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

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

Loans / deposits, % describes the relation of lending to deposit funding. A ratio exceeding 100 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.

Definitions of Key Financial Indicators set out in EU's Capital Requirements Regulation:

Non-performing assets, % of the loan portfolio

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

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

LCR-ratio, %

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

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

Leverage Ratio, %

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

Common Equity Tier 1 (CET1) ratio %

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

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

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	-16,8
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	1 747,15	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	149,50	160,1	211,3
Financial assets available for sale	-165,2	540,1	-12,21	-160,1	-101,2
	-100,8	692,3	137,29	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	44,36	509,0	-563,2
	134,3	54,5	44,36	509,0	-563,2
Total other comprehensive income	33,5	746,8	181,65	509,1	-453,1
COMPREHENSIVE INCOME FOR THE PERIOD	**1 463,8**	**2 206,7**	**1 928,80**	**1 379,1**	**491,8**

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's companies have been involved in administrative or legal proceedings, arbitrations or other events that would have had a material effect on Hypo's financial position. Furthermore, Hypo is not aware of such proceedings or events being under consideration or being otherwise threatened.

FUTURE OUTLOOK

Finnish economy 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 auditing and risk management systems related to financial reporting process, have been published on its website (http://www.hypo.fi/en) in conjunction with this 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

CONSOLIDATED INCOME STATEMENT, IFRS

€	Note	1.1.-31.12.2017	1.1.-31.12.2016
Interest income	1	20 414 583,14	19 951 729,90
Interest expenses	1	-11 423 353,96	-14 565 538,76
NET INTEREST INCOME		**8 991 229,18**	**5 386 191,14**
Income from equity investments			
From other companies	2	39 900,00	
Fee income	3	3 617 996,83	4 517 097,68
Fee expenses	3	-93 279,41	-77 646,96
Net income from currency operations and securities trading			
Net income from securities trading	4	421 397,43	-522 213,59
Net income from currency operations	4		71,27
Net income from available-for-sale financial assets	5	1 749 552,84	3 634 499,62
Net income from hedge accounting	6	-27 088,38	-53 717,28
Net income from investment properties	7	2 924 023,37	4 881 279,22
Other operating income	8	82 396,07	-16 044,71
Administrative expenses			
Personnel expenses			
Salaries and remuneration		-4 968 490,52	-4 513 368,53
Indirect personnel expenses			
Pension expenses		-1 135 150,56	-1 054 202,59
Other indirect personnel expenses		-218 210,85	-308 218,23
Other administrative expenses		-2 687 510,11	-2 825 111,47
Total administrative expenses		-9 009 362,04	-8 700 900,82
Depreciation and impairment losses on tangible and intangible assets	10	-475 045,23	-327 974,44
Other operating expenses	9	-1 576 254,23	-1 105 043,91
Impairment losses on loans and other commitments	11	5 981,56	-268 702,81
OPERATING PROFIT		**6 651 447,99**	**7 346 894,41**
Income taxes	12	-1 144 010,04	-1 228 892,81
PROFIT FROM OPERATIONS AFTER TAXES		**5 507 437,95**	**6 118 001,60**
PROFIT FOR THE PERIOD		**5 507 437,95**	**6 118 001,60**

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT, IFRS

€	1.1.-31.12.2017	1.1.-31.12.2016
Profit for the period	5 507 437,95	6 118 001,60
Other comprehensive income		
Items that may in the future be recognised through profit or loss		
Change in fair value reserve		
Hedging of cash flows	526 208,29	822 539,74
Financial assets available for sale	202 623,27	580 501,73
	728 831,56	1 403 041,47
Items that may not be included in the income statement at a later date		
Revaluation of defined benefit pension plans	742 122,40	185 605,60
Adjustment made to retained earnings*	0,00	34 917,04
	742 122,40	220 522,64
Total other comprehensive income	1 470 953,96	1 623 564,11
COMPREHENSIVE INCOME FOR THE PERIOD	**6 978 391,91**	**7 741 565,71**

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

CONSOLIDATED BALANCE SHEET, IFRS

€	Note	31.12.2017	31.12.2016
ASSETS			
Cash	14,15,32,34	201 200 000,00	120 200 000,00
Debt securities eligible for refinancing with central banks			
Other	15,18,32,34	284 718 670,00	291 927 798,00
		284 718 670,00	291 927 798,00
Receivables from credit institutions			
Payable on demand	15,16,32,34	16 321 985,97	5 153 280,63
Other	15,16,32,34	77 487,07	17 874,87
		16 399 473,04	5 171 155,50
Receivables from the public and public sector entities			
Other than those payable on demand	17,32,34	2 212 574 420,91	1 806 439 839,71
Shares and holdings	19,34	132 374,82	132 374,82
Derivative contracts	20,34,35	258 923,47	138 375,69
Intangible assets	21,23	2 816 882,63	2 812 638,76
Tangible assets			
Investment properties and shares and holdings in investment properties	22,23	59 685 989,78	61 691 380,23
Other properties and shares and holdings in housing property corporations	22,23	854 543,67	864 680,63
Other tangible assets	23,00	295 631,52	336 736,80
		60 836 164,97	62 892 797,66
Other assets	24	8 568 761,49	9 239 505,48
Deferred income and advances paid	25	4 843 803,70	5 964 427,66
Deferred tax receivables	26	139 330,33	299 536,13
TOTAL ASSETS		**2 792 488 805,36**	**2 305 218 449,41**

CONSOLIDATED BALANCE SHEET, IFRS

€	Note	31.12.2017	31.12.2016
LIABILITIES			
LIABILITIES			
Liabilities to credit institutions			
To central banks	32,34	80 000 000,00	80 000 000,00
To credit institutions			
Payable on demand			
Other than those payable on demand	32,34	13 873 804,11	38 086 504,12
		93 873 804,11	118 086 504,12
Liabilities to the public and public sector entities			
Deposits			
Payable on demand	32,34	749 110 925,32	641 954 579,59
Other than those payable on demand	32,34	791 289 555,80	561 087 810,28
		1 540 400 481,12	1 203 042 389,87
Other liabilities			
Other than those payable on demand	32,34	19 545 503,11	28 476 903,75
		1 559 945 984,23	1 231 519 293,62
Debt securities issued to the public			
Bonds	27,32,34	852 292 188,52	699 076 233,30
Other	27,32,34	134 929 039,70	111 433 329,49
		987 221 228,22	810 509 562,79
Derivative contracts	20,34,35	6 944 617,82	4 536 332,56
Other liabilities			
Other liabilities	28	9 636 291,44	8 660 046,37
Deferred expenses and advances received	29	4 524 148,57	4 640 289,33
Subordinated liabilities			
Other	30,31,32,34	4 490 081,34	8 980 060,25
Deferred tax liabilities	26	10 030 327,35	9 442 430,04
EQUITY			
Basic capital	36	5 000 000,00	5 000 000,00
Other restricted reserves			
Reserve fund		22 799 937,02	22 796 701,60
Fair value reserve			
From cash flow hedging		-65 038,06	-591 246,35
From valuation at fair value		34 034,59	-168 588,68
Defined benefit pension plans			
Actuarial gains/losses		2 459 564,00	1 717 441,60
Unrestricted reserves			
Other reserves		22 923 500,00	22 923 500,00
Retained earnings		57 162 886,78	51 048 120,56
Profit for the period		5 507 437,95	6 118 001,60
		115 822 322,28	108 843 930,33
TOTAL LIABILITIES AND EQUITY		**2 792 488 805,36**	**2 305 218 449,41**

STATEMENT OF CHANGES IN EQUITY

€	Basic capital	Reserve fund	Fair value reserve	Other reserves	Retained earnings*	Total
Equity 1 Jan. 2016	**5 000 000**	**22 794 722**	**- 631 041**	**22 923 500**	**51 015 184**	**101 102 365**
Profit for the period					6 118 002	6 118 002
Other comprehensive income						
Adjustment made to retained earnings					34 917	34 917
Distribution of profits		1 980			-1 980	0
Hedging of cash flow						
Amount recognised in equity			- 480 252			-480 252
Amount transferred to the income statement			1 508 427			1 508 427
Change in deferred taxes			- 205 635			-205 635
Financial assets available for sale						
Change in fair value			4 360 127			4 360 127
Amount transferred to the income statement			- 3 634 500			-3 634 500
Change in deferred taxes			- 145 126			-145 125
Defined benefit pension plans						
Actuarial gains/losses			232 007			232 007
Change in deferred taxes			- 46 401			-46 401
Total other comprehensive income	0	1 980	1 588 647	0	32 937	1 623 564
Equity 31 Dec. 2016	**5 000 000**	**22 796 702**	**957 607**	**22 923 500**	**57 166 123**	**108 843 931**

* Retained earnings 1 January 2016 have been allocated for amount of EUR -299 549,47 due to allocation of sale of real estate. Amendment of EUR 34 917 related to taxes from joint operations.

€	Basic capital	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
Equity 1 Jan. 2017	**5 000 000**	**22 796 702**	**957 607**	**22 923 500**	**57 166 123**	**108 843 931**
Profit for the period					5 507 438	5 507 438
Other comprehensive income						
Distribution of profits		3 235			-3 235	0
Hedging of cash flow						
Amount recognised in equity			- 58 420			-58 420
Amount transferred to the income statement			716 181			716 181
Change in deferred taxes			- 131 552			-131 552
Financial assets available for sale						
Change in fair value			2 002 832			2 002 832
Amount transferred to the income statement			- 1 749 553			-1 749 553
Change in deferred taxes			- 50 656			-50 656
Defined benefit pension plans						
Actuarial gains/losses			927 653			927 653
Change in deferred taxes			- 185 531			-185 531
Total other comprehensive income	0	3 235	1 470 954	0	-3 235	1 470 954
Equity 31 Dec. 2017	**5 000 000**	**22 799 937**	**2 428 561**	**22 923 500**	**62 670 325**	**115 822 323**

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’s companies have been involved in administrative or legal proceedings, arbitrations or other events that would have had a material effect on Hypo’s financial position. Furthermore, Hypo is not aware of such proceedings or events being under consideration or being otherwise threatened.

According to section 26 of the rules of the Mortgage Society of Finland, at least 80 percent of annual profits must be transferred to a contingency fund or a reserve fund if the ratio between equity and risk-adjusted commitments (capital adequacy ratio) is less than 8 percent. If the capital adequacy ratio is at least 8 percent but less than 9 percent, at least 70 percent of annual profits must be transferred to a contingency or reserve fund. If the ratio is at least 9 percent, at least 50 percent of annual profits must be transferred to a contingency or reserve fund. The Board of Directors proposes that EUR 10 721.51 of Hypo’s result for 2017 (EUR 21 443.02) be transferred to the reserve fund and the rest remain unused.

CONSOLIDATED CASH FLOW STATEMENT

€	1.1.-31.12.2017	1.1.-31.12.2016
Cash flow from operating activities		
Interest received	20 094 866,65	19 143 653,97
Interest paid	-11 478 603,68	-15 477 064,21
Fee income	3 856 493,93	4 073 224,62
Fee expenses	-93 279,41	-77 646,96
Net income from currency operations and securities trading	421 397,43	-522 142,32
Net income from available-for-sale financial assets	1 749 552,84	3 634 499,62
Net income from hedge accounting	-27 088,38	-53 717,28
Net income from investment properties	2 986 797,14	3 855 962,07
Other operating income	82 396,07	-16 044,71
Administrative expenses	-7 145 791,75	-10 804 636,84
Other operating expenses	-1 682 864,16	-1 225 838,04
Credit and guarantee losses	5 981,56	-268 702,81
Income taxes	-1 580 399,34	-1 150 130,90
Total net cash flow from operating activities	**7 189 458,90**	**1 111 416,21**
Operating assets increase (-) / decrease (+)		
Receivables from customers (lending)	-406 340 929,26	-384 886 131,93
Cash collaterals, derivatives	345 440,84	-46 077,80
Investment properties	5 294 416,20	7 814 428,18
Operating assets increase (-) / decrease (+) total	**-400 701 072,22**	**-377 117 781,55**
Operating liabilities increase (+) / decrease (-)		
Liabilities to the public and public sector entities (deposits)	337 357 837,35	164 101 112,58
Operating liabilities increase (+) / decrease (-) total	337 357 837,35	164 101 112,58
NET CASH FLOWS ACCRUED FROM OPERATING ACTIVITIES	**-56 153 775,97**	**-211 905 252,76**
Cash flows from investments		
Change in fixed assets	-428 046,86	-1 144 481,31
Equity investments increase (-) / decrease (+)	39 900,00	
NET CASH FLOWS ACCRUED FROM INVESTMENTS	**-388 146,86**	**-1 144 481,31**
Cash flows from financing		
Bank loans, new withdrawals	80 297 167,22	131 830 436,68
Bank loans, repayments	-104 509 867,23	-165 129 680,61
Other liabilities increase (+) / decrease (-)	-8 995 618,69	-6 303 740,67
Bonds, new issues	344 297 329,01	429 857 540,28
Bonds, repayments	-188 533 629,24	-252 291 457,73
Certificates of deposit, new issues	217 964 155,43	180 965 705,10
Certificates of deposit, repayments	-194 468 445,22	-138 983 712,76
Subordinated liabilities, new withdrawals	33 965,46	59 013,04
Subordinated liabilities, repayments	-4 523 944,37	-4 548 640,86
NET CASH FLOWS ACCRUED FROM FINANCING	**141 561 112,37**	**175 455 462,47**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**85 019 189,54**	**-37 594 271,60**
Cash and cash equivalents at the beginning of the period	417 298 953,50	454 893 225,10
Cash and cash equivalents at the end of the period	502 318 143,04	417 298 953,50
CHANGE IN CASH AND CASH EQUIVALENTS	**85 019 189,54**	**-37 594 271,60**

NOTES TO GROUP'S FINANCIAL STATEMENTS 31 DECEMBER 2017

ACCOUNTING POLICIES

Group

The Mortgage Society of Finland Group (hereinafter "Hypo Group" or "the 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 30 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 and interpretations on 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 derecognition 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 –standard's reversal of impairments and IFRS 9 –standard's 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 collaterals, estimates of expected future value of the housing collaterals 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, collaterals other than those accepted in the LTV calculation, only high-quality collateral is qualified as collateral in the ECL calculations (i.e. guarantee deposits or state / municipality guarantees).

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.

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 recognised 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

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 specify 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 - standard as of 1 January 2018 instead of the previously applied IAS 18 standard on revenue recognition. IFRS 15 standard 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.

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 -standard.

IFRS 16 Leases

IAS 16 Leases –standard is endorsed by EU. Hypo will adopt the new standard from 1 January 2019 and onwards. Impacts of IFRS 16 –standard 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 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 derecognized 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, re-pricing dates, interest periods and reference rates of the hedged item and the hedging instrument are identical or very similar. In the retrospective verifications, which are carried out at least four times a year, the effectiveness of the hedging instruments and the hedged items is verified to be between 80 and 125 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, re-pricing dates, interest periods and reference rates of the hedged item and the hedging instrument are identical or very similar.

Hedge effectiveness is tested with hypothetical derivatives. Hypothetical derivatives are identical in their terms to the hedged item, excluding the credit risk. In monthly retrospective tests, the hedge effectiveness is verified when the ratio is between 80 and 125 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.

The 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.

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 a 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, the 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 recognised 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 Breakdown of interest income and expenses by balance sheet item

	2017	2016
Receivables valued at allocated acquisition cost		
Receivables from credit institutions		1 752,78
Receivables from the public and public sector entities	17 781 751,70	18 011 695,73
Total	17 781 751,70	18 013 448,51
Debt securities available for sale	113 964,55	537 083,49
Derivative contracts	1 795 700,80	710 942,29
Negative interest expenses of finacial liabilities	324 444,45	76 385,24
Other interest income	398 721,64	613 870,37
Total interest income	20 414 583,14	19 951 729,90
Liabilities valued at allocated acquisition cost		
Liabilities to credit institutions	-308 054,72	-793 082,99
Liabilities to the public and public sector entities	-4 177 359,24	-5 609 904,54
Debt securities issued to the public	-4 147 282,70	-5 024 957,84
Subordinated liabilities	-292 472,60	-454 622,57
Total	-8 925 169,26	-11 882 567,94
Derivative contracts	-2 021 517,39	-2 468 334,20
Negative interst income of cash and cash equivalents	-475 795,02	-213 739,06
Other interest expenses	-872,29	-897,56
Total interest expenses	-11 423 353,96	-14 565 538,76

2 Income from equity investments

	2017	2016
From available-for-sale financial assets	39 900,00	

3 Fee income and expense

	2017	2016
From lending and deposits	1 782 335,55	1 856 423,38
From legal assignments	224 798,91	296 093,54
From residential property trustee service	1 267 119,47	2 011 809,94
From other operations	343 742,90	352 770,82
Total fee income	3 617 996,83	4 517 097,68
Other fee expenses	-93 279,41	-77 646,96
Total fee expenses	-93 279,41	-77 646,96

4 Net income from currency operations and securities trading

	2017	2016
Gains and losses from disposals of financial instruments (net)		
Net income arising from items recognised based on the fair value option	203 855,90	-71 133,98
Derivative contracts not in hedge accounting relationships		-113 164,00
Gains and losses arising from measurement at fair value (net)		
Net income arising from items recognised based on the fair value option	432 172,17	-211 662,55
Derivative contracts not in hedge accounting relationships	-214 630,64	-126 253,06
Net income from securities trading	421 397,43	-522 213,59
Net income from currency operations		71,27
Total net income from currency operations and securities trading	421 397,43	-522 142,32

5 Net income form available-for-sale financial assets

	2017	2016
Capital gains from debt securities	1 749 552,84	3 634 499,62

6 Net income from hedge accounting

	2017	2016
Change in fair value, hedging items	3 904 765,03	59 483,68
Change in fair value, hedging instruments	-3 931 853,41	-113 200,96
Total	-27 088,38	-53 717,28

7 Net income from investment properties

	2017	2016
Rental income	2 480 623,66	2 612 130,24
Capital gains (losses)	596 462,75	2 446 877,40
Other income	819 763,30	777 073,75
Maintenance charges and other maintenance costs paid		
From investment properties that have accrued rental income during the period	-878 980,57	-849 282,31
Other expenses	-35 160,80	-46 834,89
Depreciation according to plan	-58 684,97	-58 684,97
Total	2 924 023,37	4 881 279,22

8 Other operating income

	2017	2016
Rental income, property assets in own use	12 005,00	9 132,00
Other income	70 391,07	-25 176,71
Total	82 396,07	-16 044,71

9 Other operating expenses

	2017	2016
Rental expenses	-202 529,16	-132 836,34
Expenses from properties in own use	-57 543,55	-52 317,05
Other expenses	-1 316 181,52	-919 890,52
Total	-1 576 254,23	-1 105 043,91

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	-475 045,23	-327 974,44

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	-44 594,27	-289 983,62
Deductions	50 575,83	21 280,81
Total	5 981,56	-268 702,81

12 Income taxes

	2017	2016
Breakdown of taxes in the income statement		
Tax expense based on taxable income for the financial period	-760 645,44	-1 025 787,66
Change in deferred taxes	-380 364,60	-202 813,85
Taxes from previous periods	-3 000,00	-291,30
Taxes in the income statement	**-1 144 010,04**	**-1 228 892,81**
Reconciliation of taxes		
Profit before taxes	6 651 447,99	7 346 894,41
Tax-free income	-919 423,84	-1 029 636,34
Non-deductible expenses	29 830,52	50 445,02
Adjustment made to previous period*		-148 074,88
Recognition of previously unrecorded tax losses	-56 804,47	-61 620,66
Total	**5 705 050,20**	**6 158 007,56**
Taxes calculated using the tax rate of 20 %	-1 141 010,04	-1 231 601,51
Taxes from previous periods	-3 000,00	-291,30
Other items		3 000,00
Taxes in the income statement	**-1 144 010,04**	**-1 228 892,81**

*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	17 438 062	6 511 016	2 792 310 984	2 676 539 160	58
Other operations	388 434	330 702	224 520	21 806	
	17 826 496	6 841 718	2 792 535 504	2 676 560 965	58

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

NOTES TO THE CONSOLIDATED BALANCE SHEET

14 Liquid assets

	2017	2016
Receivables from central bank	201 200 000,00	120 200 000,00

15 Cash and cash equivalentsa and net debt in the cash flow statement

	2017 book value	2016 book value
Liquid assets	201 200 000,00	120 200 000,00
Debt securities eligible for refinancing with central banks	284 718 670,00	291 927 798,00
Receivables from credit institutions	16 399 473,04	5 171 155,50
	502 318 143,04	417 298 953,50

Net debt	**2017**
Cash and cash equivalents	502 318 143,04
Funding, repayable within one year	-134 929 039,70
Funding, repayable after one year	-977 435 699,17
Net debt	-610 046 595,83
Cash and cash equivalents	502 318 143,04
Funding, fixed rate	-139 419 121,04
Funding, floating rate	-972 945 617,83
Net debt	-610 046 595,83

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	120 200 000,00	291 927 798,00	5 171 155,50	-111 433 329,49	-859 370 297,01	-553 504 673,00
Cash flows	81 000 000,00	-7 209 128,00	11 228 317,54	-23 437 353,42	-117 565 439,98	-55 983 603,86
Other non-cash movements				-58 356,79	-499 962,18	-558 318,97
Net debt 31.12.2017	201 200 000,00	284 718 670,00	16 399 473,04	-134 929 039,70	-977 435 699,17	-610 046 595,83

The 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		77 487,07	77 487,07		17 874,87	17 874,87
From domestic credit institutions	1 444 519,16		1 444 519,16	5 150 403,17		5 150 403,17
From foreign credit institutions	14 877 466,81		14 877 466,81	2 877,46		2 877,46
Total	16 321 985,97	77 487,07	16 399 473,04	5 153 280,63	17 874,87	5 171 155,50

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	1 485 557 215,48	1 154 978 566,06
Households	716 199 324,20	635 213 943,99
Financial and insurance institutions	1 750 000,00	8 620 000,00
Non-profit organisations serving households	731 823,23	870 891,66
Foreign countries	8 336 058,00	6 756 438,00
Total	2 212 574 420,91	1 806 439 839,71
Subordinated receivables	632 111,77	642 560,92
Non perfoming loans	3 053 302,41	2 050 863,17

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

	2017	2016*
Impairment losses on receivables recognised during the period		
Impairment losses at the beginning of the year	307 153,14	204 880,40
Receivable-specific impairment losses recognised during the period	44 594,27	123 553,55
Receivable-specific impairment losses reversed during the period	-50 575,83	-21 280,81
Impairment losses at the end of the year	301 171,58	307 153,14

No group-specific impairment losses have been recognised.

* 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	0,00	158 738,36

18 Debt securities

	2017			2016		
	Publicly quoted	Other	Total	Publicly quoted	Other	Total
Issued by public sector entities						
Available for sale						
Government bonds	42 187 160,00		42 187 160,00	27 235 310,00		27 235 310,00
Other bonds issued by public sector entities	107 094 500,00		107 094 500,00	82 841 070,00		82 841 070,00
Recognised based on the fair value option						
Government bonds	41 706 700,00		41 706 700,00	80 827 400,00		80 827 400,00
Other bonds issued by public sector entities	6 029 340,00		6 029 340,00	6 053 700,00		6 053 700,00
Those issued by other than public sector entities						
Held to maturity						
Bonds issued by banks			-			0,00
Recognised based on the fair value option						
Bonds issued by banks	23 493 980,00		23 493 980,00	23 599 710,00		23 599 710,00
Available for sale						
Bonds issued by banks	58 346 790,00		58 346 790,00	65 328 808,00		65 328 808,00
Other debt securities	5 860 200,00		5 860 200,00	6 041 800,00		6 041 800,00
Total debt securities	284 718 670,00	0,00	284 718 670,00	291 927 798,00	0,00	291 927 798,00
Subordinated receivables			-			0,00
Receivables eligible for refinancing with central banks			284 718 670,00			291 927 798,00

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		132 374,82	132 374,82		132 374,82	132 374,82
Of which at acquisition cost		132 374,82	132 374,82		132 374,82	132 374,82
Of which in credit institutions		108 500,00	108 500,00		108 500,00	108 500,00

20 Derivative contracts

	2017		2 016	
	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		81 297,57		714 461,90
OTC Interest rate swaps, fair value hedge accounting model, fair value	1 301,71	4 448 041,37	477,68	622 124,22
Derivative contracts not in hedge accounting relationships				
OTC Interest rate swaps, fair value	257 621,76	2 415 278,88	137 898,01	3 199 746,44
of which: cleared by a central counterparty	232 111,90	8 212,81		45 924,75
	258 923,47	6 944 617,82	138 375,69	4 536 332,56
OTC Interest rate and currency swaps, accrued interest	1 173 742,34	1 734 937,95	380 917,34	668 029,22
Total	1 432 665,81	8 679 555,77	519 293,03	5 204 361,78

	2017			
Remaining maturity	less than one year	1-5 years	>5 years	Total
Nominal values of the underlying instruments	5 000 000,00	461 000 000,00	394 634 500,00	860 634 500,00
of which: cleared by a central counterparty		45 000 000,00	40 000 000,00	85 000 000,00
Fair value, assets		161 955,63	96 967,84	258 923,47
of which: cleared by a central counterparty		161 955,63	70 156,27	232 111,90
Fair value, liabilities	81 297,57	2 308 614,34	4 554 705,91	6 944 617,82
of which: cleared by a central counterparty		8 212,81		8 212,81

	2016			
Remaining maturity	Less than one year	1-5 years	>5 years	Total
Nominal values of the underlying instruments	40 000 000,00	320 000 000,00	190 634 500,00	550 634 500,00
of which: cleared by a central counterparty			10 000 000,00	10 000 000,00
Fair value, assets		96 302,05	42 073,64	138 375,69
of which: cleared by a central counterparty				0,00
Fair value, liabilities	392 010,39	1 218 146,00	2 926 176,17	4 536 332,56
of which: cleared by a central counterparty			46 924,75	46 924,75

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	1 763 113,66	1 814 028,34
Other intagible assets	1 053 768,97	998 610,42
	2 816 882,63	2 812 638,76
Amount of agreement-based commitments concerning acquisition of intangible assets	247 527,00	0,00

22 Tangible assets

	2017	2016
Investment properties and investment property shares, balance sheet value		
Land and water areas	9 338 888,85	11 549 131,87
Buildings	969 842,06	1 028 527,03
Shares and holdings in housing property corporations	49 377 258,87	49 113 721,33
Total balance sheet value	**59 685 989,78**	**61 691 380,23**
Total fair value of investment properties	62 615 713,23	65 084 959,14
of which share based on assessments of a qualified third-party valuer	13 964 488,00	10 803 712,27

	2017	2016
Non-cancellable land lease agreementst		
Rental receivables within one year	159 836,52	339 043,92

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	2 875 056,87	563 177,00
Liabilities related to construction	2 181 921,00	2 181 921,00
Total	5 056 977,87	2 745 098,00

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	687 017,74	687 017,74
Buildings	167 525,93	177 662,89
Total balance sheet value	**854 543,67**	**864 680,63**
Total fair value of other properties	3 526 331,41	3 536 468,37
Obligations related to sites under construction		
Unpaid purchase prices of sites under construction	0,00	0,00

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

The fair values of housing units have mainly been assessed using the Statistics Finland’s latest released statistics on the prices of dwellings, in which dwellings are divided into categories based on type and location. The fair values of flats purchased a year or less than a year ago are assumed to be equal to their acquisition prices. The fair value of land is its acquisition cost adjusted for the increase in the 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	**4 545 809**	**64 497 058**	**931 967**	**2 451 912**	**67 880 937**
Increases, new acquisitions	400 770	9 846 200		27 277	**9 873 477**
Deductions		-11 851 591			**-11 851 591**
Acquisition cost 31 December 2017	**4 946 579**	**62 491 667**	**931 967**	**2 479 189**	**65 902 824**
Accumulated depreciation and impairment losses 1 Jan 2017	1 733 170	513 612	67 287	2 115 176	**2 696 074**
Depreciation for the period	396 526		10 137	68 382	**78 519**
Accumulated depreciation and impairment losses 31 December 2017	**2 129 697**	**513 612**	**77 424**	**2 183 558**	**2 774 593**
Revaluation reserve 1 December 2017		-2 292 065			**-2 292 065**
Book value 31 December 2017	**2 816 883**	**59 685 990**	**854 544**	**295 632**	**60 836 165**
Acquisition cost 1 January 2016	**3 429 564**	**70 016 698**	**1 006 522**	**2 359 259**	**73 382 479**
Increases, new acquisitions	1 314 702	12 600 473		106 854	**12 707 326**
Deductions	-198 456	-18 120 114	-74 555	-14 200	**-18 208 868**
Acquisition cost 31 December 2016	**4 545 809**	**64 497 058**	**931 967**	**2 451 912**	**67 880 937**
Accumulated depreciation and impairment losses 1 Jan 2016	1 501 755	503 475	67 287	2 028 754	**2 599 515**
Accumulated depreciation of deductions and transfers	-603				**0**
Depreciation for the period	232 018	10 137		86 422	**96 559**
Accumulated depreciation and impairment losses 31 December 2016	**1 733 170**	**513 612**	**67 287**	**2 115 176**	**2 696 074**
Revaluation reserve 1 December 2016		-1 728 468			**-1 728 468**
Adjustments to the revaluation reserve for the period		-563 598			**-563 598**
Book value 31 December 2016	**2 812 639**	**61 691 380**	**864 681**	**336 737**	**62 892 798**

24 Other assets

	2017	**2016**
Defined benefit pension plans/surplus	6 379 452,36	5 659 976,36
Other receivables	2 189 309,13	3 579 529,12
Total	8 568 761,49	9 239 505,48

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

25 Deferred income and advances paid

	2017	**2016**
Interest receivables	4 253 392,62	3 933 676,13
Other deferred income	590 411,08	2 030 751,53
Total	4 843 803,70	5 964 427,66

26 Tax receivables and liabilities

	Group 2017	Group 2016
Income tax receivables	15 079,02	
Deferred tax receivables	139 330,33	299 536,13
Total tax receivables	154 409,35	299 536,13
Income tax liabilities		436 389,30
Deferred tax liabilities	10 030 327,35	9 442 430,04
Total tax liabilities	10 030 327,35	9 878 819,34

Deferred tax receivables	Group 2017	Group 2016
Earnings-related pensions		
Revaluation reserve		
Fair value reserve	139 330,33	299 536,13
Credit loss provisions		
Total	139 330,33	299 536,13

Deferred tax liabilities	Group 2017	Group 2016
Earnings-related pensions	1 275 890,77	1 131 995,57
Revaluation reserve	286 171,66	286 171,66
Fair value reserve	131 579,47	109 577,36
Credit loss provisions	8 336 685,45	7 914 685,45
Total	10 030 327,35	9 442 430,04
Net deferred tax receivable (+)/liability (-)	-9 890 997,02	-9 142 893,91

Changes in deferred taxes	Group 2017	Group 2016
Deferred tax receivables/liabilities 1 January	-9 142 893,91	-8 577 835,36
Recognised in the income statement:		
Provision for doubful debts	-422 000,00	-700 000,00
IAS 19 calculation	41 635,40	13 166,00
Occupational retirement benefits		371 300,60
Elimination of revaluation reserve		112 719,55
Recognised in the consolidated comprehensive income statement and equity:		
Hedging of cash flows	-131 552,08	-205 634,93
Financial assets available for sale	-50 655,83	-145 125,41
Revaluation of defined benefit pension plans	-185 530,60	-46 401,40
Adjustment made to retained earnings of join operations		34 917,04
Net deferred tax receivables (+)/liabilities (-), total 31 December	**-9 890 997,02**	**-9 142 893,91**
Income tax receivables (+)/liabilities (-), net	**15 079,02**	**-436 389,30**
Total tax receivables (+)/liabilities (-), net	**-9 874 846,0**	**-9 579 283,21**

*Amendment of 34,917.04 euros 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	852 292 188,52	860 000 000,00	699 076 233,30	700 155 000,00
Certificates of deposit and commercial papers	134 929 039,70	135 000 000,00	111 433 329,49	111 500 000,00
Total	987 221 228,22	995 000 000,00	810 509 562,79	811 655 000,00

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	9 636 291,44	8 660 046,37

29 Deferred expenses and advances received

	2017	2016
Interest liabilities	2 420 207,02	2 500 904,34
Advance payments received	311 996,83	64 770,11
Tax liability based on taxes for the period		436 389,30
Other deferred expenses	1 791 944,72	1 638 225,58
Total	4 524 148,57	4 640 289,33

30 Subordinated Liabilities

	2017		2016	
	Book value	Nominal value	Book value	Nominal value
Debenture loans	4 490 081,34	4 491 800,00	8 980 060,25	8 983 600,00

Debenture loan 7/2013, with a balance sheet value of EUR 4.0 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 0.5 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	368 260 846,38	517 924 777,23
of which the remaining maturity is less than one year	33 414 980,62	243 681 625,20
Unsecured subordinated libilities ecl. liabilities recognized in own funds	4 490 081,34	8 980 060,25
of which the remaining maturity is less than one year		4 488 792,05
Common Equity Tier 1 (CET1) capital	106 070 728,35	100 939 642,98
Liabilities according to the Act on Resolution of Credit Institutions and Investment Firms total	139 485 708,97	349 110 060,23

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	16 399 473					16 399 473
Receivables from the public and public sector entities	22 537 000	114 096 000	513 725 096	577 548 000	984 668 325	2 212 574 421
Debt securities		31 111 090	189 419 320	64 188 260		284 718 670
Total	38 936 473	145 207 090	703 144 416	641 736 260	984 668 325	2 513 692 564
Liabilities to credit institutions			93 873 804			93 873 804
Liabilities to the public and public sector entities	1 224 728 422	313 127 091	21 300 396	790 075		1 559 945 984
Debt securities issued to the public	39 993 696	294 847 843	358 531 748	293 847 941		987 221 228
Subordinated liabilities		4 490 081				4 490 081
Total	1 264 722 118	612 465 016	473 705 948	294 638 015,62	0	2 645 531 098

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	5 171 156					5 171 156
Receivables from the public and public sector entities	23 472 000	72 354 000	463 666 914	476 564 000	770 382 925	1 806 439 840
Debt securities			203 469 780	88 458 018		291 927 798
Total	28 643 156	72 354 000	667 136 694	565 022 018	770 382 925	2 103 538 793
Liabilities to credit institutions	6 797	22 658 200	85 438 920	9 982 587		118 086 504
Liabilities to the public and public sector entities	873 078 643	318 983 371	38 592 573	864 706		1 231 519 294
Debt securities issued to the public	58 148 390	193 424 364	499 049 501	59 887 308		810 509 563
Subordinated liabilities		4 491 268	4 488 792			8 980 060
Total	931 233 830	539 557 204	627 569 786	70 734 601	0	2 169 095 421

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		201 200 000	201 200 000	120 200 000	120 200 000
Receivables from credit institutions	Loans and receivables		16 399 473	16 399 473	5 171 156	5 171 156
Receivables from the public and public sector entities	Loans and receivables		2 212 574 421	2 212 574 421	1 806 439 840	1 808 096 723
Debt securities	Financial assets available for sale	1	213 488 650	213 488 650	181 446 988	181 446 988
Debt securities	Items recognised based on the fair value option	1	71 230 020	71 230 020	110 480 810	110 480 810
Shares and holdings	Financial assets available for sale	2	132 375	132 375	132 375	132 375
Derivative contracts		2	258 923	258 923	138 376	138 376
Total			2 715 283 862	2 715 283 862	2 224 009 544	2 225 666 427
Liabilities to credit institutions	Other liabilities		93 873 804	93 873 804	118 086 504	118 086 504
Liabilities to the public and public sector entities	Other liabilities		1 559 945 984	1 559 945 984	1 231 519 294	1 233 565 491
Debt securities issued to the public	Other liabilities		987 221 228	987 221 228	810 509 563	810 509 563
Derivative contracts		2	6 944 618	6 944 618	4 536 333	4 536 333
Subordinated liabilities	Other liabilities		4 490 081	4 490 081	8 980 060	8 980 060
Total			2 652 475 716	2 652 475 716	2 173 631 753	2 175 677 951

Derivative contracts consist of interest rate and currency swaps with various counterparties for hedging purposes. Hedge accounting is applied to part of the derivative contracts. 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	6 944 618	-	6 944 618	-	-	6 944 618
Derivative receivables	558 287	- 299 363	258 923	-	-	258 923

				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	4 582 410	- 46 078	4 536 333	-	-	4 536 333
Derivative receivables	138 376	-	138 376	-	-	138 376

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
Short-term employee benefits are paid to employees and to the management bodies. Short-term employee benefits include salaries, paid annual leave expenses, and allowances paid to cover business travel expenses.

Hypo settles amounts based on Hypo´s performance and incentive scheme to employees partly in form of salaries and partly as insurance premiums to Department M of Hypo´s pension foundation. Department M is a defined contribution plan arrangement.

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 pays fixed contributions into the arrangement and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits.

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

Insurance premiums 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 management bodies who held position at Hypo on December 1 2010 and onwards. M-Department also funds post-employment benefit plan of all new full-time employees and members of management bodies after above mentioned date.

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

Defined benefit plans
Voluntary supplementary post-employment plan is arranged through Department A of the pension foundation and recognised as a defined benefit pension plan. Fair value of plan assets exceeds the obligation measured on a discounted basis.

The obligation consists of following post-employment benefits to employees: voluntary supplementary pension, disability to work and supplementary survivor´s pension. Number of beneficiaries in Department A is minor and may not increase as no new beneficiaries are accepted to the plan without the Board of the Mortgage Society of Finland’s specific consent. 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. Transfer requires 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 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. Method takes into accounting variables such age, expected salaries and relevant census data statistics. The group has outsourced accounting of obligation to a certificated actuary. Obligation is accounted at least once a year. Discounted obligation amount is sensitive to fluctuations in actuarial data. 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 AA+, are used as benchmark to determine expected rate of return and discount rate of plan assets. Observations of actuary as well as management of the group 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 discounted 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 present value of obligation liability may increase should the benefits exceed the expected levels due to changes in actuarial assumptions or in expected 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 outsourced the tasks of managing director and actuary services to certificated service provider. Most relevant risk areas of defined benefit plan are
- market risks (interest rate risk, currency risk, risks at stock and commodity markets) which risks, if realized, 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, should estimation uncertainty realize, for instance.

Employee benefits in Consolidated Income Statement

2017	Salaries and other short term employee benefits	Defined contribution plans	Defined benefit plans	Total
Interest income			98 350,00	98 350,00
Other operating income (+) / expense (-)			-62 053,00	- 62 053,00
Salaries and remuneration	-4 968 490,52			- 4 968 490,52
Pension expenses		-1 111 092,56	-24 058,00	- 1 135 150,56
Other indirect personnel expenses		-218 210,85		- 218 210,85
Other adminsitrative expenses	-5 406,97			- 5 406,97
Total	-4 973 897,49	-1 329 303,41	12 239,00	- 6 290 961,90

2016	Salaries and other short term employee benefits	Defined contribution plans	Defined benefit plans	Total
Interest income			182 773,00	182 773,00
Other operating income (+) / expense (-)			-80 000,00	- 80 000,00
Salaries and remuneration	-4 513 368,53			- 4 513 368,53
Pension expenses		-1 029 097,59	-25 105,00	- 1 054 202,59
Other indirect personnel expenses		-308 218,23		- 308 218,23
Other adminsitrative expenses	-9 270,97	0,00		- 9 270,97
Total	-4 522 639,50	-1 337 315,82	77 668,00	- 5 782 287,32

Employee benefits in Consolidated Conprehensive Income Statement

	2017 Defined benefit plans	2016 Defined benefit plans
Net acturial profit (+) / loss (-)	927 653,00	232 007,00

Employee benefits in Consolidated Balance Sheet Assets

2017	Defined contribution plans	Defined benefit plans	Total
Other assets		6 379 452,00	6 379 452,00
Deferred income and advances paid	43 585,00		43 585,00
Total	43 585,00	6 379 452,00	6 423 037,36

	Defined contribution plans	Defined benefit plans	Total
Other assets		7 516 479,36	7 516 479,36
Deferred income and advances paid	1 286 398,96		1 286 398,96
Total	1 286 398,96	7 516 479,36	8 802 878,32

Employee benefits in Consolidated Balance Sheet Liabilities

2017	Salaries and other short term employee benefits	Defined contribution plans	Defined benefit plans	Total
Other liabilities		146 102,13		146 102,13
Deferred tax liabilities			1 275 890,77	1 275 890,77
Deferred expenses and advances received	857 228,68			857 228,68
Fair value reserve, net actuarial gain (+) / loss (-)			3 074 455,00	3 074 455,00
Fair value reserve, deferred tax liabilities			-614 891,00	- 614 891,00
Total	857 228,68	146 102,13	3 735 454,77	4 738 785,58

2016	Salaries and other short term employee benefits	Defined contribution plans	Defined benefit plans	Total
Other liabilities		132 948,66		132 948,66
Deferred tax liabilities			1 131 995,57	1 131 995,57
Deferred expenses and advances received	856 936,23			856 936,23
Fair value reserve, net actuarial gain (+) / loss (-)			2 146 802,00	2 146 802,00
Fair value reserve, deferred tax liabilities			-429 360,40	- 429 360,40
Total	856 936,23	132 948,66	2 849 437,17	3 839 322,06

Defined benefit plans

The defined benefit obligation and Plan assets	**2017**	**2016**
Present value of Defined benefit obligation	-6 476 484,00	-6 688 030,00
Fair value of Plan assets	12 855 937,00	12 348 007,00
Net denined benefit asset (+) / liability (-)	6 379 453,00	5 659 977,00

Change in Net defined benefit assets	**2017**	**2016**
Net defined benefit asset as of 1.1.	5 659 977,00	7 350 302,00
Current service cost	-24 058,00	-25 106,00
Interest income of the net defined benefit asset (+), cost (-)	98 350,00	182 774,00
Adminstrative cost	-62 053,00	-80 000,00
Contributions paid to M-Department	-220 416,00	-143 498,00
Net actuarial gain (+) / loss (-) for the period	927 653,00	232 007,00
Contributions		-1 856 502,00
Net defined benefit asset as of 31.12.	6 379 453,00	5 659 977,00

Fair value of Plan assets	**2017**			**2016**		
	Listed	Non-listed	Total	Listed	Non-listed	Total
Equity instruments	1 741 965,00	1 072 441,00	2 814 406,00	1 685 624,00	537 862,00	2 223 486,00
Debt instruments	226 240,00		226 240,00	539 630,00		539 630,00
Investment funds	1 298 994,00	4 410,00	1 303 404,00	1 148 440,00	4 483,00	1 152 923,00
Properties and land	8 511 887,00		8 511 887,00	8 431 968,00		8 431 968,00
Fair value of Plan assets	11 779 086,00	1 076 851,00	12 855 937,00	11 805 662,00	542 345,00	12 348 007,00

	2017	**2016**
Group's own financial instruments included in plan assets	230 672,45	579 400,45
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	**2017**	**2016**	**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 %

38 Collateral pledged

Collateral pledged for own liabilities	2017 Other collaterals	2016 Other collaterals
Liabilities to the central bank	100 826 551	106 943 532
Debt securities issued to the public	849 597 182	494 069 965
Derivative contracts	4 863 328	1 419 550
Encumbered assets total	955 287 061	602 433 047

39 Information concerning asset encumbrance

2017

(€ million)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
A - Assets	955,3	54,2	1837,2	231,2
Equity instruments			0,1	0,1
Debt securities	54,2	54,2	231,0	231,0
Other assets, including lending	901,1	0,0	1606,1	-

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	0,0	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 covered bonds. Group's encumbered assets consist of debt securities, cover asset pool and cash collateral for derivative contracts that are tradable on the secondary market and eligible as ECB collateral and that have been pledged against a loan from the central bank. Group's encumbered assets increased due to issuance of covered bonds. Encumbered assets totaled EUR 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 totaled EUR 231,0 million on 31 December 2017.
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	1702,8	240,2
Equity instruments			0,1	0,1
Debt securities	51,9	51,9	240,0	240,0
Other assets, including	550,5		1462,6	

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 covered bonds. Group's encumbered assets consist of debt securities, cover asset pool and cash collateral for derivative contracts that are tradable on the secondary market and eligible as ECB collateral and that have been pledged against a loan from the central bank. There has been no significant changes in the 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 totaled 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	6 185,00	107 015,34
Within more than a year and at most within five years		19 512,64
Total	6 185,00	126 527,98

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	2 181 921,00	2 181 921,00
Irrevocable commitments given on behalf of a customer		
Granted but unclaimed loans	275 063 854,43	301 014 751,85
Purchase commitments of housing units	2 875 056,87	563 177,00
Total	280 120 832,30	303 759 849,85

NOTES CONCERNING THE AUDIT SERVICE FEES

42 Audit service fees	**2017**	**2016**
Fees paid to the auditor for the audit services	86 377,08	62 600,00
Fees paid to the auditor for non-audit services, parent company	31 269,64	10 800,00
Fees paid to the auditor for non-audit services, Group	37 022,99	25 200,00

Amounts (VAT 0%) are presented by assignment for year 2017 and 2016 accordingly.

Audit fees concerning year's 2017 audit services include 21 845 euros of IFRS 9 assessment work.

NOTES CONCERNING GROUP'S PERSONNEL, MANAGEMENT AND OTHER RELATED PARTY

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 all close family of these. In addition, related parties is included The Mortgage Society of Finland's pension foundation and joint operations. The subsidiary and joint operations are presented in the note 48. Related party transactions have been presented those transactions with related parties that have not been eliminated in the consolidated statements.

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	291 800,00	282 240,00

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 chairman	30 750,01	22 991,82
Annual remuneration of the vice chairman	23 561,22	19 408,30
Other members, annual remuneration	95 693,95	82 694,55
Other members, annual remuneration	150 005,18	125 094,67
Supervisory Board		
Annual remuneration of the chairman	5 595,00	5 990,00
Annual remuneration of the vice chairman	3 120,00	3 000,00
Other members, annual remuneration	26 662,50	30 170,00
Total	35 377,50	39 160,00
Members of the Management Group (exc. CEO)		
Total salaries	610 129,38	563 845,79

Information about the salaries and remuneration paid to individual members of the management and other related party, 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	217 612,76	241 476,00	-23 863,24
Management Group	528 175,93	567 435,65	-39 259,72
Board of Directors	209 409,00	290 826,00	-81 417,00
Supervisory Board	1 435 499,44	1 664 256,04	-228 756,60
Joint operations	888 183,24	955 106,89	-66 923,65
Other related party	303 046,64	334 851,90	-31 805,26
Total	3 581 927,01	4 053 952,48	-472 025,47

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	Change
CEO, debuty to the CEO, Board of Directors and Supervisory Board	831 273,54	685 216,20	146 057,34
Management Group	142 349,07	114 693,75	27 655,32
The Mortgage Society of Finland's pension foundation	555 201,58	927 880,37	-372 678,79
Other related party	43 202,46	46 520,52	-3 318,06
Total	1 572 026,65	1 774 310,84	-202 284,19

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	370 800,00		370 800,00
Sales of services	20 405,00	53 559,00	-33 154,00
Purchases of services	74 220,00	84 605,00	-10 385,00
Receivables	370 800,00	1 910 062,00	-1 539 262,00

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	24 396 284,89	3 001 793,53	1 567 948 543,16	1 543 552 258,27	5 679 813,25
Joint operations							
Bostadsaktiebolaget Taos	Helsinki	54,6	6 160 257,29	237 787,34	8 139 443,26	1 979 185,97	761 300,29

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	21 394 491,36	4 060 943,48	1 228 189 106,49	1 206 794 615,13	6 845 912,49
Joint operations							
Bostadsaktiebolaget Taos	Helsinki	54,6	5 922 469,95	257 091,38	8 048 601,69	2 126 131,74	747 621,98

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.

Risk tolerance

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

Reliable management

Reliable governance means organizing Group's processes in a manner that ensures management based on healthy and cautious business principles, with a clear division of responsibilities and reporting lines. The governance of the Group is centralized in the parent company, the Mortgage Society of Finland ("Hypo"), and it also covers the subsidiary Suomen AsuntoHypoPankki 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 table 50.

Capital is allocated and the sufficiency of risk buffers is tested regularly at the group level by conducting proactive reviews of the sufficiency of its own funds through stress tests. In this review, the goals for liquidity management and deposit funding in accordance with Group's growth strategy are considered, as are certain potential

changes in the operating environment. The sufficiency of Group's own funds in relation to growth objectives is also proactively taken into account in the business strategy and the planning and supervision of business operations.
Group estimates that the surplus of own funds is at an excellent level both quantitatively and qualitatively so as to also cover the operational and operating environment risks outside the minimum requirement.

Responsibility and organization of risk management

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

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

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

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

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

Risk management and internal auditing

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

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

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

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

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

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

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

Independent control functions
Hypo’s Chief Risk Officer is responsible for risk management within Group. This includes responsibility for the organization of risk management and the development of risk management principles, as well as the monitoring and evaluation and reporting of risk-taking, in all areas of Group’s operations.
The monitoring of compliance is performed by a compliance organization, in accordance with confirmed compliance principles. An independent Compliance Officer is in charge of Group’s Compliance operations. Employees working as legal counsels serve as compliance contact persons for business operations and are responsible for ensuring that the products and services offered by Group comply with the current legislation and regulation given by the authorities.

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

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

Assessment of sufficiency of risk management

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

Risk statement

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

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.

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 auditing. Information security is paid attention to both in guidelines and training. Information security principles have been confirmed within Group and are complemented by operational instructions.

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

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

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 61.

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

business indicators for recognisability are the number of customer contacts and the content of customer feedback, which are monitored regularly.

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

Impact on capital adequacy
An amount of Group’s own funds considered sufficient have been allocated to strategic risks in the Group’s Internal Capital Adequacy Assessment Process.

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	5 000 000,00	5 000 000,00
of which: Basic capital	5 000 000,00	5 000 000,00
Retained earnings	57 162 886,78	51 048 120,56
Accumulated other comprehensive income and other reserves	48 151 997,55	46 677 808,17
Independently reviewed interim profits net of any foreseeable charge or dividend	5 507 437,95	6 118 001,60
Common Equity Tier 1 (CET1) capital before regulatory adjustments	115 822 322,28	108 843 930,33
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets	-2 253 506,10	-2 250 111,01
Fair value reserves related to gains or losses on cash flow hedges	65 038,06	591 246,35
Defined-benefit pension fund assets	-7 563 125,89	-6 245 422,69
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-9 751 593,93	-7 904 287,35
Common Equity Tier 1 (CET1) capital	106 070 728,35	100 939 642,98
Additional Tier 1 (AT1) capital	0,00	0,00
Tier 2 (T2) capital	0,00	0,00
Total capital (TC = T1 + T2)	106 070 728,35	100 939 642,98
Total risk weighted assets	836 775 550,00	743 003 695,82
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	743700P5K21EQSEHZK 26	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 recognised 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, sheet balance sheet and off-balance items

	2017			
	Original exposure pre conversion factors	Exposure value	Risk weighted exposure amount after SME-supporting factor	Own funds requirement
Exposures to central governments or central banks	285 536 705,00	341 569 370,00		
Exposures to regional governments or local authorities	107 120 819,00	117 387 854,00		
Exposures to public sector entities	12 066 700,00	12 066 700,00	2 413 340,00	193 067,20
Exposures to credit institutions	74 280 254,00	84 612 684,00	25 835 007,00	2 066 800,56
Exposures to corporates	97 443 502,00	45 993 224,00	40 694 023,00	3 255 521,84
Retail exposures	57 487 641,00	20 767 148,00	13 993 798,00	1 119 503,84
Exposures secured by mortgages on immovable property	2 338 432 016,00	2 179 657 608,00	647 467 067,00	51 797 365,36
Exposures in default	2 762 439,00	2 372 216,00	2 394 887,00	191 590,96
Exposures in the form of covered bonds	33 650 705,00	33 650 705,00	3 365 071,00	269 205,68
Other items	63 157 849,00	63 157 849,00	63 157 849,00	5 052 627,92
Total	3 071 938 630,00	2 901 235 358,00	799 321 042,00	63 945 683,36
Operational risk			29 782 453,00	2 382 596,49
Othet risks			7 672 055,00	613 764,00
All items in total	3 071 938 630,00	2 901 235 358,00	836 775 550,00	66 942 043,85

	2016			
	Original exposure pre conversion factors	Exposure value	Risk weighted exposure amount after SME-supporting factor	Own funds requirement
Exposures to central governments or central banks	229 020 080,00	277 958 270,00		
Exposures to regional governments or local authorities	82 866 563,00	93 893 983,00		
Exposures to public sector entities	13 515 474,00	13 515 474,00	2 703 095,00	216 247,60
Exposures to credit institutions	65 147 811,00	84 149 302,00	26 356 105,00	2 108 488,40
Exposures to corporates	144 735 393,00	80 939 954,00	76 275 923,00	6 102 073,84
Retail exposures	65 075 180,00	27 480 596,00	19 330 793,00	1 546 463,44
Exposures secured by mortgages on immovable property	1 902 052 405,00	1 734 863 294,00	514 426 452,00	41 154 116,16
Exposures in default	2 059 697,00	1 675 055,00	1 716 382,00	137 310,56
Exposures in the form of covered bonds	33 845 051,00	33 845 051,00	3 384 505,00	270 760,40
Other items	66 604 701,00	66 604 701,00	66 604 701,00	5 328 376,08
Total	2 604 922 355,00	2 414 925 680,00	710 797 956,00	56 863 836,48
Operational risk			28 964 945,63	2 317 195,65
Othet risks			3 240 794,00	259 264,00
All items in total	2 604 922 355,00	2 414 925 680,00	743 003 695,63	59 440 296,13

Risk-weighting of the following exposures: sovereigns, regional governments, local authorities, public corporations, bodies governed by public laws, 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	1 156 038,00	5 831 839,00
Retail exposures	3 325 144,00	5 091 310,00
Exposures in default	10 000,00	10 000,00
Total	4 491 182,00	10 935 165,00

Total exposure values covered by guarantees or credit derivatives

Exposures to corporates	52 962 699,00	51 344 200,00
Retail exposures	32 030 189,00	31 142 368,00
Exposures in default	63 051,00	67 489,00
Total	85 055 939,00	82 554 057,00

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	2 180 005 988,98	2 177 536 323,83	1 955 080 404,50	2 469 665,15	
Past due by 1–2 days*	3 842 488,25	3 825 918,76	26 958 888,38	16 569,49	
Past due by 3 days–1 month	25 733 137,16	25 680 833,29	21 397 896,19	52 303,87	
Past due by 1–3 months	2 823 134,49	2 817 512,34	3 854 369,37	5 622,15	
Non-performing, past due by less than 3 months**	321 838,69	321 566,61	201 712,50	272,08	
Non-performing, past due by more than 3 months	2 731 463,72	2 392 266,06	2 050 942,70	38 026,08	301 171,58
Total lending	2 215 458 051,29	2 212 574 420,89	2 009 544 213,63	2 582 458,82	301 171,58
Other					
Receivables from credit institutions					
Not fallen due	16 399 473,04	16 399 473,04	10 785 314,27		
Debt securities					
Not fallen due	285 215 972,24	284 718 670,00	288 323 234,00	497 302,24	
Shares and holdings	132 374,82	132 374,82	132 374,82		
Derivative contracts					
Not fallen due	1 432 665,81	258 923,47	198 649,58	1 173 742,34	
Total other	303 180 485,91	301 509 441,33	299 439 572,67	1 671 044,58	0,00
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	1 735 061 142,14	1 732 624 485,17	1 484 261 241,45	2 436 656,97	
Past due by 1–2 days*	50 262 273,40	50 091 857,99	102 639 828,75	170 415,41	
Past due by 3 days–1 month	17 144 640,06	17 114 959,09	17 684 321,76	29 680,97	
Past due by 1–3 months	4 900 348,19	4 891 226,39	7 107 490,30	9 121,80	
Non-performing, past due by less than 3 months**	81 858,39	81 858,39	40 929,20		74 166,68
Non-performing, past due by more than 3 months	1 969 004,78	1 709 619,34	1 878 795,67	26 398,98	232 986,46
Total lending	1 809 419 266,96	1 806 514 006,37	1 613 612 607,11	2 672 274,13	307 153,14
Other					
Receivables from credit institutions					
Not fallen due	5 171 155,50	5 171 155,50	8 681 222,30		
Debt securities					
Not fallen due	292 784 702,55	291 927 798,00	282 314 867,00	856 904,55	
Shares and holdings	132 374,82	132 374,82	132 374,82		
Derivative contracts					
Not fallen due	138 375,69	138 375,69	324 377,60		
Total other	298 226 608,56	297 369 704,01	291 452 841,72	856 904,55	0,00
Non-performing 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			33 555 130,00	33 555 130,00
AA+ - AA-	197 017 700,00	29 997 360,00		227 015 060,00
A+ - A-		14 053 780,00		14 053 780,00
BBB+ - BBB-		10 094 700,00		10 094 700,00
BB+ or below				0,00

Credit rating	2016			
S&P equivalency	Goverments and public sector entities	Companies and banks	Covered bonds	Total
AAA			33 759 510,00	33 759 510,00
AA+ - AA-	191 787 730,00	30 137 620,00		221 925 350,00
A+ - A-		11 381 988,00		11 381 988,00
BBB+ - BBB-	5 169 750,00	19 691 200,00		24 860 950,00
BB+ or below				0,00

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	3 439 806,41	489 016,50	3 928 822,91	226 788,28	59 015,88	285 804,16
Changes during the financial period	-2 390 751,20	-282 063,87	-2 672 815,07	176 050,03	-561,85	175 488,18
Book value of forbearances 31 dec 2017	1 049 055,21	206 952,63	1 256 007,84	402 838,31	58 454,03	461 292,34
Impairment recognised on receivables during the financial period			0,00			0,00

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

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

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

56 Concentration of lending

	2017	%	2016	%
Lending by category				
Households	723 730 707	32,7 %	641 087 307	35,5 %
Housing companies	1 399 732 724	63,3 %	1 067 885 892	59,1 %
Private companies (housing investors)	85 637 888	3,9 %	86 907 989	4,8 %
Other	3 473 102	0,2 %	10 558 651	0,6 %
Total	2 212 574 421	100,0 %	1 806 439 840	100,0 %
Lending by purpose of use				
Permanent dwelling	2 144 425 587	96,9 %	1 738 057 795	96,2 %
Consumer loan	34 061 025	1,5 %	34 346 366	1,9 %
Holiday home	8 256 372	0,4 %	7 969 612	0,4 %
Other	25 831 437	1,2 %	26 066 067	1,4 %
Total	2 212 574 421	100,0 %	1 806 439 840	100,0 %
Lending by province				
Uusimaa	1 727 032 106	78,1 %	1 436 803 583	79,5 %
Rest of Finland	485 542 315	21,9 %	369 636 257	20,5 %
Total	2 212 574 421	100,0 %	1 806 439 840	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	6 698 928	0,3 %	6 913 312	0,4 %
10-20	24 012 140	1,1 %	22 286 427	1,2 %
20-30	42 717 024	1,9 %	40 192 952	2,2 %
30-40	73 024 328	3,3 %	61 483 722	3,4 %
40-50	97 739 940	4,4 %	91 117 765	5,0 %
50-60	111 410 847	5,0 %	109 506 369	6,1 %
60-70	163 138 772	7,4 %	124 652 207	6,9 %
70-80	110 520 268	5,0 %	84 051 115	4,7 %
80-90	73 361 054	3,3 %	72 046 413	4,0 %
90-100	18 699 031	0,8 %	26 010 277	1,4 %
>100	2 069 903	0,1 %	1 600 943	0,1 %
Loans that are not included in LTV calculation	832 614	0,0 %	1 782 602	0,1 %
	724 224 851	32,7 %	641 644 105	35,5 %

Loan to value in percent by housing companies, private companies and other:	2017	%	2016	%
<10	271 369 558	12,3 %	220 836 613	12,2 %
10-20	365 172 585	16,5 %	267 454 867	14,8 %
20-30	295 872 310	13,4 %	225 609 816	12,5 %
30-40	258 861 093	11,7 %	170 992 655	9,5 %
40-50	109 081 348	4,9 %	121 566 817	6,7 %
50-60	93 109 871	4,2 %	73 449 576	4,1 %
60-70	30 938 614	1,4 %	37 871 573	2,1 %
70-80	6 724 334	0,3 %	10 129 966	0,6 %
80-90	38 668 336	1,7 %	10 116 992	0,6 %
90-100	2 300 164	0,1 %	10 181 279	0,6 %
>100	5 621 584	0,3 %	5 150 600	0,3 %
Loans that are not included in LTV calculation	10 629 775	0,5 %	11 434 981	0,6 %
	1 488 349 570	67,3 %	1 164 795 735	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	799 642	3 076 555	88 977 524		92 853 722
Liabilities to the public and public sector entities	1 225 368 540	314 906 624	20 342 437	173 533,57	1 560 791 135
Debt securities issued to the public	40 000 000	298 078 928	367 350 000	302 250 000,00	1 007 678 928
Derivative contracts	464 532	-1 490 135	4 603 860	2 258 276,96	5 836 534
Subordinated liabilities		4 650 810			4 650 810
Off-balance sheet commitments (inc. granted but unclaimed loans)	305 938 488				305 938 488
Total liabilities	1 572 571 202	619 222 782	481 273 822	304 681 810,53	2 977 749 617

Cash flows from financial liabilities and derivatives 2016	<3 months	3-12 months	1-5 years	5-10 years	Total
Liabilities to credit institutions	2 205 603	22 331 064	91 717 774	1 119 066,77	117 373 508
Liabilities to the public and public sector entities	874 047 675	324 367 940	33 722 654	379 504,66	1 232 517 774
Debt securities issued to the public	58 342 562	196 958 149	504 731 573	60 150 000,00	820 182 284
Derivative contracts	438 478	647 001	3 331 159	298 259,00	4 714 896
Subordinated liabilities		4 811 052	4 650 786		9 461 839
Off-balance sheet commitments (inc. granted but unclaimed loans)	303 759 850				303 759 850
Total liabilities	1 238 794 168	549 115 206	638 153 946	61 946 830,43	2 488 010 151

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	0,0	1 198,5
Fixed-rate items					
Receivables	4,3	8,2	443,7	400,22	856,4
Liabilities	678,8	582,4	552,7	388,46	2 202,3
Net	-674,6	-574,2	-109,0	11,76	-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 floating rate receivables and liabilities at higher (lower) interest rates than on the balance sheet date. An increase of two percentage points in market interest rates on floating rate receivables and liabilities at higher (lower) interest rates than on the balance sheet date. An increase of two percentage points in market interest rates on the balance sheet date would increase the value of items measured at fair value by EUR 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	200,04	571,6
Liabilities	482,5	460,5	461,1	140,94	1 545,0
Net	-482,0	-459,7	-90,8	59,10	-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 maintenance, derivative contracts and deposits and other funding involve interest risk. In the table describing the interest rate risk, derivative contracts are shown in euros at nominal value, other receivables and liabilities at balance sheet values. Derivative contracts are also shown in each group describing interest rate tying, combined with either the receivable or the liability group. Floating-rate liabilities include items that are by nature payable on demand, and are assumed to be reprised within six months. Contractual maturity assumptions are applied to the lending portfolio. The interest rate risk is measured at least once a month with regard to the investment portfolio and at least once a quarter with regard to the entire banking book.

Sensitivity analysis

If market interest rates would have increased by 2 per cent (decreased by 0.25 per cent) on the balance sheet date, Group’s net interest income would decrease by EUR 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 floating-rate receivables and liabilities at higher (lower) interest rates than on the balance sheet date. An increase of two percentage points in market interest rates on the balance sheet date would decrease the value of items measured at fair value by EUR 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	371 734 468	335 992 965	360 209 615	346 090 416
Total net cash outflows	281 753 833	287 549 167	322 409 956	269 802 502
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 investemnt 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 loan-to-value ratio of the credit by the remaining amount of credit.
Non-performing loans, % of loan portfolio	Receivables from the public and public sector entities deemed unlikely to be paid + receivables past due and unpaid over 90 days
Net impairment losses, EUR million	Net amount of final credit losses and impairment loss recognized through profit or loss.
Long-term funding out of total funding, %	Original maturity including a funding of over a year divided by total funding.
Deposits out of total funding, %	Deposits divided by total funding. Total funding includes liabilities to credit institutions, liabilities to the public and public sector entities, debt securities issued to the public as well as subordinated liabilities.
Average maturity of liabilities, in years	The average maturity weighted with cash flow of liabilities in years (divider 365)
Short-term liquidity, EUR million	Cash and cash equivalents in the cash flow statement added with unused current account facilities and other binding credit facilities.
Short-term liquidity, months	Coverage of short-term liquidity to funding cash flows (difference of days multplied with 356 (days in a year)multiplied with 12 (months in a year)
Share of short -term liquidity of the balance sheet total, %	Cash and cash equivalents in the cash flow statement added with available current account facilities and other binding credit facilities divided by balance sheet total.
Interest rate risk in the banking book, EUR million	Annual change in net interest income if interest rates increase parallely 1% on the reporting date.
Present value risk, EUR million	Change in present value of banking book if interest rates increase parallely 1% on the reporting date.
Total amount of housing property holdings of the balance sheet total, %	Total of owned investment properties and properties in own use set in proportion with the balance sheet total.
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.

INCOME STATEMENT OF PARENT COMPANY

€	Note	1.1.-31.12.2017	1.1.-31.12.2016
Interest income	1	20 321 175,78	19 776 588,79
Interest expenses	1	-15 334 622,83	-19 208 664,98
NET INTEREST INCOME		**4 986 552,95**	**567 923,81**
Fee income	2	1 102 883,57	1 243 547,01
Fee expenses	2	-93 268,01	-77 076,00
Net income from currency operations and securities trading			
Net income from securities trading	3	421 397,43	-522 213,59
Net income from currency operations	3		71,27
Net income from available-for-sale financial assets	4	1 749 552,84	3 634 499,62
Net income from hedge accounting	5	-27 088,38	-53 717,28
Net income from investment properties	6	2 762 763,45	5 273 646,29
Other operating income	7	1 805 999,07	1 563 021,96
Administrative expenses			
Personnel expenses			
Salaries and remuneration		-4 950 601,18	-4 495 578,84
Indirect personnel expenses			
Pension expenses		-887 323,55	974 173,69
Other indirect personnel expenses		-218 210,85	-308 218,23
Other administrative expenses		-2 617 379,33	-2 741 535,47
		-8 673 514,91	-6 571 158,85
Depreciation and impairment losses on tangible and intangible assets	9	-433 915,13	-277 767,90
Other operating expenses	8	-1 467 047,85	-998 433,64
Impairment losses on loans and other commitments	10	5 981,56	-268 702,81
OPERATING PROFIT		**2 140 296,59**	**3 513 639,89**
Appropriations		-1 688 000,00	-2 800 000,00
Income taxes		-430 853,57	-707 169,05
PROFIT FROM OPERATIONS AFTER TAXES		**21 443,02**	**6 470,84**
PROFIT FOR THE PERIOD		**21 443,02**	**6 470,84**

BALANCE SHEET OF PARENT COMPANY

€	Note	31.12.2017	31.12.2016
ASSETS			
Cash	12,31	201 200 000,00	120 200 000,00
Debt securities eligible for refinancing with central banks			
Treasury bills			
Other		284 718 670,00	291 927 798,00
	15,29,31	284 718 670,00	291 927 798,00
Receivables from credit institutions			
Payable on demand		5 908 218,41	4 810 504,47
Other		77 487,07	17 874,87
	13,29,31	5 985 705,48	4 828 379,34
Receivables from the public and public sector entities			
Other than those payable on demand	14,29,31	2 213 379 095,89	1 807 322 914,45
Shares and holdings	16,31	23 874,82	23 874,82
Shares and holdings in the same group of companies	16,31	6 687 674,01	6 687 674,01
Derivative contracts	17,31	258 923,47	138 375,69
Intangible assets	18,20	2 810 351,31	2 779 480,60
Tangible assets			
Investment properties and shares and holdings in investment properties	19,20	51 693 725,30	56 385 836,20
Other properties and shares and holdings in housing property corporations	19,20	2 958 459,26	2 958 459,26
Other tangible assets	20	294 957,75	331 696,73
		54 947 142,31	59 675 992,19
Other assets	21	470 301,19	2 143 452,25
Deferred income and advances paid	22	4 707 901,21	5 695 498,92
Deferred tax receivables	23	139 330,33	299 536,13
TOTAL ASSETS		**2 775 328 970,02**	**2 301 722 976,40**

€	Note	31.12.2017	31.12.2016
LIABILITIES			
LIABILITIES			
Liabilities to credit institutions			
To central banks	29,31	80 000 000,00	80 000 000,00
To credit institutions			
Other than those payable on demand	29,31	1 566 763 881,26	1 260 976 581,27
Liabilities to the public and public sector entities			
Other liabilities			
Other than those payable on demand	29,31	19 545 503,11	28 476 903,75
Debt securities issued to the public			
Bonds		852 292 188,52	699 076 233,30
Other		134 929 039,70	111 433 329,49
	24,29,31	987 221 228,22	810 509 562,79
Derivative contracts	17,31	6 944 617,82	4 536 332,56
Other liabilities			
Other liabilities	25	5 157 043,85	6 673 117,17
Deferred expenses and advances received	26	3 398 344,59	3 550 364,03
Subordinated liabilities			
Other	27,29,31	4 490 081,34	8 980 060,25
Deferred tax liabilities	23	9 029 104,38	8 585 102,27
Accumulation of appropriations			
Voluntary reservations		41 683 427,24	39 573 427,24
Deferred tax liability		-8 336 685,45	-7 914 685,45
	32	33 346 741,79	31 658 741,79
EQUITY			
Basic capital	32,33	5 000 000,00	5 000 000,00
The revaluation reserve		2 243 357,82	2 243 357,82
Other restricted reserves			
Reserve fund		29 273 778,74	28 364 604,76
Fair value reserve			
From cash flow hedging		-65 038,06	-591 246,35
From valuation at fair value		34 034,59	-168 588,68
Unrestricted reserves			
Other reserves		22 923 500,00	22 923 500,00
Retained earnings		1 347,55	-1 887,87
PROFIT FOR THE PERIOD		21 443,02	6 470,84
	32	59 432 423,66	57 776 210,52
TOTAL LIABILITIES AND EQUITY		**2 775 328 970,02**	**2 301 722 976,40**

OFF-BALANCE SHEET COMMITMENTS OF PARENT COMPANY

Commitments given on behalf of a customer for the benefit of a third party			
Guarantees and other liabilities		2 181 921,00	2 181 921,00
Irrevocable commitments given on behalf of a customer			
Purchase commitments of housing units		2 875 056,87	563 177,00
Granted but unclaimed loans		275 063 854,43	301 014 751,85
Housing company loan allocated to owned housing units		2 741 815,51	
		280 680 726,81	301 577 928,85
OFF-BALANCE SHEET COMMITMENTS TOTAL	38	**282 862 647,81**	**303 759 849,85**

CASH FLOW STATEMENT OF PARENT COMPANY

€	1.1.- 31.12.2017	1.1.- 31.12.2016
Cash flow from operating activities		
Interest received	20 001 459,29	18 968 512,86
Interest paid	-15 669 548,06	-19 476 823,39
Fee income	2 006 998,15	2 281 565,01
Fee expenses	-93 268,01	-77 076,00
Net income from currency operations	421 397,43	-522 142,32
Net income form available-for-sale financial assets	1 749 552,84	3 634 499,62
Net income from hedge accounting	-27 088,38	-53 717,28
Net income from investment properties	2 820 975,39	5 043 068,27
Other operating income	1 805 999,07	313 229,46
Administrative expenses	-6 790 416,82	-8 955 326,65
Other operating expenses	-1 573 657,78	-1 118 308,21
Credit and guarantee losses	5 981,56	-268 702,81
Income taxes	-434 022,66	-705 430,04
Total net cash flow from operating activities	**4 224 362,02**	**-936 651,48**
Operating assets increase (-) / decrease (+)		
Receivables from customers (lending)	-407 637 177,21	-386 210 855,16
Cash collaterals, derivatives	345 440,84	-46 077,80
Investment properties	6 810 925,32	8 769 644,28
Operating assets increase (-) / decrease (+) total	**-400 480 811,05**	**-377 487 288,68**
NET CASH FLOWS ACCRUED FROM OPERATING ACTIVITIES	**-396 256 449,03**	**-378 423 940,16**
Change in fixed assets	-428 046,86	-1 206 488,18
NET CASH FLOWS ACCRUED FROM INVESTMENTS	**-428 046,86**	**-1 206 488,18**
Bank loans, new withdrawals	410 297 167,22	297 513 459,43
Bank loans, repayments	-104 509 867,23	-164 117 560,61
Bonds, new issues	344 297 329,01	429 857 540,28
Bonds, repayments	-188 526 265,63	-252 291 457,73
Certificates of deposit, new issues	217 964 155,43	180 965 705,10
Certificates of deposit, repayments	-194 468 445,22	-138 983 712,76
Other liabilities, new issues		
Other liabilities, repayments	-8 931 400,64	-5 551 954,71
Subordinated liabilities, new withdrawals	33 965,46	59 013,04
Subordinated liabilities, repayments	-4 523 944,37	-4 548 640,86
NET CASH FLOWS ACCRUED FROM FINANCING	**471 632 694,03**	**342 902 391,18**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**74 948 198,14**	**-36 728 037,16**
Cash and cash equivalents at the end of the period	491 904 375,48	416 956 177,34
CHANGE IN CASH AND CASH EQUIVALENTS	**74 948 198,14**	**-36 728 037,16**

NOTES TO PARENT COMPANY’S FINANCIAL STATEMENTS 31 DECEMBER 2017

ACCOUNTING POLICIES OF PARENT COMPANY

The Mortgage Society of Finland (hereinafter ”Hypo”) has its domicile and administrative headquartes 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. The Mortgage Society of Finland is the parent company of the Group.

The financial statements of the Mortgage Society of Finland’s parent company (hereinafter ”Hypo”) have been prepared and presented according to the Act on Credit Institutions, decree of the Ministry of Finance and regulations of the Financial Supervisory Authority concerning financial statements. Financial statements include income statement, balance sheet, cash flow statement and notes. In addition, the financial statements include an annual report.

The own funds and capital adequacy are presented in accordance with the EU’s Capital Requirements Regulation (575/2013). The capital adequacy requirement for the credit risk is calculated using the standard method and 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 company’s operating currency, euros. The parent company's accounting policies follow most of the Group's accounting principles.

Significant judgements and assumptions

The preparation of the parent company's financial statements requires the use of estimates, such as the preparation of the consolidated financial statements.

Financial instruments

Financial assets, financial liabilities and derivatives are treated in the parent company using the same accounting principles as in the consolidated financial statements. Items recognised based on the fair value option is made in accordance with Section 6, Chapter 12 Credit Institutions Act 4 moment.

Intangible assets

Intangible assets are treated in the parent company using the same accounting principles as in the consolidated financial statements.

Tangible assets

Investment properties have largely been recorded at acquisition cost on the balance sheet. Offset entries to revaluations recorded on certain properties in previous years have been recorded in the revaluation reserve included in equity. The revaluations are recorded in profit or loss in the event of a possible disposal. Any possible impairment on properties is assessed at least on an annual basis and if regarded necessary, an impairment loss is recorded, whereby the unfounded revaluation booking is reversed.

In other respects, the accounting policies for investment properties and other tangible assets are similar to the Group’s.

Untaxed reserves

Untaxed reserves and changes thereof are presented as a separate item in appropriations in the profit or loss and in accumulated appropriations in the balance sheet. The reserve consists of a general loss provisions in accordance with section 46 of the Business Income Tax Act, which is a provision intended for credit loss risks and other unidentified risks related to credit institution operations.

Deferred tax receivables and liabilities

The fair value reserve consisting of valuations of hedging derivatives and assets available for sale, the revaluation reserve consisting of revaluations of investment properties and untaxed reserves consisting of general credit loss provisions, net of deferred tax, have been recognized on balance sheet and the offset entries have been recorded in deferred tax receivables and liabilities on balance sheet.

Voluntary supplementary pension plan

Voluntary supplementary pension plan to Hypo´s employees, arranged in Department A (closed in 1991) of Hypo's pension foundation is recognized as a defined benefit plan. Hypo serves as employer. Obligation is fully funded. 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.

Revenue and expenses recognition

The parent company's recognition principles comply with the recognition principles described in the Group's accounting policies with a few exceptions. The surplus returned in Hypo's pension foundation's Department A, subject to approval by the Financial Supervisory Authority, is recorded as a reduction of the pension costs in the income statement. Another deviation from the Group's recognition principles is that non-refundable entry fees are recorded in parent company's equity fund. In addition, the increase in general credit loss provisions is presented in appropriations and decreases the taxable result.

NOTES TO THE INCOME STATEMENT OF PARENT COMPANY 1.1.2017-31.12.2017

1. Breakdown of interest income and expenses by balance sheet item

	to / from subsidiaries	Total
Receivables from the public and public sector entities		17 791 290,94
Debt securities		319 631,52
Derivative contracts		1 795 700,80
Negative interest expenses		324 444,48
Other interest income		90 108,07
Total interest income	0,00	20 321 175,81
Liabilities to credit institutions	-8 030 512,11	-8 338 566,83
Liabilities to the public and public sector entities		-58 725,38
Debt securities issued to the public		-4 147 282,70
Derivative contracts		-2 021 517,39
Subordinated liabilities		-292 472,60
Negatiiviset korkotuotot		-475 210,56
Other interest expenses		-847,37
Total interest expenses	-8 030 512,11	-15 334 622,83

2. Fee income and expense

From lending	876 396,27
From legal assignments	213 540,63
From other operations	12 946,67
Total fee income	1 102 883,57
Other fee expenses	-93 268,01

3. Net income from currency opetarions and securities trading

Gains and losses from disposals of financial instruments (net)	
Net income arising from items recognised based on the fair value option	203 855,90
Gains and losses arising from measurement at fair value (net)	
Net income arising from items recognised based on the fair value option	432 172,17
Derivative contracts not in hedge accounting relationships	-214 630,64
Net income from securities trading	421 397,43
Net income from currency operations	
Total	421 397,43

4. Net income form available-for-sale financial assets

Capital gains from debt securities	1 749 552,84
Total	1 749 552,84

5. Net income from hedge accounting

Change in fair value, hedging items	3 904 765,03
Change in fair value, hedging instruments	-3 931 853,41
Total	-27 088,38

6. Net income from investment properties

Rental income	2 026 632,56
Capital gains (losses)	596 462,75
Other income	819 763,30
Maintenance charges and other maintenance costs paid	-429 133,84
Other expenses	-250 961,32
Total	2 762 763,45

7. Other operating income

Rental income, property assets in own use	12 005,00
Other income	1 793 994,07
Total	1 805 999,07

8. Other operating expenses

Rental expenses	-66 557,16
Expenses from properties in own use	-232 230,73
Other expenses	-1 168 259,96
Total	-1 467 047,85

9. Depreciation and impairment losses on tangible amd intangible assets

Depreciation according to plan	-433 915,13

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

On receivables from the public and public sector entities

Agreement-specific impairment losses	-44 594,27
Deductions	50 575,83
Total	5 981,56

11. Information concerning product groups and geographical market areas

By product group, parent company's main income is made up of lending and other housing products and services.
Lending 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).

Parent company's operating area is Finland.

	Combined amount of income	Operating profit	Total assets	Total liabilities	Personnel
Lending and deposits and other housing products and services	11 703 245	350 378	2 775 328 953	2 715 896 546	57
Other operations	1 805 999	1 789 919	17		

NOTES TO THE BALANCE SHEET OF PARENT COMPANY

12. Liquid assets

O/N-deposits, central bank	201 200 000,00

13. Receivables from credit institutions

	Payable on demand	Other than those payble on demand	Total
From the central bank		77 487,07	77 487,07
From domestic credit institutions	1 434 906,46		1 434 906,46
From foreign credit institutions	4 473 311,95		4 473 311,95
	5 908 218,41	77 487,07	5 985 705,48

14. Receivables from the public and public sector entities

Companies and housing corporations	1 486 361 890,46
Households	716 199 324,20
Financial and insurance institutions	1 750 000,00
Non-profit organisations serving households	731 823,23
Foreign countries	8 336 058,00
Total	2 213 379 095,89
Subordinated receivables	369 774,68
Non perfoming loans	3 053 302,41
Impairment losses on receivables recognised during the period	
Impairment losses at the beginning of the year	307 153,14
Receivable-specific impairment losses recognised during the period	44 594,27
Receivable-specific impairment losses reversed during the period	-50 575,83
Impairment losses at the end of the year	301 171,58
Final credit losses on receivables recognized during the period	0,00

15. Debt securities

	Publicly quoted	Other	Total
Debt securities issued by public sector entities			
Available for sale			
Government bonds	42 187 160,00		42 187 160,00
Other bonds issued by public sector entities	107 094 500,00		107 094 500,00
Recognised based on the fair value option			
Government bonds	41 706 700,00		41 706 700,00
Other bonds issued by public sector entities	6 029 340,00		6 029 340,00
Those issued by other than public sector entities			
Recognised based on the fair value option			
Bonds issued by banks	23 493 980,00		23 493 980,00
Available for sale			
Bonds issued by banks	58 346 790,00		58 346 790,00
Other debt securities	5 860 200,00		5 860 200,00
Total debt securities	284 718 670,00	0,00	284 718 670,00
Subordinated receivables			0,00
Receivables eligible for refinancing with central banks			284 718 670,00

16. Shares and holdings

	Publicly quoted	Other	Total	Of which in credit institutions
Shares and holdings, available for sale		23 874,82	23 874,82	
Shares and holdings in the same group of companies		6 687 674,01	6 687 674,01	6 687 674,01
Shares and holdings, total	0,00	6 711 548,83	6 711 548,83	6 687 674,01
Of which at acquisition cost		6 711 548,83	6 711 548,83	

17. Derivative contracts

	Book value	
	Assets	Liabilities
Dericative contracts in hedge accounting relationships		
OTC Interest rate swaps, cash flow hedge accounting model, fair value		81 297,57
OTC Interest rate swaps, fair value hedge accounting model, fair value	1 301,71	4 448 041,37
Derivative contracts not in hedge accounting relationships		
OTC Interest rate swaps, fair value	257 621,76	2 415 278,88
	258 923,47	6 944 617,82
OTC Interest rate and currency swaps, accrued interest	1 173 742,34	1 734 937,95
Total	1 432 665,81	8 679 555,77

Remaining maturity	less than one year	1-5 years	5-10 years	Total
Nominal values of the underlying instruments	5 000 000,00	461 000 000,00	394 634 500,00	860 634 500,00
Fair value, assets		161 955,63	96 967,84	258 923,47
Fair value, liabilities	81 297,57	2 308 614,34	4 554 705,91	6 944 617,82

18. Intangible assets

IT programs and projects	1 763 113,66
Other intagible assets	1 047 237,65
	2 810 351,31

19. Tangible assets

Investment properties and investment property shares, balance sheet value	
Land and water areas	4 092 189,60
Shares and holdings in housing property corporations	47 601 535,70
Total balance sheet value	51 693 725,30
Total fair value of investment properties	54 524 038,66
Other properties and shares in housing property corporations, balance sheet value	
In own use	
Land and water areas	2 958 459,26
Total balance sheet value	2 958 459,26
Total fair value of other properties	5 630 247,00

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

20. 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	3 677 395	56 590 715	165 194	2 313 251	59 069 161
Increases	400 770	7 100 795		27 277	7 128 072
Deductions		-11 792 906			-11 792 906
Acquisition cost 31 December 2017	**4 078 165**	**51 898 605**	**165 194**	**2 340 528**	**54 404 327**
Accumulated depreciation and impairment losses 1 Jan 2017	897 913	543 777		1 981 555	2 525 332
Depreciation for the period	369 899			64 016	64 016
Accumulated depreciation and impairment losses 31 December 2017	**1 267 813**	**543 777**	**0**	**2 045 571**	**2 589 348**
Revaluations 1 Januery 2017		338 897	2 793 265		3 132 162
Book value 31 December 2017	**2 810 352**	**51 693 725**	**2 958 459**	**294 957**	**54 947 141**

21. Other assets

Other receivables	470 301,19

22. Deferred income and advances paid

Interest receivables	4 253 392,62
Other deferred income	454 508,59
Total	4 707 901,21

23. Deferred tax receivables and liabilities

	Tax receivables	Tax liabilities
Deferred tax of revaluation reserve of real estate investments		560 839,46
Deferred tax of fair value reserves	139 330,33	131 579,47
Deferred tax of loan loss provision		8 336 685,45
Total	139 330,33	9 029 104,38

24. Debt securities issued to the public

	Book value	Nominal value
Other than those payable on demand		
Bonds	852 292 188,52	860 000 000,00
Certificates of deposit and commercial papers	134 929 039,70	135 000 000,00
Total	987 221 228,22	995 000 000,00

25. Other liabilities

Other liabilities	5 157 043,85

26. Deferred expenses and advances received

Interest liabilities	1 949 933,65
Advance payments received	29 243,26
Other deferred expenses	1 419 167,68
Total	3 398 344,59

27. Subordinated Liabilities

	Book value	Nominal value
Debenture loans	4 490 081,34	4 491 800,00

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.

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

Unsecured libilities	368 260 846
of which the remaining maturity is less than one year	33 414 981
Unsecured libilities ecl. liabilities recognized in own funds	4 490 081
of which the remaining maturity is less than one year	0
Common Equity Tier 1 (CET1) capital	90 595 922
Liabilities according to the Act on Resolution of Credit Institutions and Investment Firms total	124 010 903

29. Maturity distribution of financial assets and liabilities

	<3 months	3–12 months	1–5 years	5–10 years	>10 years	Total
Receivables from credit institutions	5 985 705					5 985 705
Receivables from the public and public sector entities	22 537 000	114 096 000	513 725 096	577 548 000	985 473 000	2 213 379 096
Debt securities		31 111 090	189 419 320	64 188 260		284 718 670
Total	28 522 705	145 207 090	703 144 416	641 736 260	985 473 000	2 504 083 471
Liabilities to credit institutions	1 224 728 422	313 122 765	96 374 200	48 898	12 489 596	1 646 763 881
Liabilities to the public and public sector entities		4 327	18 800 000	741 177		19 545 503
Debt securities issued to the public	39 993 696	294 847 843	358 531 748	293 847 941		987 221 228
Subordinated liabilities		4 490 081				4 490 081
Total	1 264 722 118	612 465 016	473 705 948	294 638 016	12 489 596	2 658 020 694

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

Balance sheet items do not include foreign currency items.

31. Fair values and book values of financial assets and liabilities

	Classification	Fair value determination principle	Book value	Fair value	Book value in the same group
Liquid assets	Loans and receivables		201 200 000,00	201 200 000,00	
Receivables from credit institutions	Loans and receivables		5 985 705,48	5 985 705,48	
Receivables from the public and public sector entities	Loans and receivables		2 213 379 095,89	2 213 379 095,89	1 955 195,31
Debt securities	Financial assets available for sale	1	213 488 650,00	213 488 650,00	
Debt securities	Items recognised based on the fair value option	1	71 230 020,00	71 230 020,00	
Derivative contracts		2	258 923,47	258 923,47	
Shares and holdings	Financial assets available for sale	2	23 874,82	23 874,82	
Shares and holdings in the same group of companies	Financial assets available for sale	3	6 687 674,01	6 687 674,01	6 687 674,01
Total			2 712 253 943,67	2 712 253 943,67	8 642 869,32
Liabilities to credit institutions	Other liabilities		1 646 763 881,26	1 646 763 881,26	1 552 890 077,15
Liabilities to the public and public sector entities	Other liabilities		19 545 503,11	19 545 503,11	
Debt securities issued to the public	Other liabilities		987 221 228,22	987 221 228,22	
Derivative contracts		2	6 944 617,82	6 944 617,82	
Subordinated liabilities	Other liabilities		4 490 081,34	4 490 081,34	
Total			2 664 965 311,75	2 664 965 311,75	1 552 890 077,15

Fair value determination principles:
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.

32. Equity

	Basic capital	Revaluation reserve	Reserve fund	Fair value reserve
Equity 1 Jan 2017	5 000 000	2 243 358	28 364 605	-759 835
Hedging of cash flow				
Change in fair value				-58 420
Amount transferred to the income statement				716 181
Financial assets available for sale				
Change in fair value				2 002 832
Amount transferred to the income statement				-1 749 553
Cancellation of properties' revaluations				
Change in untaxed reserves				
The decision of the Annual General Meeting for the use of profits			3 235	
Entry fees			905 939	
Profit for the period				
Change in deferred taxes				-182 208
Equity 31 Dec 2017	5 000 000	2 243 358	29 273 779	-31 003

	Other reserves	Untaxed reserves	Retained earnings	Total
Equity 1 Jan 2017	22 923 500	31 658 742	4 583	89 434 952
Hedging of cash flow				
Change in fair value				-58 420
Amount transferred to the income statement				716 181
Financial assets available for sale				
Change in fair value				2 002 832
Amount transferred to the income statement				-1 749 553
Cancellation of properties' revaluations				0
Change in untaxed reserves		2 110 000		2 110 000
The decision of the Annual General Meeting for the use of profits			-3 235	0
Entry fees				905 939
Profit for the period			21 443	21 443
Change in deferred taxes		-422 000		-604 208
Equity 31 Dec 2017	22 923 500	33 346 742	22 791	92 779 165

33. Basic capital

The basic capital 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.

NOTES CONCERNING PARENT COMPANY'S COLLATERAL AND CONTINGENT LIABILITIES

34. Collateral pledged

Collateral pledged for own liabilities	Other collaterals
Liabilities to the central bank	100 826 551
Debt securities issued to the public	849 597 182
Derivative contracts	4 863 328
Encumbered assets total	955 287 061

35. Information concerning asset encumbrance

(€ million)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
A - Assets	884,9	884,9	1 771,2	1 771,2
Equity instruments			6,7	6,7
Debt securities	53,4	53,4	226,8	226,8
Other assets, including lending	831,2	831,2	1 541,8	1 541,8

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	79,7	101,0
Debt securities issued to the public	602,9	780,0
Derivative contracts		3,8
Total	682,6	884,8

D - Information on the importance of encumbrance

All amounts are reported based on median values of quarterly data on a rolling basis over the previous twelve months. Sums presented in the tables have been calculated as median values from the source data.

The amount of assets reported under items A and C above does not include excess collateral except for coverd bonds. Company'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. Company's encumbered assets increased due to issuance of covered bonds. Encumbered assets totaled EUR 955.3 million, out of which of coverde 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 226.8 million on 31 December 2017.

EUR 1 079,0 million of unencumbered loans may be used as collateral for covered bonds.

36. Pension obligations

The statutory pension security of employees is arranged through pension insurance and voluntary supplementary pension security through the pension foundation of Mortgage Society of Finland. The pension foundation does not have deficit. Department M, a new department of the pension foundation, was established at the end of 2010. This offered the opportunity to use insurance premiums to improve employees' pension security.

37. Leasing and other liabilities

Minimum rents paid on the basis of leasing and other rental agreements	
Within one year	6 185,00
Within more than a year and at most within five years	
Total	6 185,00

38. Off-balance sheet commitments

Commitments given on behalf of a customer for the benefit of a third party	
Guarantees and other liabilities	2 181 921,00
Irrevocable commitments given on behalf of a customer	
Granted but unclaimed loans	275 063 854,43
Purchase commitments of housing units	2 875 056,87
Housing company loans of property holdings	2 741 815,51
Total	282 862 647,81

NOTES CONCERNING THE AUDITOR’S FEE

39. Auditor's fees

Fees paid to the auditor for the audit services	72 277,08
Fees paid to the auditor for non-audit services, parent company	31 294,00
Total	103 571,08

Amounts (VAT 0%) are presented by assignment for year 2017 accordingly.

Audit fees concerning year's 2017 audit services include 21 845 euros of IFRS 9 assessment work.

NOTES CONCERNING PARENT COMPANY'S PERSONNEL, MANAGEMENT AND RELATED PARTY

40. Number of personnel

	Average number	At the end of the period
Permanent full-time personnel	49	49
CEO and debuty to the CEO	2	2
Temporary personnel	8	7
Total	59	58

41. Salaries and remuneration paid to management

CEO total salaries	291 800,00

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	
Annual remuneration of the chairman	30 750,01
Annual remuneration of the vice chairman	23 561,22
Other members, annual remuneration	95 693,95
Total	150 005,18
Supervisory Board	
Annual remuneration of the chairman	5 595,00
Annual remuneration of the vice chairman	3 120,00
Other members, annual remuneration	26 662,50
Total	35 377,50
Members of the Management Group (exc. CEO)	
Total salaries	610 129,38

Information about the salaries and remuneration paid to individual members of the management and other related party, 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

42. Loans granted to related parties

CEO and debuty to the CEO	217 612,76
Management Group	528 175,93
Board of Directors	209 409,00
Supervisory Board	1 435 499,44
Joint operations	1 955 195,31
Other related party	303 046,64
Total	4 648 939,08

The loans granted to related parties are subject to the general credit conditions of the Mortgage Society of Finland.

NOTES CONCERNING PARENT COMPANY'S SHAREHOLDINGS

43. Information about ownerships	Domicile	Holding, %	Equity	Result for the period
Subsidiaries combined in the consolidated financial statements				
Suomen Asuntohypopankki Oy	Helsinki	100,0	24 396 284,89	3 001 793,53
Other				
Bostadsaktiebolaget Taos	Helsinki	54,6	6 160 257,29	237 787,34
As Oy Vanhaväylä 17	Helsinki	48,2	1 552 415,33	5 659,66
As Oy Helsingin Eiran Helmi	Helsinki	31,7	2 363 651,48	3 253,58
As Oy Helsingin Lauttasaarenranta	Helsinki	22,8	9 645 921,56	709,07

Amounts presented as result for the period and as equity for Bostadsaktiebolaget Taos is based on unaudited financial statements from financial year 2017.
Profit for the period and shareholders' equity of other ownerships are indicated in accordance with the year's 2016 adopted financial statements of the company.

NOTES CONCERNING CONTROLLED ENTITIES OF THE GROUP

44. Notes concerning controlled entities of the group

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

INFORMATION REQUIRED BY SECTION EIGHT OF THE CAPITAL REQUIREMENT REGULATION (EU 575/2013) AND NOTES CONCERNING PARENT COMPANY’S RISK MANAGEMENT

Risk tolerance

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

Reliable management

Reliable governance means organizing Hypo’s processes in a manner that ensures management based on healthy and cautious business principles, with a clear division of responsibilities and reporting lines. Hypo’s governance is at the same time the governance of the Group which covers the subsidiary Suomen AsuntoHypoPankki Oy (“the Bank”). More information about the 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 Hypo’s own funds sufficiently and continually cover all relevant risks which Hypo’s operations are exposed to.

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

The minimum amount of Hypo’s own funds allocated to the credit and counterparty risk is calculated using the standard method. Hypo is not subject to a varying additional capital requirement.

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

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

The details concerning own funds and the minimum requirements applicable to them are shown in the table 45.

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 Group’s liquidity management and the Bank’s deposit funding in accordance with Hypo’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.

Organization of risk management and internal auditing

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

Hypo'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
- Relationships and frequency of risk reporting

Regular risk report is given to the Management Group, to the Boards of Directors and to the auditors selected by the Supervisory Board.

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

The objective of risk management within Hypo is to maintain healthy business operations in a way that the agreed controls are carried out in business processes and by making the risks related to the operations visible by acknowledging these risks and by preventing significant risks and preventing losses. In addition, the purpose of risk management is to ensure that all significant risks that may hinder the realization of Hypo'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. This includes responsibility for the organization of risk management and the development of risk management principles, as well as the monitoring and evaluation and reporting of risk-taking, in all areas of Hypo'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 Hypo'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 Hypo 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 and to the auditors selected by the Supervisory.

Assessment of sufficiency of risk management

The Boards of Directors have assessed that the risk management systems used are sufficient in relation to profiles and strategies of the company.

Risk statement

In light of the figures concerning Hypo's risk position presented in these notes, Hypo's overall risk profile is regarded as moderate. Hypo's risk-taking is cautious. The management of various risk areas is based on separately confirmed risk management principles in each risk area. Lending is Hypo'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 Hypo' 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 Hypo enables it to maintain a favorable risk position. Taken into account Hypo's risk profile, 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 Hypo's business operations and their management procedures.

Credit risk

The credit risk refers to the risk of loss arising from Hypo's counterparty 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 Hypo'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 Hypo's business risks, as lending is by far its largest business area.

Hypo's credit risk management and reporting are based on General Terms in lending, Principles of Credit Risk Management and supplemental operational instructions.

Lending
Hypo'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 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'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, Hypo 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.

Hypo'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 46, 48 to 49 and 52.

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 Hypo's counterparties for the liquidity investments and plain vanilla derivative agreements. 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, Hypo 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 Hypo, 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.

To the extent Hypo engages 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.

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.
Hypo's operational risk management and reporting are based on separately confirmed operational risk management principles.

Operational risks related to 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.

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

Personnel
Operational risks related to Hypo's 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. Hypo'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 Hypo's facilities. Hypo 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. Hypo pays special attention to the management of access rights and controls by means of identity and access management as well as internal auditing. Information security is paid attention to both in guidelines and training. Information security principles have been confirmed within Group and are complemented by operational instructions.

Facilities
Single-office risks related to Hypo's facilities are managed through fire, water and burglary protection in particular. Hypo 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
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 Hypo's business operations during the financial year.

Impact on capital adequacy
In Hypo, 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 Hypo 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 Hypo's business operations.

Hypo's liquidity risk management and reporting are based on at principles of liquidity risk management confirmed at group level .Within Group, liquidity coverage ratio regulations are applied.

Hypo'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 50 and 52.

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 Hypo'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 Hypo's business goals and the uncertainty caused by its operating environment. Hypo 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 Hypo's short-term cash flow. If the risk is materialized, it means that Hypo 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. In addition, Hypo has an agreement with the Bank according to which the deposit funding is at Hypo's disposal under flexible conditions.

Hypo'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 Hypo'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. Hypo 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 Hypo's operations and key indicators, such as comprehensive income and fair value reserve, and regularly assesses the management and realization of market risks. Hypo 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.

Hypo does not have a securitization position.

Hypo's market risk management and reporting are based on separately confirmed market risk management principles.

Calculations and measurements describing the risk related to market risk have been presented in Notes 51 and 52.

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. Hypo's interest rate risk on balance sheet equals interest rate risk on the 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.

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, 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 Hypo’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 Hypo’s result. Hypo 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 Hypo’s 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

Hypo’s 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’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 Hypo’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 52.

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. Hypo makes long-term investments in order to manage the impairment risk.

Hypo'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.

Hypo 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. Hypo 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 tHypo 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'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 Hypo'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 the Bank's funding, is such that they materialize due to significant changes in the macroeconomy and cause requirements for change in Hypo's business operations. In addition, risks related to changes in the operations of the key information system supplier may have a material effect on Hypo'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 Hypo over the short term. This risk is managed as part of strategic risks. Any decrease in public visibility and Hypo's recognizability 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 Hypo 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, Hypo 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 Hypo's size, 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 Hypo'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, Hypo 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.

Hypo's recognizability
Hypo's recognisability is continuously increased by means of networking, increasing Hypo'd 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 Hypo's customer contacts and partners. The key business indicators for recognisability are the number of customer contacts and the content of customer feedback, which are monitored regularly.

Realized losses
No significant losses related to strategic risks were recognized in Hypo'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 Hypo’s:
• 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

45. Own funds and capital ratios

Common Equity Tier 1 (CET1) capital: Instruments and reserves	
Capital instruments and the related share premium accounts	5 000 000,00
of which: Basic capital	5 000 000,00
Retained earnings	1 347,55
Accumulated other comprehensive income (and other reserves)	54 409 633,09
Funds for general banking risks	33 346 741,79
Independently reviewed interim profits net of any foreseeable charge or dividend	21 443,02
Common Equity Tier 1 (CET1) capital before regulatory adjustments	92 779 165,45
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Intangible assets	-2 248 281,05
Fair value reserves related to gains or losses on cash flow hedges	65 038,06
Defined-benefit pension fund assets	
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-2 183 242,99
Common Equity Tier 1 (CET1) capital	90 595 922,46
Additional Tier 1 (AT1) capital	0,00
Tier 2 (T2) capital	0,00
Total capital (TC = T1 + T2)	90 595 922,46
Total risk weighted assets	824 170 705,00
Capital ratios and buffers	
Common Equity Tier 1 (CET1) as a percentage of total risk exposure amount	11,0
Tier 1 (T1) as a percentage of total risk exposure amount	11,0
Total capital as a percentage of total risk exposure amount	11,0
Institution specific buffer requirement, %	7,0
of which: capital conservation buffer requirement, %	2,5
of which: countercyclical buffer requirement, %	0,0
of which: systemic risk buffer requirement, %	0,0
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer, %	0,0
Commom Equity Tier 1 available to meet buffers, %	7,5

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.

46. Credit and counterparty risks according to the standard method, operative risk and other risks, balance sheet and off-balance sheet items

	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	285 536 705,00	341 569 370,00		
Exposures to regional governments or local authorities	107 120 819,00	117 387 854,00		
Exposures to public sector entities	12 066 700,00	12 066 700,00	2 413 340,00	193 067,20
Receivables from credit institutions	63 866 486,00	74 198 916,00	23 752 252,00	1 900 180,16
Exposures to corporates	97 045 263,00	45 594 985,00	40 295 784,00	3 223 662,72
Retail exposures	57 487 641,00	20 767 148,00	13 993 798,00	1 119 503,84
Exposures secured by mortgages on immovable property	2 339 499 028,00	2 180 724 620,00	647 840 523,00	51 827 241,84
Exposures in default	2 762 439,00	2 372 216,00	2 394 887,00	191 590,96
Exposures in the form of covered bonds	33 650 705,00	33 650 705,00	3 365 071,00	269 205,68
Other items	64 870 808,00	62 677 355,00	62 677 355,00	5 014 188,40
Total	3 063 906 594,00	2 891 009 869,00	796 733 010,00	63 738 640,80
Operational risk			19 765 640,00	1 581 251,00
Other risks			7 672 055,00	613 764,00
All items in total	3 063 906 594,00	2 891 009 869,00	824 170 705,00	65 933 655,80

Risk-weighting of the following exposures: sovereigns, regional governments, local authorities, public corporations, bodies governed by public laws, institutions and companies;

is based onthe 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

Exposures to corporates	1 156 038
Retail exposures	3 325 144
Exposures in default	10 000
Total	4 491 182

Total exposure values covered by guarantees or credit derivatives

Exposures to corporates	52 962 699
Retail exposures	32 030 189
Exposures in default	63 051
Total	85 055 939

47. Leverage Ratio

Leverage ratio, %	3,14

48. Maximum amount of credit and counterparty risk

	Book values, gross	Impaired receivables	Average book value (gross) during the period
Lending			
Not fallen due	2 180 810 663,96		1 958 377 440,42
Past due by 1–2 days*	3 842 488,25		27 052 380,83
Past due by 3 days–1 month	25 733 137,16		21 438 888,61
Past due by 1–3 months	2 823 134,49		3 861 741,34
Non-performing, past due by less than 3 months**	321 838,69		201 848,54
Non-performing, past due by more than 3 months	2 731 463,72	301 171,58	2 350 234,25
Total lending	2 216 262 726,27	301 171,58	2 013 282 533,99
Other			
Receivables from credit institutions			
Not fallen due	5 985 705,48		5 407 042,41
Debt securities			
Not fallen due	285 215 972,24		289 000 337,40
Shares and holdings	6 711 548,83		6 711 548,83
Derivative contracts			
Not fallen due	258 923,47		198 649,58
Total other	298 172 150,02	0,00	301 317 578,22
Non-performing loans/total lending, %	0,14 %		

Information concerning recognition of impairment losses related to lending is presented in Notes 10 and 14 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

49. Concentration of lending

Lending by category	Book value	%
Households	724 535 382,20	33 %
Housing companies	1 399 732 723,60	63 %
Private companies (housing investors)	85 637 888,37	4 %
Other	3 473 101,72	0 %
Total	2 213 379 095,89	100 %
Lending by purpose of use		
Permanent dwelling	2 145 230 261,81	97 %
Consumer loan	34 061 024,57	2 %
Holiday home	8 256 372,35	0 %
Other	25 831 437,16	1 %
Total	2 213 379 095,89	100 %
Lending by province		
Uusimaa	1 727 836 780,62	78 %
Rest of Finland	485 542 315,27	22 %
Total	2 213 379 095,89	100 %

50. 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	1 235 653 055	318 831 680	91 505 483	49 279	1 646 039 497
Liabilities to the public and public sector entities	71 036	1 594 969	17 834 042	124 635	19 624 682
Debt securities issued to the public	40 000 000	298 078 928	367 350 000	302 250 000	1 007 678 928
Derivative contracts	464 532	-1 490 135	4 603 860	2 258 277	5 836 534
Subordinated liabilities		4 650 810			4 650 810
Off-balance sheet commitments (inc. granted but unclaimed loans)	308 680 304				308 680 304
Total liabilities	1 584 868 927	621 666 252	481 293 385	304 682 192	2 992 510 755

51. 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	1267,7	1234,7			2502,4
Liabilities	253,9	2182,1			2436,0
Net	1013,8	-947,4	0,0	0,0	66,4
Fixed-rate items					
Receivables	4,3	8,2	443,7	400,2	856,4
Liabilities	40,0	103,9	550,3	388,5	1082,7
Net	-35,7	-95,8	-106,6	11,8	-226,3

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.

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 2.1 million (increase by EUR 0.3 million) over a period of 12 months. The change in net interest income would mainly be caused by the repricing of floating-rate receivables and liabilities at higher (lower) interest rates than on the balance sheet date.

52. 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, %	94,9 %	94,9 %
Liquidity risk	Short-term liquidity, EUR million	495,7	420,7
Liquidity risk	Short-term liquidity, months	40,3	23,1
Liquidity risk	Share of short -term liquidity of the balance sheet total, %	17,9	18,3
Liquidity risk	Average maturity of liabilities, in years	3,4	2,6
Interest rate risk	Interest rate risk in the banking book, EUR million	-1,1	-0,7
Interest rate risk	Net Present Value risk, EUR million	1,4	-0,3
Risk related to ownership of housing units and residential land	Total amount of housing property holdings of the balance sheet total, %	1,9 %	2,4 %
Risk related to ownership of housing units and residential land	Book values of investement properties, % out of estimated fair values	94,8 %	94,0 %
Risk related to ownership of housing units and residential land	Occupancy rate, %	94,8 %	95,2 %
Risk related to ownership of housing units and residential land	Net profit of investment properties calculates by book value	4,0 %	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	21,1	19,1

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 loan-to-value ratio of the credit by the remaining amount of credit.
Non-performing lonas, % of loan portfolio	Receivables from the public and public sector entities deemed unlikely to be paid + receivables past due and unpaid over 90 days
Net impairment losses, EUR million	Net amount of final credit losses and impairment loss recognized through profit or loss.
Long-term funding out of total funding, %	Original maturity including a funding of over a year divided by total funding.
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)
Average maturity of liabilities, in years	The average maturity weighted with cash flow of liabilities in years (divider 365)
Interest rate risk in the banking book, EUR million	Annual change in net interest income if interest rates increase parallely 1% on the reporting date.
Present value risk, EUR million	Change in present value of banking book if interest rates increase parallely 1% on the reporting date.
Total amount of housing property holdings of the balance sheet total, %	Total of owned investment properties and properties in own use set in proportion with the balance sheet total.
Book values of investement 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.

SIGNATURES OF THE FINANCIAL STATEMENTS AND THE ANNUAL REPORT 2017

Helsinki, February 27, 2018

Board of Directors

Sari Lounasmeri chair	Harri Hiltunen vice chair	Kai Heinonen
Pasi Holm	Mikko Huopio debuty to the CEO	Hannu Kuusela
Teemu Lehtinen	Ari Pauna Chief Executive Officer	Tuija Virtanen

THE AUDITOR’S NOTE

Our Auditor’s Report has been issued today.

Helsinki, March 1, 2018

PricewaterhouseCoopers Oy,
Authorised Public Accountant Firm

Jukka Paunonen,
Authorised Public Accountant

Auditor's Report (Translation of the Finnish Original)

To the Annual General Meeting of the Mortgage Society of Finland

Report on the Audit of the Financial Statements

Opinion

In our opinion

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

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

Our opinion is consistent with the additional report to the Board.

What we have audited

We have audited the financial statements of the Mortgage Society of Finland (business identity code 0116931-8) for the year ended 31 December 2017. The financial statements comprise:

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

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

Basis for Opinion

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

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

Independence

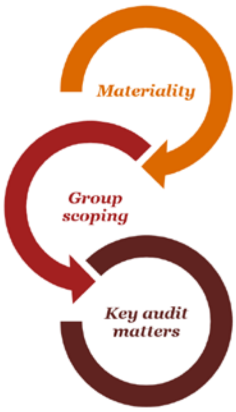
We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 42 to the Financial Statements.

PricewaterhouseCoopers Oy, Authorised Public Accountants, P.O. Box 1015 (Itämerentori 2), FI-00101 HELSINKI
Phone +358 20 787 7000, Fax +358 9 641 367, www.pwc.fi
Reg. Domicile Helsinki, Business ID 0486406-8

Our Audit Approach

Overview



- Overall group materiality: 3 million euros, which represents 0.11 % of total assets.

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

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

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

Materiality

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

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

Overall group materiality	3 million euros (previous year 1 million euros)
How we determined it	0.11 % of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because, in our view, it is the benchmark against which the performance of the group is commonly measured by users, and is a generally accepted benchmark. The benchmark of 0.11 % used is within the range of acceptable quantitative materiality thresholds in auditing standards.

How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the Mortgage Society of Finland group, the accounting processes and controls, and the industry in which the group operates.

We determined the type of work that needed to be performed at group companies by us. Audits were performed in group companies which are considered significant either because of their individual financial significance or due to their specific nature, covering the vast majority of revenue, assets and liabilities of the Group. We performed selected specified procedures as well as analytical procedures to cover the remaining parts.

Key Audit Matters

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

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

Key audit matter in the audit of the group	How our audit addressed the key audit matter
Impairment of loans and other receivables *Refer to note 17 in the consolidated financial statements for the related disclosure* Credit risk is the main risk of the group's business risks. Lending is the largest business area of the group, and according to group financial statements 31.12.2017 the receivables from the public and public sector entities are 2 212.6 million euros, comprising around 79 % of the group balance sheet total (2 792.5 million euros). The Group's lending focuses on loans granted to households (private customers) and housing companies against property collateral. Credit risk is regularly measured in the group using both factors that anticipate credit risks and factors that describe the quality and distribution of the loan	Our audit of impairment of loans and other receivables included an assessment of the valuation principles and valuation model and also going through the related processes and the testing of the controls. The purpose of our testing was to ascertain that the group identifies potential bad debts in time. We also examined individual accounting entries and performed detailed substantive procedures related to the accuracy of the details used in the evaluation of the loan receivables (such as repayment history and existence of collaterals and valuations). The substantive procedures were performed on a sample basis for both impaired loans as well as for loans which

portfolio. At least quarterly, the group evaluates whether there is objective evidence that a single receivable or a group of receivables is impaired. If the estimate of the future cash flows of a receivable is evaluated to be lower than the book value, an impairment loss is recognised. Impairment losses on receivables are presented under "Impairment losses on credits and other commitments".

The valuation of loans and other receivables is a key audit matter in the audit taking into consideration the absolute and relative size of the balance sheet item, and the fact that the accounting for impairment of loan receivables requires management's judgment over timing of recognition of impairment and especially over the present value of future cash flows.

had not been identified as impaired.

We have also assessed the appropriateness of the notes in the consolidated financial statements regarding loans and other receivables.

Valuation of investment properties

Refer to note 22 in the consolidated financial statements for the related disclosure

In the group financial statements 31.12.2017 investment properties totalled 59.7 million euros, which is around 2 % of the group balance sheet (2 792.5 million euros). Investment properties mainly consist of land areas intended to be used as residential property as well as shares in housing companies and investments in shares in housing companies under construction.

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

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

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

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

We assessed the parameters used in the group's valuation model against market prices or other sources and assessed the valuation results.

We have also assessed the appropriateness of the notes in the consolidated financial statements regarding investment properties.

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

There are no significant risks of material misstatement referred in point (c) of Article 10(2) of Regulation (EU) No 537/2014 relating to the consolidated financial statements or the parent company's financial statements.

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other Reporting Requirements

Appointment

We were first appointed as auditors by the annual general meeting on 27 March 1996. Our appointment represents a total period of uninterrupted engagement of 22 years.

Other Information

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

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

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

In our opinion

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 1 March 2018

PricewaterhouseCoopers Oy
Authorised Public Accountants

Jukka Paunonen
Authorised Public Accountant (KHT)