THE MORTGAGE SOCIETY OF FINLAND

BOARD OF DIRECTORS’ REPORT AND FINANCIAL STATEMENTS 2019

159th operational year

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BOARD OF DIRECTORS’ REPORT

THE MORTGAGE SOCIETY OF FINLAND GROUP

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

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

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

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

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

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

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

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

GROUP STRATEGY AND GOALS

In the long term, Hypo Group’s aim is steady and profitable growth in its secured loan portfolio and customer relationships while managing risks. Hypo Group aims to offer a competitive alternative for financing private customers’ housing solutions and housing companies’ need for repairs as well as strengthen its market position in the core business of lending for the benefit of the customer. Profits will be used to maintain a high capital adequacy and to improve competitiveness. In accordance with Group’s strategy, the Board of Directors sets business targets for Hypo Group. These targets are confirmed, entered onto scorecards and monitored annually, focusing in the next few years on the renewal of the core banking system, profitability and capital adequacy.

KEY EVENTS OF THE YEAR 2019

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

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

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

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

OPERATING ENVIRONMENT

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

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

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

New apartments still boosted housing transaction figures. Newbuilding also kept rents from increasing more than 1.5 percent. At the same time inflation rose by one percent while earnings increased by 2,5 percent. Labor market stayed stable and the improvement starts to be behind us. The employment rate steadied to 72.6 percent and the unemployment rate at 6.7 percent.

BALANCE SHEET AND OFF-BALANCE SHEET COMMITMENTS

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

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

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

Lending

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

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

Liquidity

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

The cash and cash equivalents in accordance with the cash flow statement, combined with current account and other binding credit facilities, totaled EUR 539.1 million (EUR 442.4 million). In addition to cash and cash equivalents and committed credit facilities, Hypo has domestic programs for issuing covered bonds, senior unsecured bonds and certificates of deposit.

Investment properties and property investments in own use

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

Pension benefits

The additional pension cover for Hypo's employees, which is classified as a defined benefit plan, has been arranged through Department A of Hypo's pension foundation, which was closed in 1991. The surplus from the assets and obligations of the pension foundation, which totaled EUR 4.6 million (EUR 5.3 million), is part of Group's assets and may with a separate permission from the FIN-FSA be returned to the parent company thus benefiting the Group's capital adequacy.

Derivative contracts

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

Deposits

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

Covered bonds and other funding

In March, The Mortgage Society of Finland issued a covered bond with a nominal amount of EUR 300.0 million. The proceeds were used for Hypo's general lending purposes and for refinancing of maturing funding. The outstanding amount of bonds and certificates of deposits on 31 December 2019 was EUR 1,311.7 million (EUR 1,129.4 million). Hypo Group's funding totaled EUR 3,041.1 million (EUR 2,954.6 million).

EQUITY

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

CAPITAL ADEQUACY

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

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

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

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

HYPO GROUP'S RESULT AND PROFITABILITY

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

Income

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

Expenses

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

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

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

Net gains/losses on derecognition of financial assets measured at amortized cost
Net gains from expected credit losses from loans during the financial period totaled EUR 0.04 million (EUR -0.02 million), including a final credit loss of EUR 0.1 million from expected credit losses of loans.

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

Numeric tables presented in the Financial Statements and in the Board of Directors' report are presented in thousands (1000 €), unless otherwise stated. Therefore, presented totals may vary from the sum calculated from the presented figures.

Key financial indicators 2015-2019

Key financial indicators	IFRS	IFRS	IFRS	IFRS	IFRS
Group	2015	2016	2017	2018	2019
Turnover, EUR million	33,0	32,4	29,2	29,3	32,8
Operating profit/profit before appropriations and taxes, EUR million	7,4	7,3	6,7	7,2	8,4
Operating profit/turnover, %	22,5	22,6	22,7	24,4	25,7
Return on equity (ROE), %	6,2	5,8	4,9	5,0	5,5
Return on assets (ROA), %	0,4	0,3	0,2	0,2	0,2
Equity ratio, %	5,2	4,7	4,1	3,9	4,0
Cost-to-income ratio, %	55,2	57,1	62,5	60,6	59,6
Non-performing loans, % of loan portfolio	0,16	0,11	0,14	0,07	0,10
Loan-to-value ratio (average LTV), %	41,1	38,4	37,4	35,8	35,3
Loans/Deposits, %	136,7	150,2	143,6	150,7	158,8
Indicators set in the EU's Capital Requirements Regulation and in national legislation					
Leverage Ratio, %	4,3	4,2	3,7	3,5	3,7
Common Equity Tier 1 (CET1) ratio, %	13,8	13,6	12,7	12,1	13,4
Capital adequacy, %	13,8	13,6	12,7	12,1	13,4
LCR-ratio, %	128,0	144,0	147,6	122,6	163,8
Other key figures					
Receivables from the public and public sector entities	1 420,7	1 806,4	2 212,6	2 588,9	2 586,1
Deposits (incl. deposits of financial institutions)	1 040,0	1 203,0	1 540,4	1 718,2	1 628,8
Balance sheet total, EUR million	1 959,5	2 305,2	2 792,5	3 113,8	3 230,7
Total Capital, EUR million	93,9	100,9	106,1	112,3	120,0
Common Equity Tier 1 (CET1), EUR million	93,9	100,9	106,1	112,3	120,0
Minimum requirement of Total Capital, EUR million *	71,6	78,0	87,9	97,2	114,3
Average number of personnel	55	57	58	53	52
Salaries and remuneration, EUR million	3,8	3,9	4,3	4,2	4,6

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

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

GROUP'S DEVELOPMENT PER QUARTER

€1,000	10-12/2019	7-9/2019	4-6/2019	1-3/2019	10-12/2018
Interest income	7 151,0	6 657,6	6 523,0	6 131,1	6 135,1
Interest expenses	-3 131,7	-3 094,7	-3 045,7	-2 738,6	-2 784,8
NET INTEREST INCOME	4 019,2	3 562,9	3 477,3	3 392,5	3 350,4
Fee income	861,7	961,8	996,1	796,1	899,7
Fee expenses	-7,9	-15,0	-17,9	-12,5	-13,7
Net income from currency operations and securities trading					
Net income from securities trading	40,7	-303,8	-0,1	73,1	-1 512,1
Net income from financial assets at fair value through other comprehensive income	-189,2	0,0	75,2	118,9	183,0
Net income from hedge accounting	135,8	23,3	-30,3	-55,0	59,3
Net income from investment properties	669,0	696,9	695,3	788,8	987,3
Other operating income	-25,4	-5,7	-9,3	-9,8	4,2
Administrative expenses					
Personnel expenses					
Salaries and remuneration	-1 558,6	-1 043,8	-1 280,7	-1 297,0	-1 251,8
Indirect personnel expenses					
Pension expenses	-271,5	-215,7	-230,9	-220,5	-270,2
Other indirect personnel expenses	-46,6	-43,8	-16,3	-19,6	-8,7
Other administrative expenses	-992,5	-692,3	-781,0	-740,7	-816,4
Total administrative expenses	-2 869,2	-1 995,6	-2 308,9	-2 277,8	-2 347,1
Depreciation and impairment losses on					
tangible and intangible assets	-288,7	-189,8	-196,9	-180,7	-142,1
Other operating expenses	-335,3	-214,3	-290,7	-1 187,2	-256,7
Impairment losses on loans and other commitments				0,0	0,0
Net gains/losses on derecognition of financial assets measured at amortised cost	-5,1	13,7	12,7	0,8	1,3
Net gains/losses on derecognition of other financial assets	15,1	0,0	0,9	0,7	0,0
OPERATING PROFIT	2 020,8	2 534,4	2 403,6	1 447,9	1 213,6
Income taxes	-320,4	-477,4	-432,5	-293,0	-169,1
PROFIT FROM OPERATIONS AFTER TAXES	1 700,4	2 057,0	1 971,1	1 154,9	1 044,5
PROFIT FOR THE PERIOD	1 700,4	2 057,0	1 971,1	1 154,9	1 044,5

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT, IFRS

€1,000	10-12/2019	7-9/2019	4-6/2019	1-3/2019	10-12/2018
Profit for the period	1 700,4	2 057,0	1 971,1	1 154,9	1 044,5
Items that may be included in the income statement later					
Change in fair value reserve					
Financial assets at fair value through other comprehensive income	-220,4	819,1	39,8	196,6	136,5
	-220,4	819,1	39,8	196,6	136,5
Items that may not be included in the income statement at a later date					
Effect of the change in the ownership of Bostads Ab Taos Oy	296,3	-172,9	125,0	386,4	-458,4
	296,3	-172,9	124,99	386,4	-458,4
Total other comprehensive income	76,0	646,2	164,80	583,0	-321,9
COMPREHENSIVE INCOME FOR THE PERIOD	1 776,4	2 703,1	2 135,90	1 737,9	722,6

KEY EVENTS SINCE THE END OF THE FINANCIAL PERIOD

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

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

FUTURE OUTLOOK

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

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

BOARD OF DIRECTORS' PROPOSAL FOR THE USE OF PROFITS

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

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

CORPORATE GOVERNANCE

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

Corporate Governance Statement of The Mortgage Society of Finland, as well as on its internal auditing and risk management systems related to financial reporting process, have been published on its website (http://www.hypo.fi/en) in conjunction with this document.

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

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

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

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

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

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

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

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

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

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

Statutory pension insurance for Hypo's personnel has been set up with Elo Mutual Pension Insurance Company. Additional benefits are managed by Department A of Hypo's Pension Foundation, which has a closed sphere of operation and no uncovered liabilities. The additional benefits cover three employees in total. Through Department M, the pension foundation covers a total of 80 people.

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

RISK MANAGEMENT

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

Group's key business areas include lending against housing collateral, deposits from the public, the renting of homes and residential properties, and the provision of trustee services in selected services. Group does not offer payment transaction nor investment services.

Risk tolerance

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

Reliable management

Reliable governance means organizing Group's processes in a manner that ensures management based on healthy and cautious business principles, with a clear division of responsibilities and reporting lines. The governance of the Group is centralized in the parent company, The Mortgage Society of Finland, and it also covers the subsidiary Suomen AsuntoHypoPankki. In addition to this Board of Directors' Report, more information about corporate governance is available in separate Corporate Governance Statement and Remuneration Statement as well as on the Hypo website at www.hypo.fi.

Capital adequacy management

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

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

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

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

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

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

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

Responsibility and organization of risk management

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

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

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

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

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

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

Risk management and internal auditing

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

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

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

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

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

The Board of Director's Risk Management Committee has been established in order to assess Group's risk position. The Committee assembled regurlarly in 2019.

Business units' controls

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

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

Independent control functions

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

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

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

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

Assessment of sufficiency of risk management

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

Risk statement

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

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

Credit risk

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

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

Lending

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

As a rule, shares in housing companies or mortgage deeds registered in a residential property are required as collateral for loans. Generally, depending on the type of housing collateral, 50–70 per cent of the fair value of the site is accepted as collateral. As a rule, fair value refers to market value, that is, the price received in a voluntary sale between parties that are independent of each other. Market value of the collateral is monitored on a regular basis by using statistical methods. Large exposure collateral is evaluated in a separate process as 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 commonly used credit risk mitigation techniques.

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

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

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

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

Loan-to-value ratio has developed positively.

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

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

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

The amount of forbearances increased during 2019 but still remained on an excellent level compared to the industry average. A forbearance is a credit whose payment scheme or terms have been temporary modified with e.g. amortization-free periods (primary method), lengthening of the loan maturity, or other arrangement, due to the debtor’s existing or anticipated financial difficulties.

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

*Liquidity investments and 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.

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 assigning the regulatory risk weight corresponding the ratings. The current credit ratings are used for the receivables from the following counterparties:

- sovereigns and central banks
- regional governments or local authorities
- public 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. The counterparty risk related to derivative contracts is calculated using the current exposure method. The liquidity investments belonging to the banking book are included in the credit risk calculation. Hypo does not have a trading book and can only have a minor trading book permitted by the law (usually EUR 15 million or 5 per cent of total assets at most and always EUR 20 million or 6 per cent of total assets at most.

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

Operational risks

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

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

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

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

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

Information systems

For the purpose of operational risk management, the key information systems have been outsourced to recognized companies or acquired as software packages. The key information systems have also been duplicated, and they are mainly located outside Group's facilities. Group has prepared for risks related to information system malfunctions through service agreements and continuity planning. IT related development projects are carried out systematically and in documented manner.

The renewal of the Group's core banking systems has been initiated in 2019 and has progressed as planned.

The operations, situation and pricing of the key information system partner, as well as its ability to provide services, are monitored as part of strategic risk management. Group pays special attention to the management of access rights and controls by means of identity and access management as well as internal auditing. Information security is paid attention to both in guidelines and training. Information security principles have been confirmed within Group and are complemented by operational instructions. Operational risks related to services offered to customers remotely without face-to-face contact, are taken into account in planning of business processes. Business risks, such as fraud risks, are also covered with separate insurance policies.

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

Legal risks
Legal risks are managed by relying on the expert resources in the organization and, whenever necessary, standard agreements and the expertise of reputable industry operators. In addition, new products and services are assessed in advance in terms of operational risks. Business related risks, such as criminal risks, have also been covered with a special insurance.

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

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

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

Liquidity risks

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

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

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

The long-term i.e. structural financing risk on the balance sheet

The long-term funding risk, also known as the structural funding risk, on the balance sheet refers to the temporal imbalance that is related to the funding of long-term lending and results from funding on market terms. If the risk is materialized, it jeopardizes the continuance of growth-orientated lending as well as the Group's funding position.

The existing programs and authorizations for arranging long-term funding and securing the funding position are kept at a sufficient level in relation to the Group's business goals and the uncertainty caused by its operating environment. The share of deposit funding of the total funding is maintained in accordance with the Group's strategy. Hypo, the parent company of the Group, also has permission to act as a counterparty to central bank funding. Implemented debt issuances and liquidity investments are regularly reported to the management.

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

Short-term liquidity risk

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

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

The Liquidity Coverage Ratio (LCR), a liquidity requirement describing short-term 30-day liquidity, has been taken into account in the principles and processes of liquidity risk management.

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

Refinancing risk

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

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

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

Impact on capital adequacy

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

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

Market risks

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

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

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

Group does not have a securitization position.

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

Interest rate risk

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

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

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

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

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

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

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

Risks related to ownership of housing units and residential land

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

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

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

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

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

Return risk and damage risk

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

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

Concentration risk

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

Realized losses

No significant impairment losses related to holdings of housing units or residential land were recognized during the financial year.

Impact on capital adequacy

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

Strategic risks

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

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

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

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

Regulation risk

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

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

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

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

Impact on capital adequacy
An amount of Group's own funds considered sufficient have been allocated to strategic risks in the Group's internal capital adequacy assessment process, especially due to anticipated changes in the operations of the central IT-system service providers.

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

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

Table: Group’s own funds and capital ratios

(€1,000)	2019	2018
Common Equity Tier 1 (CET1) capital: Instruments and reserves		
Capital instruments and the related share premium accounts	5 000,00	5 000,00
of which: Basic capital	5 000,00	5 000,00
Retained earnings	65 870,38	62 601,78
Accumulated other comprehensive income and other reserves	52 008,55	47 858,79
Independently reviewed interim profits net of any foreseeable charge or dividend	6 883,37	5 948,47
Common Equity Tier 1 (CET1) capital before regulatory adjustments	129 762,31	121 409,04
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets	-2 909,38	-2 230,40
Deferred tax assets that rely on future profitability	0,00	-148,47
Value adjustments due to the requirements for prudent valuation	-314,09	-219,93
Fair value reserves related to gains or losses on cash flow hedges	0,00	0,00
Defined-benefit pension fund assets	-6 510,26	-6 467,89
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-9 733,73	-9 066,69
Common Equity Tier 1 (CET1) capital	120 028,58	112 342,35
Additional Tier 1 (AT1) capital	0,00	0,00
Tier 2 (T2) capital	0,00	0,00
Total capital (TC = T1 + T2)	120 028,58	112 342,35
Total risk weighted assets	896 212,82	925 239,47
Capital ratios and buffers		
Common Equity Tier 1 (CET1) as a percentage of total risk exposure amount	13,4	12,1
Tier 1 (T1) as a percentage of total risk exposure amount	13,4	12,1
Total capital as a percentage of total risk exposure amount	13,4	12,1
Institution specific buffer requirement, %	8,0	7,0
of which: capital conservation buffer requirement, %	2,5	2,5
of which: countercyclical buffer requirement, %	0,0	0,0
of which: systemic risk buffer requirement, %	1,0	0,0
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer, %	0,0	0,0
Discretionary capital add-on (Pillar 2), %	1,25	0,0
Common Equity Tier 1 available to meet buffers, %	9,9	8,6

The own funds and capital adequacy are presented in accordance with the EU’s Capital Requirements Regulation (575/2013).
The capital requirement for credit risk is calculated using the standard method.
The capital requirement for counterparty credit risk is calculated using the current exposure method (CEM).
The capital requirement for operational risk is calculated using the basic method.
The other risk-weighted items consist of credit valuation risk (CVA).
No restrictions applied in the EU’s Capital Requirements Regulation (575/2013) compliant own funds calculation and no elements of own funds other than what is laid down in this regulation is used.
Contribution EUR 1 500 000 from the pension foundation of the Mortgage Society of Finland has been included in Group's own funds.
An authorization for the contribution was granted by the Financial Supervisory Authority on 9 January 2020.

Capital instruments main features

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

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

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

2019

(€1,000)	Original exposure pre conversion factors	Exposure value	Risk weighted exposure amount after SME-supporting factor	Own funds requirement
Exposures to central governments or central banks	364 618,39	421 686,78	0,00	0,00
Exposures to regional governments or local authorities	138 747,85	147 493,55	0,00	0,00
Exposures to credit institutions	53 091,89	61 075,18	16 675,98	1 334,08
Exposures to corporates	54 738,06	25 919,94	18 426,54	1 474,12
Retail exposures	61 925,53	15 075,31	10 129,72	810,38
Exposures secured by mortgages on immovable property	2 582 115,76	2 514 794,54	738 062,43	59 044,99
Exposures in default	2 411,99	2 238,31	2 290,76	183,26
Exposures in the form of covered bonds	23 451,06	23 451,06	2 345,11	187,61
Other items	65 120,01	65 120,01	65 120,01	5 209,60
Total	3 346 220,53	3 276 854,68	853 050,54	68 244,04
Operational risk			36 346,77	2 907,74
Other risks			6 815,51	545,24
All items in total	3 346 220,53	3 276 854,68	896 212,82	71 697,03

2018

(€1,000)	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	277 765,16	337 110,98	0,00	0,00
Exposures to regional governments or local authorities	100 496,50	110 002,97	0,00	0,00
Exposures to public sector entities	5 854,76	5 854,76	1 170,95	93,68
Exposures to credit institutions	24 169,09	32 658,51	11 652,11	932,17
Exposures to corporates	84 510,40	39 188,39	32 584,81	2 606,79
Retail exposures	62 615,04	16 635,44	11 220,02	897,60
Exposures secured by mortgages on immovable property	2 716 899,74	2 572 499,52	755 204,20	60 416,34
Exposures in default	1 391,42	1 339,58	1 359,41	108,75
Exposures in the form of covered bonds	40 280,17	40 280,17	4 028,02	322,24
Other items	67 952,47	67 952,47	67 952,47	5 436,20
Total	3 381 934,75	3 223 522,79	885 171,99	70 813,76
Operational risk			32 506,77	2 600,54
Other risks			7 560,71	604,86
All items in total	3 381 934,75	3 223 522,79	925 239,47	74 019,16

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

Total exposure values covered by eligible financial collateral or other eligible collateral

	2019	2018
Exposures to corporates	270,1	142,9
Retail exposures	4 523,8	3 981,4
Exposures in default	32,0	10,0
Total	4 825,9	4 134,3

Total exposure values covered by guarantees or credit derivatives

Exposures to corporates	41 688,9	44 302,4
Retail exposures	40 890,2	40 480,3
Exposures in default	141,7	41,8
Total	82 720,8	84 824,6

Table: Counterparty credit risk exposures

Analysis of CCR exposure by approach (EU CCR1)

2019	b	c	f	g
(€1,000)	Replacement cost/current market value	Potential future credit exposure	EAD post CRM	RWAs
1 Mark to market	22 899,7	9 250,0	32 139,7	9 093,8

CVA capital charge (EU CCR2)

2019	a	b
(€1,000)	Exposure value	RWAs
4 All portfolios subject to the standardised method	30 296,8	6 815,5
5 Total subject to the CVA capital charge	30 296,8	6 815,5

Impact of netting and collateral held on exposure values (EU CCR5-A)

2019	a	b	c	d	e
(€1,000)	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1 Derivatives	19 351,9	0,0	19 351,9	23 350,0	0,0
4 Yhteensä	19 351,9	0,0	19 351,9	23 350,0	0,0

Composition of collateral for exposures to CCR (EU CCR5-B)

	a	b	c	d
	Collateral used in derivative transactions			
2019	Fair value of collateral received		Fair value of posted collateral	
(€1,000)	Segregated	Unsegregated	Segregated	Unsegregated
1 Cash		23 350,0	4 708,7	3 300,7
2 Sovereign debt			5 365,8	

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

Table: Information concerning asset encumbrance

2019

(€1,000)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
A - Assets	1 706 675,5	1 706 675,5	1 523 981,3	1 523 981,3
Equity instruments			132,4	132,4
Debt securities	49 319,8	49 319,8	233 367,7	233 367,7
Other assets, including lending	1 657 355,7	1 657 355,7	1 290 481,3	1 290 481,3

B - Collateral received

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

C - Encumbered assets and associated liabilities	Liabilities associated with encumbered assets	Encumbered assets
Book value of selected financial liabilities	78 950,9	94 703,1
Debt securities issued to the public	1 278 253,3	1 598 597,2
Derivative contracts	7 048,0	13 375,2
Total	1 364 252,2	1 706 675,5

D - Information on the importance of encumbrance

Provided figures are based on the situation as at 31 December 2019.

The amount of assets reported under items A and C above does not include excess collateral except for covered bonds.
Group’s encumbered assets consist of debt securities,cover asset pool and cash collateral for derivative contracts that are tradable on the secondary market and eligible as ECB collateral and that have been pledged against a loan from the central bank.
Group’s encumbered assets increased due to issuance of covered bonds. Encumbered assets totaled EUR 1,706.7 million, out of which of covered bonds was EUR 1,649.3 million.
Unencumbered debt securities that are tradable on the secondary market and eligible as ECB collateral and that can be used as collateral in monetary policy operations totalled EUR 218.4 million on 31 December 2019

EUR 677.0 million of unencumbered loans may be used as collateral for covered bonds.

2018

(€1,000)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
A - Assets	1 345 044,2	1 345 044,2	1 768 772,7	1 768 772,7
Equity instruments			132,4	132,4
Debt securities	50 648,0	50 648,0	159 514,2	159 514,2
Other assets, including loans	1 294 396,1		1 609 126,2	

B - Collateral received

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

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

D - Information on the importance of encumbrance

Provided figures are based on the situation as at 31 December 2018.
The amount of assets reported under items A and C above does not include excess collateral except for covered bonds. Group's encumbered assets consist of debt securities,
cover asset pool and cash collateral for derivative contracts that are tradable on the secondary market and eligible as ECB collateral and that have been pledged against a loan from the central bank.

Group's encumbered assets increased due to issuance of covered bonds.
Encumbered assets totaled EUR 1 345.0 million, out of which of covered bonds was EUR 1290.1 million. Unencumbered debt securities that are tradable on the secondary market and
eligible as ECB collateral and that can be used as collateral in monetary policy operations totalled EUR 159.5 on 31 December 2018. EUR 1 035.1 million of unencumbered loans can be used as collateral for covered bonds.

Remuneration policy

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

Table: Leverage Ratio

	2019	2018
Leverage ratio, %	3,7	3,5

Table EU LIQA on liquidity risk management

Strategies and processes in the management of liquidity risk

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

Structure and organization of the liquidity risk management function

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

Scope and nature of liquidity risk reporting and measurement systems

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

Protection and risk reduction policies and control of their effectiveness

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

Management declaration concerning liquidity risk management

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

Management statement on liquidity risk

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

LCR disclosure template and qualitative information on the LCR (EU LIQ1)

Consolidated (€1,000)	Total weighted value (average)			
Quarter ending on	31.3.2019	30.6.2019	30.9.2019	31.12.2019
Number of data points used in the calculation of averages	12	12	12	12
LIQUIDITY BUFFER	407 708	398 726	398 855	403 152
TOTAL NET CASH OUTFLOWS	304 600	301 585	303 850	300 734
LIQUIDITY COVERAGE RATIO (%)	135,0604 %	133,2014 %	131,9458 %	134,4415 %

Concentration of funding and liquidity sources

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

Derivative exposures and potential collateral calls

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

Currency mismatch in the LCR

The Hypo Group has only euro-denominated liabilities and receivables, so there is no currency difference.

A description of the degree of centralisation of liquidity management and interaction between the group's units

On operational level, liquidity management is centralized in treasury where authorisations, responsibilities and tasks are divided in due manner. Cooperation between treasury and other units taking part in liquidity or liquidity risk management is continuous and functioning.

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

N/A.

Table: Non-performing and forborne exposures

Credit quality of forborne exposures

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

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

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

Performing and non-performing exposures and related provisions

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

Table: Other information describing capital adequacy and risk position

Risk type	Indicator	2019	2018
Credit risk	LTV-ratio (Loan to Value, average), %	35,3 %	35,8 %
Credit risk	Non-performing loans, % of loan portfolio	0,10 %	0,07 %
Credit risk	Net impairment losses, EUR million	0,10	-0,03
Liquidity risk	Long-term funding out of total funding, %	46,5 %	36,2 %
Liquidity risk	Deposits out of total funding, %	53,6 %	58,2 %
Liquidity risk	Average maturity of liabilities, in years	3,5	3,3
Liquidity risk	LCR-ratio, %	163,8 %	122,6 %
Liquidity risk	Short-term liquidity, EUR million	539,1	442,4
Liquidity risk	Short-term liquidity, months	38,4	28,3
Liquidity risk	Share of short -term liquidity of the balance sheet total, %	16,7 %	14,2 %
Interest rate risk	Interest rate risk in the banking book, EUR million	-4,9	-4,6
Interest rate risk	Net Present Value risk, EUR million	-4,5	-2,2
Risk related to ownership of housing units and residential land	Total amount of housing property holdings of the balance sheet total, %	1,9 %	2,0 %
Risk related to ownership of housing units and residential land	Book values of investement properties, % out of estimated fair values	91,5 %	96,4 %
Risk related to ownership of housing units and residential land	Occupancy rate, %	93,7 %	98,1 %
Risk related to ownership of housing units and residential land	Net profit of investment properties calculates by book value	4,4 %	4,2 %
Risk related to ownership of housing units and residential land	Average monthly rent per square metre in housing units EUR per square meter	19,7	21,2

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

Net profit of investment properties calculates by book value	Net-profit of investment properties (excl. changes in the value and capital gains / losses) set in proportion with average book value of investment properties at the beginning and in the end of the period.
Average monthly rent per square metre in housing units EUR per square meter	Average EUR per square meter of rented housing units at the end of the period.

Information required from a significant subsidiary (Suomen Asuntohypopankki Oy) by section eight of the Capital Requirement Regulation (EU 575/2013)

Table: Own funds and capital ratios of Suomen Asuntohypopankki Oy

(€1,000)	2019	2018
Common Equity Tier 1 (CET1) capital: Instruments and reserves		
Capital instruments and the related share premium accounts	6 500,00	6 500,00
of which: Basic capital	6 500,00	6 500,00
Retained earnings	17 979,67	17 728,10
Accumulated other comprehensive income and other reserves	168,19	168,19
Independently reviewed interim profits net of any foreseeable charge or dividend	646,27	251,58
Common Equity Tier 1 (CET1) capital before regulatory adjustments	25 294,14	24 647,86
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets	-1,11	-4,42
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-1,11	-4,42
Common Equity Tier 1 (CET1) capital	25 293,03	24 643,44
Additional Tier 1 (AT1) capital	0,00	0,00
Tier 2 (T2) capital	0,00	0,00
Total capital (TC = T1 + T2)	25 293,03	24 643,44
Total risk weighted assets	33 257,44	38 347,78
Capital ratios and buffers		
Common Equity Tier 1 (CET1) as a percentage of total risk exposure amount	76,1	64,3
Tier 1 (T1) as a percentage of total risk exposure amount	76,1	64,3
Total capital as a percentage of total risk exposure amount	76,1	64,3
Institution specific buffer requirement, %	7,0	7,0
of which: capital conservation buffer requirement, %	2,5	2,5
of which: countercyclical buffer requirement, %	0,0	0,0
of which: systemic risk buffer requirement, %	0,0	0,0
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer, %	0,0	0,0
Common Equity Tier 1 available to meet buffers, %	72,6	60,8

The own funds and capital adequacy are presented in accordance with the EU’s Capital Requirements Regulation (575/2013).
The capital requirement for credit risk is calculated using the standard method.
The capital requirement for operational risk is calculated using the basic method.
No restrictions applied in the EU’s Capital Requirements Regulation (575/2013) compliant own funds calculation and no elements of own funds other than what is laid down in this regulation is used.

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

	2019			
(€1,000)	Original exposure pre conversion factors	Exposure value	Risk weighted exposure amount after SME-supporting factor	Own funds requirement
Exposures to credit institutions	1 654 211,64	1 654 211,64	84,87	6,79
Exposures secured by mortgages on immovable property	84 848,41	84 848,41	22 626,10	1 810,09
Other items	3 734,52	3 734,52	3 734,52	298,76
Total	1 742 794,57	1 742 794,57	26 445,49	2 115,64
Operational risk			6 811,95	544,96
All items in total	1 742 794,57	1 742 794,57	33 257,44	2 660,60

	2018			
(€1,000)	Original exposure pre conversion factors	Exposure value	Risk weighted exposure amount after SME-supporting factor	Own funds requirement
Exposures to credit institutions	1 745 316,04	1 745 316,04	3,69	0,29
Exposures secured by mortgages on immovable property	94 257,53	94 257,53	25 135,18	2 010,81
Other items	3 959,90	3 959,90	3 959,90	316,79
Total	1 843 533,46	1 843 533,46	29 098,76	2 327,9
Operational risk			9 249,01	739,92
All items in total	1 843 533,46	1 843 533,46	38 347,78	3 067,82

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

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

Remuneration policy of Suomen Asuntohypopankki Oy

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

Table: Leverage Ratio of Suomen Asuntohypopankki Oy

	2019	2018
Leverage ratio, %	1,45	1,34

Definitions of Alternative Performance Measures:

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

Turnover	Interest income + income from equity investments + fee income + net income from financial assets at fair value through other comprehensive income + net income from currency operations and securities trading + net income from hedge accounting + income from investment properties + other operating income	
Operating profit/profit before appropriations and taxes, milj. €	Interest income + income from equity investments + fee income + net income from financial assets at fair value through other comprehensive income + net income from currency operations and securities trading + net income from hedge accounting + income from investment properties + other operating income – (administrative expenses + depreciation and impairment losses on tangible and intangible assets + other operating expenses+ impairment losses on loans and other commitments)	
Operating profit/Turnover, %	Operating profit ――― Turnover	x 100
Return on equity % (ROE)	Operating profit - income taxes ――― Equity + accumulated appropriations less deferred tax liabilities (average total at the beginning and end of the year)	x 100
Return on assets % (ROA)	Operating profit - income taxes ――― Average balance sheet total (average total at the beginning and end of the year)	x 100
Equity ratio, %	Equity + accumulated appropriations less deferred tax liabilities ――― Balance sheet total	x 100
Cost-to-income ratio, %	Administrative expenses + depreciation and impairment losses on tangible and intangible assets + other operating expenses ――― Net interest income + income from equity investments + net fee and commission income + net income from currency operations and securities trading + net income from available-for-sale financial assets + net income from hedge accounting + net income from investment properties + other operating income	x 100
LTV-ratio (Loan to Value, Weighted average), %	Receivables from the public and public sector entities ――― Fair value of collateral received against the receivables from the public and public sector entities Loan-to-value ratio is calculated by dividing the outstanding loan balance with the fair value of the total amount of the collaterals allocated to the loan. Only housing and residential property collaterals are taken into account. The average LTV ratio is the weighted average of individual loan-to-value ratios.	x 100
Loans/deposits %	Receivables from the public and public sector entities ――― Deposits	x 100
Deposits out of total funding, %	Deposits ――― Total funding Total funding includes liabilities to credit institutions, liabilities to the public and public sector entities, debt securities issued to the public as well as subordinated liabilities.	x 100
Long-term funding out of total funding, %	Total funding with a remaining maturity of 12 months ――― Total funding Total funding includes liabilities to credit institutions, liabilities to the public and public sector entities, debt securities issued to the public as well as subordinated liabilities.	x 100

Average number of personnel	Number of personnel includes those in employment relationship during the financial year (excl. The CEO and deputy to the CEO). Average number of personnel is calculated by dividing the sum of the number of permanent full-time personnel at the end of each month by the total number of months.
Salaries and remuneration, 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 statements describing the net revenues from business operations after taking into account expenses, impairment losses and depreciations.

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

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

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

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

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

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

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

Average number of personnel describes the personnel resources available.

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

Helsinki, 27 February 2019

Board of Directors

CONSOLIDATED INCOME STATEMENT, IFRS

(€1,000)	Note	1.1.-31.12.2019	1.1.-31.12.2018
Interest income	1, 3	26 462,66	23 614,84
Interest expenses	1, 3	-12 010,76	-11 284,07
NET INTEREST INCOME		14 451,90	12 330,78
Fee and commission income	2, 3	3 615,71	3 887,33
Fee and commission expenses	2	-53,25	-92,55
Net income from securities and foreign currency transactions			
Net income from securities trading	4	-190,04	-1 144,75
Net income from financial assets at fair value through other comprehensive income	5	4,88	291,40
Net income from hedge accounting	6	73,87	33,22
Net income from investment properties	7	2 850,11	2 930,51
Other operating income	8	-50,27	-12,94
Administrative expenses			
Personnel costs			
Wages and salaries		-5 180,20	-4 920,52
Other personnel related costs			
Pension costs		-938,58	-995,78
Other personnel related costs		-126,27	-108,96
Other administrative expenses		-3 206,44	-2 663,51
Total administrative expenses		-9 451,49	-8 688,77
Depreciation and impairment losses on tangible and intangible assets	10	-856,07	-516,08
Other operating expenses	9	-2 027,49	-1 830,31
Net gains/losses on derecognition of financial assets measured at amortised cost	11	22,21	-31,29
Net gains/losses on derecognition of other financial assets	11	16,61	8,69
OPERATING PROFIT		8 406,67	7 165,24
Income taxes	12	-1 523,30	-1 216,78
PROFIT FROM OPERATIONS AFTER TAXES		6 883,37	5 948,47
PROFIT FOR THE PERIOD		6 883,37	5 948,47

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT, IFRS

(€1,000)	1.1.-31.12.2019	1.1.-31.12.2018
Profit for the period	6 883,37	5 948,47
Other comprehensive income		
Items that may in the future be recognized through profit or loss		
Change in fair value reserve		
Hedging of cash flows	0,00	65,04
Financial assets at fair value through other comprehensive income	835,11	-114,20
	835,11	-49,16
Items that may not be included in the income statement at a later date		
Revaluation of defined benefit pension plans	634,78	-254,77
Correction for previous year, IFRS 9		-57,82
	634,78	-312,59
Total other comprehensive income	1 469,90	-361,75
COMPREHENSIVE INCOME FOR THE PERIOD	8 353,27	5 586,72

CONSOLIDATED BALANCE SHEET, IFRS

(€1,000)	Note	31.12.2019	31.12.2018
ASSETS			
Cash	14,15,38	244 100,00	223 600,00
Debt securities eligible for refinancing with central banks			
Other	15,18,19,36,38,57,58,59	267 107,00	201 166,53
		267 107,00	201 166,53
Receivables from credit institutions			
Payable on demand	15,16,36,38	9 820,94	5 338,70
Other	15,16,36,38	29,80	60,84
		9 850,74	5 399,54
Receivables from the public and public sector entities			
Other than those payable on demand	17,36,38,54,55,57,58,59	2 586 146,97	2 588 907,87
Debt securities			
From public sector entities	15,18,19,36,38,57,58,59	15 006,41	8 505,95
		15 006,41	8 505,95
Shares and holdings	20,38	132,37	132,37
Derivative contracts	21-25,38,39	19 351,93	4 562,63
Intangible assets	26,28	3 636,72	2 788,00
Tangible assets			
Investment properties and shares and holdings in investment properties	27,28	61 564,39	61 420,49
Other properties and shares and holdings in housing property corporations	27,28	644,50	844,41
Other tangible assets	28	242,25	258,03
		62 451,14	62 522,93
Other assets	29	15 134,27	10 626,04
Deferred income and advances paid	30	7 739,30	5 456,60
Deferred tax receivables	31	0,00	148,47
TOTAL ASSETS		3 230 656,86	3 113 816,92

CONSOLIDATED BALANCE SHEET, IFRS

(€1,000)	Note	31.12.2019	31.12.2018
LIABILITIES			
LIABILITIES			
Liabilities to credit institutions			
To central banks	36,38	80 000,0	80 000,0
To credit institutions			
Other than those payable on demand	36,38	6 329,2	10 101,5
		86 329,2	90 101,5
Liabilities to the public and public sector entities			
Deposits			
Payable on demand	36,38	829 457,9	806 059,4
Other than those payable on demand	36,38	799 335,3	912 106,3
		1 628 793,2	1 718 165,6
Other liabilities			
Other than those payable on demand	36,38	14 294,1	16 917,6
		1 643 087,3	1 735 083,3
Debt securities issued to the public			
Bonds	32,36,38	1 275 217,9	960 976,9
Other	32,36,38	36 483,2	168 435,6
		1 311 701,1	1 129 412,5
Derivative contracts	21-25,38,39	7 598,5	3 215,5
Other liabilities			
Other liabilities	33	35 004,0	17 119,0
Deferred expenses and advances received	34	7 445,2	7 663,3
Deferred tax liabilities	31	9 729,3	9 812,9
EQUITY			
Basic capital	40	5 000,0	5 000,0
Other restricted reserves			
Reserve fund		25 490,5	22 810,7
Fair value reserve			
From cash flow hedging			
From valuation at fair value		755,0	-80,2
Defined benefit pension plans			
Actuarial gains/losses		2 839,6	2 204,8
Unrestricted reserves			
Other reserves		22 923,5	22 923,5
Retained earnings		65 870,4	62 601,8
Profit for the period		6 883,4	5 948,5
		129 762,3	121 409,0
TOTAL LIABILITIES AND EQUITY		3 230 656,9	3 113 816,9

STATEMENT OF CHANGES IN EQUITY

(€1,000)	Basic capital	Revaluation reserve	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
Equity 1 Jan 2018	5 000,0	0,0	22 799,9	2 428,6	22 923,5	62 670,3	115 822,3
Adjustment due to initial application of IFRS 9						-57,8	-57,8
Restated equity 1 January 2018	5 000,0	0,0	22 799,9	2 428,6	22 923,5	62 612,5	115 764,5
Profit for the period						5 948,5	5 948,5
Other comprehensive income							
Distribution of profits			10,7			-10,7	0,0
Hedging of cash flow							
Amount recognized in equity				-89,0			-89,0
Amount transferred to the income statement				170,3			170,3
Change in deferred taxes				-16,3			-16,3
Financial assets at fair value through other comprehensive income							
Change in fair value				144,5			144,5
Amount transferred to the income statement				-291,4			-291,4
Change in deferred taxes				32,7			32,7
Defined benefit pension plans							
Actuarial gains/losses				-318,5			-318,5
Change in deferred taxes				63,7			63,7
Total other comprehensive income	0,0	0,0	10,7	-303,9	0,0	-10,7	-303,9
Equity 31 Dec 2018	5 000,0	0,0	22 810,7	2 124,6	22 923,5	68 550,2	121 409,0

(€1,000)	Basic capital	Revaluation reserve	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
Equity 1 Jan 2019	5 000,0	0,0	22 810,7	2 124,6	22 923,5	68 550,2	121 409,0
Profit for the period						6 883,4	6 883,4
Other comprehensive income							
Distribution of profits			2 679,9			-2 679,9	0,0
Financial assets at fair value through other comprehensive income							
Change in fair value				1 052,9			1 052,9
Amount transferred to the income statement				-4,9			-4,9
Change in deferred taxes				-212,9			-212,9
Defined benefit pension plans							
Actuarial gains/losses				793,5			793,5
Change in deferred taxes				-158,7			-158,7
Total other comprehensive income	0,0	0,0	2 679,9	1 469,9	0,0	-2 679,9	1 469,9
Equity 31 Dec 2019	5 000,0	0,0	25 490,5	3 594,5	22 923,5	72 753,8	129 762,3

Since the end of the financial period of 1 January–31 December 2019, there have not been any significant changes in the outlook or financial standing of The Mortgage Society of Finland or its Group. After the financial year, neither Hypo nor Group's companies have been involved in administrative or legal proceedings, arbitrations or other events that would have had a material effect on Hypo's financial position. Furthermore, Hypo is not aware of such proceedings or events being under consideration or being otherwise threatened.

According to section 26 of the rules of The Mortgage Society of Finland, at least 80 percent of annual profits must be transferred to a contingency fund or a reserve fund if the ratio between equity and risk-adjusted commitments (capital adequacy ratio) is less than 8 percent. If the capital adequacy ratio is at least 8 percent but less than 9 percent, at least 70 percent of annual profits must be transferred to a contingency or reserve fund. If the ratio is at least 9 percent, at least 50 percent of annual profits must be transferred to a contingency or reserve fund. The Board of Directors proposes that EUR 3 402 507.68 of Hypo's result for 2019 (EUR 6 805 015.35) be transferred to the reserve fund and the rest remain unused.

CONSOLIDATED CASH FLOW STATEMENT

(€1,000)	1.1.-31.12.2019	1.1.-31.12.2018
Cash flow from operating activities		
Interest received	24 107,7	23 024,5
Interest paid	-10 049,4	-10 909,5
Fee income	3 696,1	3 741,0
Fee expenses	-53,3	-92,5
Net income from currency operations and securities trading	-190,0	-1 144,7
Net income from financial assets at fair value through other comprehensive income	4,9	291,4
Net income from hedge accounting	73,9	33,2
Net income from investment properties	3 024,0	3 594,0
Other operating income	-50,3	-12,9
Administrative expenses	-11 018,6	-7 447,9
Other operating expenses	-2 187,8	-1 927,3
Credit and guarantee losses	38,8	-22,2
Income taxes	-2 260,6	51,3
Total net cash flow from operating activities	5 135,4	9 178,3
Operating assets increase (-) / decrease (+)		
Receivables from customers (lending)	3 316,5	-373 842,7
Cash collaterals, derivatives	12 539,9	2 501,3
Investment properties	1 794,8	-2 455,2
Operating assets increase (-) / decrease (+) total	17 651,2	-373 796,5
Operating liabilities increase (+) / decrease (-)		
Liabilities to the public and public sector entities (deposits)	-89 372,5	177 764,2
Operating liabilities increase (+) / decrease (-) total	-89 372,5	177 764,2
NET CASH FLOWS ACCRUED FROM OPERATING ACTIVITIES	-66 585,9	-186 854,0
Cash flows from investments		
Change in fixed assets	-1 489,1	-439,5
NET CASH FLOWS ACCRUED FROM INVESTMENTS	-1 489,1	-439,5
Cash flows from financing		
Bank loans, new withdrawals	89,7	151,5
Bank loans, repayments	-3 862,0	-3 923,9
Other liabilities increase (+) / decrease (-)	-2 605,8	-2 629,3
Bonds, new issues*	318 624,8	110 462,1
Bonds, repayments*	-14 827,2	-9 429,6
Certificates of deposit, new issues	134 328,4	195 485,8
Certificates of deposit, repayments	-266 280,8	-161 979,2
Subordinated liabilities, new withdrawals	0,0	11,4
Subordinated liabilities, repayments	0,0	-4 501,4
NET CASH FLOWS ACCRUED FROM FINANCING	165 467,1	123 647,3
NET CHANGE IN CASH AND CASH EQUIVALENTS	97 392,1	-63 646,1
Cash and cash equivalents at the beginning of the period	438 672,0	502 318,1
Cash and cash equivalents at the end of the period	536 064,1	438 672,0
CHANGE IN CASH AND CASH EQUIVALENTS	97 392,1	-63 646,1

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

NOTES TO GROUP'S FINANCIAL STATEMENTS 31 DECEMBER 2019

ACCOUNTING POLICIES

Group

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

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

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

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

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

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

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

Basis of preparation

Hypo Group's Financial Statements is prepared in accordance with the International Financial Reporting Standards (IFRS) and SIC and IFRIC interpretations. The international financial reporting standards refer to standards and the related interpretations that have been approved in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards. In addition, the applicable national legislation and regulatory requirements have been taken into account.

The consolidated Financial Statements includes Hypo Group's and the parent company's income statements, balance sheet and notes as well as Group's comprehensive income, cash flow statement and statement on changes in equity. In addition, the Board of Director's report is incorporated in the Financial Statements.

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

AsuntoHypoPankki is accounted for using the acquisition method of accounting.

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

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

The information related to capital adequacy has been prepared and presented in accordance with the EU Capital Requirements Regulation (CRR, EU 575/2013). The capital requirement for credit risk is calculated using the standard method. The capital requirement for operational risk is calculated using the basic method. The capital requirement for the counterparty credit risk is calculated using the current exposure method. Disclosures required under the EU Capital Requirements Regulation Part Eight are published in the Board of Director's report.

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

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

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

New standards and interpretations

In preparing these financial statements, The Group has followed the same accounting policies as in the Annual Financial statements for 2018 except for the effect of changes required by the adoption of the following new standards, interpretations and amendments to existing standards since 1 January 2019:

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

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

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

Changes in accounting policies

IFRS 16 Leases

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

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

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

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

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

Hypo Group as lessor

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

Reconciliation of Lease Liabilities pursuant to IFRS 16

(€1,000)	
Minimum lease payments under leases disclosed in the notes to the financial statements as of 31 December 2018	26,5
Discounted value of leases as at 1 January 2019	396,6
Relief option for leases of low-value assets	-3,2
Lease liabilities due to the initial application of IFRS 16 as of January 1. 2019	419,8

* When the lease period is not fixed term an appropriate period is determined based on economic and business factors.

The weighted-average incremental borrowing rate for lease liabilities initially recognized as of January 1. 2019, was 3,0 % p.a.

Significant judgements and assumptions

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

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

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

Financial instruments

Definitions

Amortized cost

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

Effective interest rate

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

Recognition

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

Measurement methods

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

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

a) When fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, Hypo recognizes the difference between the fair value at initial recognition and the transaction price as a gain or loss.

b) In all other cases, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, Hypo recognizes that deferred difference as a gain or loss only to the extent that it arises from a change in a factor that market participants would take into account when pricing the asset or liability.

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

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

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

Accounting principles of financial instruments' fair value measurement

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

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

Derecognition

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

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

Financial assets

Classification of Debt instruments

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

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

- Fair value through other comprehensive income (FVOCI): Financial assets that are held in order to collect contractual cash flows and possibly sell the financial assets prior to maturity. The contractual cash flows of these assets are solely payments of principal and interest (SPPI) and the assets are not designated at FVPL. Part of debt securities are classified under FVOCI.

- Fair value through profit or loss (FVPL): Assets that are not measured at amortized cost or FVOCI are measured at FVPL. Part of debt securities are classified under FVPL.

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

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

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

Classification of Equity instruments

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

Expected credit loss (ECL) measurement and calculation

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

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

ECL calculation for loans

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

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

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

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

As Stage 2 receivables are considered loans:

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

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

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

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

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

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

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

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

Modification of loans

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

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

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

ECL calculation for other debt securities

In the ECL calculations for debt securities Hypo applies:

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

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

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

- Stage 1: Debt securities in normal state (credit quality 1-3)

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

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

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

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

Significant increase in credit risk (SICR)

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

Definition of default and credit-impaired assets

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

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

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

Forward-looking information incorporated in the ECL models

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

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

- Number of known transactions of dwellings in housing companies as it estimates future development of housing prices and therefore the value of commonly used collateral in housing loans

- Consumer confidence index as it estimates the future development in unemployment and furthermore the increase in defaults

Grouping of instruments for losses measured on collective basis

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

Collateral and other credit enhancements

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

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

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

Loss allowance

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

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

Write-off policy

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

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

Cash and cash equivalents

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

Financial liabilities

Classification of financial liabilities

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

Financial derivatives

Classification and measurement of derivatives

Derivatives are initially recognized at fair value on the date which the derivative contract is entered into and are subsequently remeasured at fair value. Interest income and interest expenses from interest rate derivatives are recognized at contract level net amounts in interest expenses or interest income, and accrued interest is included in deferred income or accrued expenses to the balance sheet.

Offsetting financial assets and financial liabilities.

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

Recognition of derivative collateral

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

Fair value hedge accounting

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

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

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

The hedge relationship is assumed to be highly effective at the beginning and in the future of the hedge relationship, if the principals, due dates, re-pricing dates, interest periods and reference rates of the hedged item and the hedging instrument are identical or very similar. Hedge effectiveness is tested with hypothetical derivatives. Hypothetical derivatives are identical in their terms to the hedged item, excluding the credit risk. The hedge ineffectiveness rises mainly from the changes in fair value of the floating leg of the hedging instrument. Any ineffectiveness of the hedging instruments is recognized through profit or loss.

In fair value hedge accounting derivative contracts are recognized at fair value and their offsetting entries are recognized in the net income from hedge accounting. The fair value of hypothetical derivatives 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.

Cash flow hedge

Cash flow hedge accounting is applied to some of derivate contracts used to hedge liabilities issued by Hypo. The purpose of cash flow hedge accounting is to allocate the profit or loss impact of the cash flows related to hedged items and hedging instruments to the same accounting period. Hypo establishes the hedging ratio by matching the notional of the derivatives with the principal of hedged item. For example, the hedge relationship may be half of the nominal value of the hedged item if the actual hedging purpose, under the risk management strategy, is to cover only half of the cash flow changes of the hedged item.

The hedging instruments are interest rate swaps that are used to change the hedged items' variable cash flows to fixed-rate cash flows or to floating-rate cash flows with longer maturity reference rates. The future interest payments of the floating-rate liabilities are designated as hedged items. At the beginning of the hedge and during the term of the hedge relationship, the hedge relationship is assumed to be effective if the principals, due dates, re-pricing dates, interest periods and reference rates of the hedged item and the hedging instrument are identical or very similar. Any ineffectiveness of the hedging instruments is recognized through profit or loss.

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

Intangible assets

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

Tangible assets

Investment properties and other properties

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

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

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

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

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

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

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

Other tangible assets

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

Employee benefits

Pension expenses and other post-employment benefits

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

Defined contribution plans

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

Defined benefit plans

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

Deferred tax receivables and liabilities

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

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

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

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

Revenue and expenses recognition

Net interest income

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

Net fee income

As a rule, fee income is earned and recognized when a service or a specific measure has been performed and hence are recognized as a one-off income. Income from borrowings, such as entry fees, loan servicing fees and other service fees as well as management and service fees from land trustee services, fees related to conditional purchase commitments and fees from Hypo’s credit card business are recognized according to IFRS 15. Income from financial instruments are recognized in accordance with IFRS 9 effective interest method.

Income from equity investments

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

Net income from securities and foreign currency transactions

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

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

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

Net income from investment properties

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

Salaries and other administrative costs

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

Depreciation, depreciation calculation and the useful life

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

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

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

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

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

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

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

Net gains/losses on derecognition of other financial assets

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

Taxes in income statement

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

NOTES TO THE CONSOLIDATED INCOME STATEMENT

€1,000 unless otherwise indicated.

1 Breakdown of interest income and expenses by balance sheet item

	2019	2018
Receivables valued at amortized cost		
Receivables from the public and public sector entities	19 082,6	18 519,6
Total	19 082,6	18 519,6
Debt securities available for sale		
Debt securities, financial assets at fair value through other comprehensive income	103,7	48,4
Derivative contracts	6 291,5	4 283,1
Negative interest expenses of financial liabilities	369,5	323,1
Other interest income	615,3	440,7
Total interest income	26 462,7	23 614,8
Liabilities valued at amortized cost		
Liabilities to credit institutions	-64,5	-109,0
Liabilities to the public and public sector entities	-3 587,6	-3 937,3
Debt securities issued to the public	-5 434,0	-4 585,2
Subordinated liabilities		-128,0
Total	-9 086,2	-8 759,6
Derivative contracts	-2 044,7	-1 932,4
Negative interest income of cash and cash equivalents	-870,0	-591,0
Other interest expenses	-9,9	-1,1
Total interest expenses	-12 010,8	-11 284,1

2 Fee income and expense

	2019	2018
From lending and deposits	948,3	862,4
From legal assignments	796,9	1 184,8
From residential property trustee service	2 032,9	1 370,6
From other operations	-162,4	469,5
Total fee income	3 615,7	3 887,3
Other fee expenses	-53,3	-92,5
Total fee expenses	-53,3	-92,5

3 Income distribution

Group's total income

	10–12/2019	10–12/2018	1–12/2019	1–12/2018
Interest income	7 151,0	6 135,1	26 462,7	23 614,8
Interest expense	-3 131,7	-2 784,8	-12 010,8	-11 284,1
Net interest income	4 019,2	3 350,4	14 451,9	12 330,8
Net fee income				
from lending operations	395,3	392,5	1 707,4	2 058,2
from land trustee services	383,0	400,1	1 558,3	1 390,3
from other operations	75,5	93,4	296,7	346,3
Total net fee income	853,8	886,0	3 562,5	3 794,8
Net income from treasury operations	-12,6	-1 269,7	-111,3	-820,1
Net income from investment properties	674,1	777,5	2 708,5	2 554,5
Capital gains on investment properties	-5,1	209,8	141,6	376,0
Other income	-25,4	4,2	-50,3	-12,9
Non-interest income	631,0	-278,2	2 688,5	2 097,4
Total income	5 504,0	3 958,2	20 702,9	18 223,0

4 Net income from currency operations and securities trading

	2019	2018
Gains and losses from disposals of financial instruments (net)		
Net income arising from items recognized based on the fair value option	-3,3	800,2
Gains and losses arising from measurement at fair value (net)		
Net income arising from items recognized based on the fair value option	-490,2	-2 423,8
Non-hedging derivative contracts	303,4	478,9
Net income from securities trading	-190,0	-1 144,7
Total net income from currency operations and securities trading	-190,0	-1 144,7

5 Net income from financial assets at fair value through other comprehensive income / Net income from available-for-sale financial assets

	2019	2018
Net income from financial assets at fair value through other comprehensive income		
Capital gains from debt securities	4,9	291,4
Total	4,9	291,4

6 Net income from hedge accounting

	2019	2018
Change in fair value, hedging items	-14 373,8	-9 414,7
Change in fair value, hedging instruments	14 447,7	9 447,9
Total	73,9	33,2

7 Net income from investment properties

	2019	2018
Rental income	2 358,7	2 315,7
Capital gains (losses)	141,6	376,0
Other income	1 325,3	1 025,7
Maintenance charges and other maintenance costs paid		
From investment properties that have accrued rental income during the period	-618,7	-714,5
Other expenses	-40,4	-13,7
Impairment losses	-254,8	
Depreciation according to plan	-61,5	-58,7
Total	2 850,1	2 930,5

8 Other operating income

	2019	2018
Rental income, property assets in own use	10,7	12,0
Other income	-61,0	-24,9
Total	-50,3	-12,9

9 Other operating expenses

	2019	2018
Rental expenses	-25,9	-81,0
Expenses from properties in own use	-43,3	-60,6
Other expenses	-1 958,3	-1 688,7
Total	-2 027,5	-1 830,3

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

10 Depreciation and impairment losses on tangible and intangible assets

	2019	2018
Depreciation according to plan	-856,1	-516,1

11 Expected credit losses / Impairment losses on loans and other commitments and other financial assets

	2019	2018
Net gains/losses on derecognition of financial assets measured at amortised cost		
On receivables from the public and public sector entities		
Expected credit losses, net change	103,2	-31,0
Final credit losses	-81,0	
Off-balance sheet commitments, granted but unclaimed loans		
Expected credit losses, net change	0,0	-0,3
Total	22,2	-31,3
Net gains/losses on derecognition of other financial assets		
Debt securities eligible for refinancing with central banks		
Expected credit losses, net change	16,6	8,7
Total	16,6	8,7

12 Income taxes

	2019	2018
Breakdown of taxes in the income statement		
Tax expense based on taxable income for the financial period	-1 848,4	-1 369,8
Change in deferred taxes	306,8	146,4
Taxes from previous periods	18,3	6,6
Taxes in the income statement	-1 523,3	-1 216,8
Reconciliation of taxes		
Profit before taxes	8 406,7	7 165,2
Tax-free income	-708,2	-1 013,2
Non-deductible expenses	21,0	11,6
Adjustment made to previous period*	0,0	-57,8
Recognition of previously unrecorded tax losses	-11,5	11,0
Total	7 707,9	6 116,9
Taxes calculated using the tax rate of 20 %	-1 541,6	-1 223,4
Taxes from previous periods	18,3	6,6
Taxes in the income statement	-1 523,3	-1 216,8

*Correction due to IFRS 9

13 Information concerning product groups and geographical market areas

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

2019	Combined amount of income	Operating profit	Total assets	Total liabilities	Personnel
Lending and deposits and other housing products and services	20 617,1	8 290,9	3 230 397,0	3 100 872,3	52
Other operations	139,0	115,8	259,9	22,2	
	20 756,2	8 406,7	3 230 656,9	3 100 894,6	52

2018	Combined amount of income	Operating profit	Total assets	Total liabilities	Personnel
Lending and deposits and other housing products and services	18 087,9	6 971,6	3 113 623,7	2 992 386,9	53
Other operations	227,7	193,7	193,3	21,0	
	18 315,6	7 165,2	3 113 816,9	2 992 407,9	53

14 Liquid assets

	2019	2018
Receivables from central bank	244 100,0	223 600,0

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

	2019	2018
	book value	book value
Liquid assets	244 100,0	223 600,0
Debt securities eligible for refinancing with central banks	267 107,0	201 166,5
Receivables from credit institutions	9 850,7	5 399,5
Debt securities	15 006,4	8 506,0
	536 064,1	438 672,0

Net debt	2019	2018
Cash and cash equivalents	536 064,1	438 672,0
Funding, repayable within one year	-36 483,2	-168 435,6
Funding, repayable after one year	-1 364 996,0	-1 067 576,5
Net debt	-865 415,1	-797 340,1
Cash and cash equivalents	536 064,1	438 672,0
Funding, fixed rate	-36 483,2	-168 435,6
Funding, floating rate	-1 364 996,0	-1 067 576,5
Net debt	-865 415,1	-797 340,1

Net debt	Cash and cash equivalents				Funding		
	Liquid assets	Debt securities eligible for refinancing with central banks	Debt securities from the public sector entities	Receivables from credit institutions	Funding, repayable within one year	Funding, repayable after one year	Total
Net debt 1.1.2019	223 600,0	201 166,5	8 506,0	5 399,5	-168 435,6	-1 067 576,5	-797 340,1
Cash flows	20 500,0	62 779,7	6 503,0	4 451,2	131 957,9	-296 373,9	-70 182,2
Other non-cash movements	0,0	3 160,8	-2,5	0,0	-5,5	-1 045,6	2 107,2
Net debt 31.12.2019	244 100,0	267 107,0	15 006,4	9 850,7	-36 483,2	-1 364 996,0	-865 415,1

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

Net debt	Cash and cash equivalents				Funding		
	Liquid assets	Debt securities eligible for refinancing with central banks	Debt securities from the public sector entities	Receivables from credit institutions	Funding, repayable within one year	Funding, repayable after one year	Total
Net debt 1.1.2018	201 200,0	284 718,7	0,0	16 399,5	-134 929,0	-977 435,7	-610 046,6
Cash flows	22 400,0	-82 761,7	8 511,1	-10 999,9	-33 458,5	-89 339,8	-185 648,8
Other non-cash movements	0,0	-790,4	-5,2	0,0	-48,0	-801,0	-1 644,6
Net debt 31.12.2018	223 600,0	201 166,5	8 506,0	5 399,5	-168 435,6	-1 067 576,5	-797 340,1

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

16 Receivables from credit institutions (loans and receivables)

	2019			2018		
	Payable on demand	Other than those payable on demand	Total	Payable on demand	Other than those payable on demand	Total
From the central bank		29,8	29,8		60,8	60,8
From domestic credit institutions	7 969,6		7 969,6	4 638,6		4 638,6
From foreign credit institutions	1 851,3		1 851,3	700,1		700,1
Total	9 820,9	29,8	9 850,7	5 338,7	60,8	5 399,5

Receivables payable on demand from credit institutions consist of balances of bank accounts and deposits with a maturity of no more than one banking day. 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)

	2019	Expected credit loss allowance 2019	2018	Expected credit loss allowance 2018
Companies and housing corporations	1 767 716,4	0,2	1 775 705,9	0,3
Households	805 062,7	261,2	800 122,5	364,3
Financial and insurance institutions	1 750,0		1 750,0	
Non-profit organizations serving households	504,4		613,6	
Foreign countries	11 374,9		11 080,5	
Total	2 586 408,4	261,4	2 589 272,5	364,6
Subordinated receivables				
Non performing loans	0,0		356,3	
Receivables from the public and public sector entities consist of long-term lending to various counterparties.	2 644,6		1 790,1	

	2019	2018
Impairment losses on receivables recognized during the period		
Impairment losses at the beginning of the year	364,6	333,6
Expected credit losses, net change	-103,2	31,0
Impairment losses at the end of the year	261,4	364,6
No group-specific impairment losses have been recognized.		
Final credit losses on receivables recognized during the period	81,0	0,0

18 Debt securities

	2019			Tappiota koskeva vähennyserä	2018			Tappiota koskeva vähennyserä
	Publicly quoted	Other	Total		Publicly quoted	Other	Total	
Issued by public sector entities								
Fair value through other comprehensive income								
Government bonds	0,0		0,0		22 144,8		22 144,8	
Other bonds issued by public sector entities	138 728,4		138 728,4		100 476,6		100 476,6	
Option to designate a financial asset at fair value								
Government bonds	111 705,7		111 705,7		31 555,2		31 555,2	
Option to designate a financial asset at fair value								
Bonds issued by banks	31 679,4		31 679,4		23 272,6		23 272,6	
Fair value through other comprehensive income								
Bonds issued by banks	0,0		0,0	0,0	26 499,0		26 499,0	15,7
Other debt securities	0,0		0,0	0,0	5 724,4		5 724,4	0,9
Total debt securities	282 113,4	0,0	282 113,4	0,0	209 672,5	0,0	209 672,5	16,6
Receivables eligible for refinancing with central banks			267 107,0				201 166,5	

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

19 Debt securities by credit rating

Credit rating	2019			
S&P equivalency	Governments and public sector entities	Companies and banks	Covered bonds	Total
AAA	20 839,7		23 407,9	44 247,6
AA+ - AA-	229 594,3	8 271,5	0,0	237 865,9
A+ - A-				0,0
BBB+ - BBB-				0,0
BB+ or below				0,0

Credit rating	2018			
S&P equivalency	Governments and public sector entities	Companies and banks	Covered bonds	Total
AAA			40 160,1	40 160,1
AA+ - AA-	154 176,5	5 724,4		159 900,9
A+ - A-				0,0
BBB+ - BBB-		9 611,5		9 611,5
BB+ or below				0,0

20 Shares and holdings (Fair value through other comprehensive income)

	2019			2018		
	Publicly quoted	Other	Total	Publicly quoted	Other	Total
Shares and holdings, fair value through other comprehensive income		132,4	132,4		132,4	132,4
Of which at acquisition cost		132,4	132,4		132,4	132,4
Of which in credit institutions		108,5	108,5		108,5	108,5

21 Derivative contracts

	2019		2018	
	Book value		Book value	
	Assets	Liabilities	Assets	Liabilities
Derivative contracts in hedge accounting relationships				
OTC Interest rate swaps, fair value hedge accounting model, fair value	18 964,0	405,3	4 496,3	
Derivative contracts not in hedge accounting relationships				
OTC Interest rate swaps, fair value	387,9	7 193,2	66,3	3 215,5
of which: cleared by a central counterparty	0,0	4 220,8	0,0	874,4
	19 351,9	7 598,5	4 562,6	3 215,5
OTC Interest rate and currency swaps, accrued interest	3 537,8	3 919,8	2 108,1	2 609,0
Total	22 889,7	11 518,4	6 670,7	5 824,4

	2019			
Remaining maturity	less than one year	1-5 years	>5 years	Total
Nominal values of the underlying instruments	35 000,0	1 021 000,0	414 514,1	1 470 514,1
of which: cleared by a central counterparty	0,0	45 000,0	70 000,0	115 000,0
Fair value, assets	0,0	13 605,4	5 746,6	19 351,9
of which: cleared by a central counterparty	0,0	0,0	0,0	0,0
Fair value, liabilities	103,3	1 055,0	6 440,1	7 598,5
of which: cleared by a central counterparty	0,0	273,5	3 947,2	4 220,8

	2018			
Remaining maturity	less than one year	1-5 years	>5 years	Total
Nominal values of the underlying instruments	15 000,0	746 000,0	414 634,5	1 175 634,5
of which: cleared by a central counterparty	0,0	45 000,0	60 000,0	105 000,0
Fair value, assets	0,0	3 385,7	1 176,9	4 562,6
of which: cleared by a central counterparty	0,0	0,0	0,0	0,0
Fair value, liabilities	36,1	708,7	2 470,7	3 215,5
of which: cleared by a central counterparty	0,0	184,8	689,6	874,4

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 2019 totaled EUR 460 301. The amount of risk is calculated over the netting sets and taking into account the collateral delivered.

22 Hedge accounting, maturity

	2019			
	<3 months	3-12 months	1-5 years	5-10 years
Fair value Hedges				
Notional			910 000	309 514
Average fixed interest rate			0,37 %	0,50 %

Hedge accounting, maturity

	2018			
	<3 months	3-12 months	1-5 years	5-10 years
Fair value Hedges				
Notional			610 000	309 562
Average fixed interest rate			0,31 %	0,49 %

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

23 Instruments used for hedge accounting

2019

	Notional	Carrying amount, assets	Carrying amount, liabilities	Balance sheet line item(s)	Changes in fair value used for calculating hedge ineffectiveness
Fair value Hedges					
Interest rate swaps	1 219 514,1	18 964,0	405,3	Derivative contracts	14 043,1

2018

	Notional	Carrying amount, assets	Carrying amount, liabilities	Balance sheet line item(s)	Changes in fair value used for calculating hedge ineffectiveness
Fair value Hedges					
Interest rate swaps	919 562,2	4 496,3	0,0	Derivative contracts	9 447,9

24 Hedged exposures

2019

	Carrying amount		Accumulated amount of fair value adjustments on the hedged item			
	Assets	Liabilities	Assets	Liabilities	Balance sheet line item(s)	Changes in fair value used for calculating hedge ineffectiveness
Fair value Hedges						
Debt securities issued to the public		1 205 642,0		-19 824,3	Debt securities issued to the public	-14 373,8
Receivables from the public and public sector entities	19 014,6		404,6	0,0	Receivables from the public and public sector entities	404,6

hedged exposures

2018

	Carrying amount		Accumulated amount of fair value adjustments on the hedged item			
	Assets	Liabilities	Assets	Liabilities	Balance sheet line item(s)	Changes in fair value used for calculating hedge ineffectiveness
Fair value Hedges						
Debt securities issued to the public		955 848,1	0,0	5 450,4	Debt securities issued to the public	-9 414,7

25 Hedge effectiveness

2019

	Gains/(loss) recognised in OCI	Hedge Ineffectiveness recognised in P&L	P&L line item that includes hedge inefectiveness
Fair value Hedges			
Interest rate swaps	0	73,9	Net income from hedge accounting

Hedge effectivenes

2018

	Gains/(loss) recognised in OCI	Hedge Ineffectiveness recognised in P&L	P&L line ite that includes hedge inefectiveness
Fair value Hedges			
Interest rate swaps	0	33,2	Net income from hedge accounting

26 Intangible assets

	2019	2018
IT programs and projects	2 801,8	1 840,5
Other intangible assets	834,9	947,5
	3 636,7	2 788,0
Amount of agreement-based commitments concerning acquisition of intangible assets	1 936,0	136,8

27 Tangible assets

	2019	2018
Investment properties and investment property shares, balance sheet value		
Land and water areas	8 808,8	8 975,2
Buildings	893,6	911,2
Shares and holdings in housing property corporations	51 862,0	51 534,1
Total balance sheet value	61 564,4	61 420,5
Total fair value of investment properties	64 564,4	63 838,5
of which share based on assessments of a qualified third-party valuer	1 575,2	670,0

	2019	2018
Non-cancellable land lease agreements		
Rental receivables within one year	190,7	192,3

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

Agreement-based obligations of investment properties		
Purchase commitments of housing units	0,0	2 262,6
Liabilities related to construction	2 181,9	2 181,9
Total	2 181,9	4 444,5

Agreement-based obligations of investment properties are included in the off-balance sheet commitments presented in Note 46.

Liabilities related to construction consist of potential construction and defect liabilities.

Other properties and shares in housing property corporations, balance sheet value		
In own use		
Land and water areas	538,3	687,0
Buildings	106,2	157,4
Total balance sheet value	644,5	844,4
Total fair value of other properties	2 590,9	3 516,2
Obligations related to sites under construction		
Unpaid purchase prices of sites under construction	0,0	0,0

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

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

28 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 2019	5 392,5	64 226,2	932,0	2 472,8	67 630,9
Increases, new acquisitions	1 792,6	3 802,9		49,4	3 852,3
Deductions	-293,1	-3 241,1	-192,6	-30,2	-3 464,0
Acquisition cost 31 December 2019	6 891,9	64 788,0	739,4	2 491,9	68 019,2
Accumulated depreciation and impairment losses 1 Jan 2019	2 604,5	513,6	87,6	2 214,7	2 815,9
Depreciation for the period	650,8	163,1	7,3	34,9	205,3
Impairment losses for the period	0,0	254,8			254,8
Accumulated depreciation and impairment losses 31 December 2019	3 255,2	931,5	94,9	2 249,7	3 276,0
Revaluation reserve 1 December 2019		-2 292,1			-2 292,1
Book value 31 December 2019	3 636,7	61 564,4	644,5	242,2	62 451,1
Acquisition cost 1 January 2018	4 946,6	62 491,7	932,0	2 479,2	65 902,8
Increases, new acquisitions	454,8	6 748,1		1,6	6 749,8
Deductions	-9,0	-5 013,6		-8,1	-5 021,7
Acquisition cost 31 December 2018	5 392,5	64 226,2	932,0	2 472,8	67 630,9
Accumulated depreciation and impairment losses 1 Jan 2018	2 129,7	513,6	77,4	2 183,6	2 774,6
Accumulated depreciation of deductions and transfers	-4,9				0,0
Depreciation for the period	479,7		10,1	31,2	41,3
Accumulated depreciation and impairment losses 31 December 2018	2 604,5	513,6	87,6	2 214,7	2 815,9
Revaluation reserve 1 December 2018		-2 292,1			-2 292,1
Book value 31 December 2018	2 788,0	61 420,5	844,4	258,0	62 522,9

29 Other assets

	2019	2018
Defined benefit pension plans/surplus	4 588,3	5 328,9
Other receivables	10 545,9	5 297,2
Total	15 134,3	10 626,0

More detailed information about defined benefit pension plans is presented in Note 43.

30 Deferred income and advances paid

	2019	2018
Interest receivables	7 198,6	4 843,7
Other deferred income	540,7	612,9
Total	7 739,3	5 456,6

31 Tax receivables and liabilities

	2019	2018
Income tax receivables		38,5
Deferred tax receivables		148,5
Total tax receivables	0,0	187,0
Income tax liabilities	530,8	1 306,6
Deferred tax liabilities	9 729,3	9 812,9
Total tax liabilities	10 260,0	11 119,5

Deferred tax receivables	2019	2018
Fair value reserve		148,5
Total	0,0	148,5

Deferred tax liabilities	2019	2018
Earnings-related pensions	917,7	1 065,8
Revaluation reserve	286,2	286,2
Fair value reserve	188,7	124,3
Credit loss provisions	8 336,7	8 336,7
Total	9 729,3	9 812,9
Net deferred tax receivable (+)/liability (-)	-9 729,3	-9 664,4

Changes in deferred taxes	2019	2018
Deferred tax receivables/liabilities 1 January	-9 664,4	-9 891,0
Recognized in the income statement:		
Voluntary credit loss provision		
IAS 19 calculation	306,8	146,4
Occupational retirement benefits		
Elimination of revaluation reserve		
Recognized in the consolidated comprehensive income statement and equity:		
Hedging of cash flows		-16,3
Financial assets available for sale		
Financial assets at fair value through other comprehensive income	-212,9	32,7
Revaluation of defined benefit pension plans	-158,7	63,7
Adjustment made to retained earnings of join operations		
Net deferred tax receivables (+)/liabilities (-), total 31 December	-9 729,3	-9 664,4
Income tax receivables (+)/liabilities (-), net	-530,8	-1 268,1
Total tax receivables (+)/liabilities (-), net	-10 260,0	-10 932,5

32 Debt securities issued to the public

	2019		2018	
	Book value	Nominal value	Book value	Nominal value
Other than those payable on demand				
Bonds	1 275 217,9	1 260 000,0	960 976,9	960 000,0
Certificates of deposit and commercial papers	36 483,2	36 500,0	168 435,6	168 500,0
Total	1 311 701,1	1 296 500,0	1 129 412,5	1 128 500,0

The bonds are unsecured debt obligations and issue covered bonds issued by the Mortgage Society of Finland.

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

33 Other liabilities

	2019	2018
Other liabilities	35 004,0	17 119,0

34 Deferred expenses and advances received

	2019	2018
Interest liabilities	4 740,7	2 802,5
Advance payments received	79,1	137,2
Tax liability based on taxes for the period	530,8	1 306,6
Other deferred expenses	2 094,7	3 417,0
Total	7 445,2	7 663,3

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

	2019	2018
Unsecured liabilities	57 106,5	195 454,7
of which the remaining maturity is less than one year	20 623,3	10 719,1
Unsecured subordinated liabilities ecl. liabilities recognized in own funds	0,0	0,0
of which the remaining maturity is less than one year	0,0	0,0
Common Equity Tier 1 (CET1) capital	120 028,6	112 342,3
Liabilities according to the Act on Resolution of Credit Institutions and Investment Firms total	140 651,9	123 061,5

36 Maturity distribution of financial assets and liabilities

	2019 <3 months	3–12 months	1–5 years	5–10 years	>10 years	Total
Receivables from credit institutions	9 850,7					9 850,7
Receivables from the public and public sector entities	23 793,0	120 008,0	594 853,0	683 092,0	1 164 401,0	2 586 147,0
Debt securities	20 015,0	17 129,2	129 750,1	115 219,1		282 113,4
Total	53 658,8	137 137,2	724 603,1	798 311,1	1 164 401,0	2 878 111,1
Liabilities to credit institutions	777,7	80 000,0	5 551,5			86 329,2
Liabilities to the public and public sector entities	1 249 324,5	378 934,6	1 028,2	13 800,0		1 643 087,3
Debt securities issued to the public	4 999,6	31 483,6	970 318,3	304 899,6		1 311 701,1
Total	1 255 101,8	490 418,2	976 898,0	318 699,6	0,0	3 041 117,6

	2018 <3 months	3–12 months	1–5 years	5–10 years	>10 years	Total
Receivables from credit institutions	5 399,5					5 399,5
Receivables from the public and public sector entities	22 318,0	102 909,0	448 719,0	537 667,0	1 477 294,9	2 588 907,9
Debt securities	8 506,0	1 004,3	139 981,0	60 181,2		209 672,5
Total	36 223,5	103 913,3	588 700,0	597 848,2	1 477 294,9	2 803 979,9
Liabilities to credit institutions			90 101,5			90 101,5
Liabilities to the public and public sector entities	1 377 292,3	356 494,3	1 272,2	24,4		1 735 083,3
Debt securities issued to the public	80 985,7	87 449,9	662 311,4	298 665,5		1 129 412,5
Total	1 458 278,0	443 944,3	753 685,1	298 689,9	0,0	2 954 597,2

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

Balance sheet items do not include foreign currency items.

38 Fair values of financial assets and liabilities

	Classification	Fair value determination principle	2019 Book value	2019 Fair value	2018 Book value	2018 Fair value
Liquid assets	Amortised cost		244 100,0	244 100,0	223 600,0	223 600,0
Receivables from credit institutions	Amortised cost		9 850,7	9 850,7	5 399,5	5 399,5
Receivables from the public and public sector entities	Amortised cost		2 586 147,0	2 586 147,0	2 588 907,9	2 588 907,9
Debt securities	Fair value through other comprehensive income	1	123 722,0	123 722,0	146 338,8	146 338,8
Debt securities	Option to designate a financial asset at fair value	1	143 385,0	143 385,0	54 827,8	54 827,8
Shares and holdings	Fair value through other comprehensive income	2	132,4	132,4	132,4	132,4
Derivative contracts	Fair value through profit or loss	2	19 351,9	19 351,9	4 562,6	4 562,6
Total			3 126 689,0	3 126 689,0	3 023 768,9	3 023 768,9
Liabilities to credit institutions	Amortised cost		86 329,2	86 329,2	90 101,5	90 101,5
Liabilities to the public and public sector entities	Amortised cost		1 643 087,3	1 643 087,3	1 735 083,3	1 735 083,3
Debt securities issued to the public	Amortised cost		1 311 701,1	1 311 701,1	1 129 412,5	1 129 412,5
Derivative contracts	Fair value through profit or loss	2	7 598,5	7 598,5	3 215,5	3 215,5
Total			3 048 716,1	3 048 716,1	2 957 812,7	2 957 812,7

Derivative contracts consist of interest rate and currency swaps with various counterparties for hedging purposes.

Liabilities to financial institutions mainly consist of unsecured long-term promissory note loans with floating interest rates with various counterparties.

Liabilities to the public and public sector entities consist of deposits from the public and long-term financing contracts concluded with certain counterparties.
In the table above, fair value determination principles are presented only with regard to items that, after their initial recognition, are measured at fair value on the balance sheet on a recurring or non-recurring basis. The principles are as follows:

1: Quoted prices in active markets

2: Verifiable price, other than quoted

3: Unverifiable market price

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

39 Netting of financial assets and liabilities

2019	Gross amounts	Netted on the balance sheet	Amounts shown on the balance sheet	Amounts not offset on the balance sheet: Financial instruments	Amounts not offset on the balance sheet: Cash collateral received/paid	Net amount
Derivative liabilities	8 516,8		8 516,8		8 009,4	507,4
Derivative receivables	22 889,7		22 889,7		23 350,0	-460,3

2018	Gross amounts	Netted on the balance sheet	Amounts shown on the balance sheet	Amounts not offset on the balance sheet: Financial instruments	Amounts not offset on the balance sheet: Saatu/maksettu käteisvakuus	Net amount
Derivative liabilities	4 018,7		4 018,7		3 259,3	759,4
Derivative receivables	6 670,7		6 670,7		6 060,0	610,7

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

40 Basic capital

The basic capital of the parent company of the Mortgage Society of Finland Group is EUR 5 million in accordance with its rules.

The Board of Directors of the Mortgage Society of Finland decides on the amount, interest rate and repayment and other terms and conditions of additional capital made up of funds raised externally. The Mortgage Society of Finland is a mutual company governed by its member customers.

41 Employee benefits

Employee benefits

Short–term employee benefits

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

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

Pension obligations and other post–employment benefits

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

Defined contribution plans

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

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

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

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

Defined benefit plans

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

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

Net defined benefit asset

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

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

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

Accounting of obligation

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

Plan assets

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

Estimation uncertainty of benefit plan

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

Relevant risks of defined benefit plan

The obligation liability may increase should the benefits exceed the expected levels due to changes in actuarial assumptions or in return of plan assets. Fair value of plan assets is nearly twice the present value of obligation. Risk management, compliance and auditing of defined benefit obligation are run in parallel with the practices of Hypo group. In addition, Department A of the pension foundation has hired an ombudsman and outsourced the actuary services to a certified service provider. Most relevant risk areas of defined benefit plan are

- market risks (interest rate risk, currency risk, risks at stock and commodity markets) meaning the risks which may cause losses due to market changes
- risks of salary and pension increases
- risks caused by changes in census data statistics and
- strategic risk, which may realize due to erroneous estimations.

Employee benefits in Consolidated Income Statement

	2019 Salaries and other short term employee benefits	Defined contribution plans	Defined benefit plans	Total
Interest income			84,6	84,6
Other operating income (+) / expense (-)			-97,0	-97,0
Salaries and remuneration	-5 180,2			-5 180,2
Pension expenses		-918,0	-21,6	-939,7
Other indirect personnel expenses		-126,3		-126,3
Other administrative expenses	-3,2			-3,2
Total	-5 183,4	-1 044,3	-34,0	-6 261,7

	2018 Salaries and other short term employee benefits	Defined contribution plans	Defined benefit plans	Total
Interest income			101,4	101,4
Other operating income (+) / expense (-)			-63,0	-63,0
Salaries and remuneration	-4 920,5			-4 920,5
Pension expenses		-975,2	-20,6	-995,8
Other indirect personnel expenses		-109,0		-109,0
Other administrative expenses	-6,2			-6,2
Total	-4 926,7	-1 084,2	17,9	-5 993,1

Employee benefits in Consolidated Comprehensive Income Statement

	2019 Defined benefit plans	2018 Defined benefit plans
Net actuarial profit (+) / loss (-)	-793,5	-318,5

Employee benefits in Consolidated Balance Sheet Assets

	2019 Defined contribution plans	Defined benefit plans	Total
Other assets		4 588,3	4 588,3
Deferred income and advances paid			0,0
Total	0,0	4 588,3	4 588,3

	2018 Defined contribution plans	Defined benefit plans	Total
Other assets		5 328,9	5 328,9
Deferred income and advances paid			0,0
Total	0,0	5 328,9	5 328,9

Employee benefits in Consolidated Balance Sheet Liabilities	2019			
	Salaries and other short term employee benefits	Defined contribution plans	Defined benefit plans	Total
Other liabilities		174,6		174,6
Deferred tax liabilities			917,7	917,7
Deferred expenses and advances received	1 049,6			1 049,6
Fair value reserve, net actuarial gain (+) / loss (-)			3 549,5	3 549,5
Fair value reserve, deferred tax liabilities			-709,9	-709,9
Total	1 049,6	174,6	3 757,3	4 981,5

	2018			
	Salaries and other short term employee benefits	Defined contribution plans	Defined benefit plans	Total
Other liabilities		125,2		125,2
Deferred tax liabilities			1 065,8	1 065,8
Deferred expenses and advances received	899,8			899,8
Fair value reserve, net actuarial gain (+) / loss (-)			2 756,0	2 756,0
Fair value reserve, deferred tax liabilities			-551,2	-551,2
Total	899,8	125,2	3 270,6	4 295,5

Defined benefit plans

The defined benefit obligation and Plan assets	2019	2018
Present value of Defined benefit obligation	-6 468,3	-6 428,7
Fair value of Plan assets	11 056,7	11 757,6
Net demined benefit asset (+) / liability (-)	4 588,4	5 328,9

Change in Net defined benefit assets	2019	2018
Net defined benefit asset as of 1.1.	5 328,9	6 379,5
Current service cost	-21,6	-20,6
Interest income of the net defined benefit asset (+), cost (-)	84,6	101,4
Administrative cost	-97,0	-63,0
Contributions paid to M-Department	0,0	0,0
Net actuarial gain (+) / loss (-) for the period	793,5	-318,5
Contributions	-1 500,0	-750,0
Net defined benefit asset as of 31.12.	4 588,4	5 328,9

Fair value of Plan assets	2019			2018		
	Listed	Non-listed	Total	Listed	Non-listed	Total
Equity instruments	1 130,7	466,8	1 597,4	1 536,2	314,5	1 850,7
Debt instruments	216,8		216,8	212,8		212,8
Investment funds	1 927,6		1 927,6	1 542,6	0,0	1 542,6
Properties and land	7 314,8		7 314,8	8 151,5		8 151,5
Fair value of Plan assets	10 589,9	466,8	11 056,7	11 443,1	314,5	11 757,6

	2019	2018
Group's own financial instruments included in plan assets	595,7	95,3
Duration, years	12,78	12,20
Most significant actuarial assumptions, %		
Discount rate	0,70	1,60
Expected returns on assets	0,70	1,60
Future pay rise assumption	2,10	2,10
Inflation	1,20	1,30

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

		2019	2019	2018	2018
		Effect on defined benefit obligation		Effect on defined benefit obligation	
	Change in assumption	Increase	Decrease	Increase	Decrease
Discount rate	0,50 %	-5,78 %	6,39 %	-5,54 %	6,10 %
Rate of wage increases	0,50 %	0,24 %	-0,24 %	0,27 %	-0,26 %
Rate of pension increases	0,50 %	6,04 %	-5,70 %	5,78 %	-5,47 %
Life expectancy at birth	1 vuosi	4,45 %	-4,26 %	4,09 %	-3,93 %

NOTES CONCERNING GROUP'S COLLATERAL AND CONTINGENT LIABILITIES
€1,000 unless otherwise indicated.

42 Collateral pledged and received

	2019	2018
Collateral pledged for own liabilities	Other collaterals	Other collaterals
Liabilities to the central bank	94 703,1	97 588,9
Debt securities issued to the public	1 598 597,2	1 239 491,3
Derivative contracts	13 375,2	7 963,9
Encumbered assets total	1 706 675,5	1 345 044,2

	2019	2018
Collateral received	Other collaterals	Other collaterals
Liabilities to the central bank		
Debt securities issued to the public		
Derivative contracts	23 350,0	6 060,0
Collateral received total	23 350,0	6 060,0

43 IFRS 16 Leases

Hypo Group as lessee	2019	1 Jan 2019*
Right-of-use assets		
Depreciation - IT	35,9	
Depreciation - Apartments	163,1	
Carrying amount - IT	35,9	71,8
Carrying amount - Apartments	325,4	321,5
Lease liabilities		
Interest expense	8,1	
Carrying amounts sorted by remaining maturity		
Non-fixed-term leases	361,3	393,3
Relief options		
Expenses from leases of low-value assets	5,3	

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

Hypo Group as a lessor	2019
Operative leases	
Lease income	2 369,4
Undiscounted lease payments to be received	
1 year	1 006,3
2 year	660,9
3 year	545,8
4 year	350,3
5 year	252,5
>5 years	7 594,0

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

44 Off-balance sheet commitments

	2019	2018
Commitments given on behalf of a customer for the benefit of a third party		
Guarantees and other liabilities	2 181,9	2 181,9
Irrevocable commitments given on behalf of a customer		
Granted but unclaimed loans	110 284,1	269 244,0
Purchase commitments of housing units	0,0	2 262,6
Total	112 466,0	273 688,5

NOTES CONCERNING THE AUDITOR'S FEE

€1,000 unless otherwise indicated.

45 Audit service fees	2019	2018
Fees paid to the auditor for the audit	104,5	89,9
Fees paid to the auditor for other services, parent company	10,9	4,1
Fees paid to the auditor for other services, Group	13,6	4,1

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

NOTES CONCERNING GROUP'S PERSONNEL, MANAGEMENT AND OTHER RELATED PARTIES
€1,000 unless otherwise indicated.

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

46 Number of personnel

	2019	2018
	Average number	Average number
Permanent full-time personnel	50	49
CEO and deputy to the CEO	2	2
Temporary personnel	2	4
Total	54	55

47 Salaries and remuneration paid to management

	2019	2018
CEO total salaries	329,3	321,4

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

Board of Directors	2019	2018
Total remuneration, chair	50,3	44,0
Total remuneration, vice chair	34,7	30,8
Total remunerations, members	129,0	112,1
Total	214,0	186,9
Supervisory Board		
Total remuneration, chair	12,4	11,9
Total remuneration, vice chair	7,3	6,2
Total remunerations, members	50,3	50,4
Total	69,9	68,5
Members of the Management Group (exc. CEO)		
Total remunerations	839,1	702,9

48 Loans granted to the related parties

	2019	2018	Change
CEO and deputy to the CEO	187,3	202,7	-15,4
Management Group	71,2	0,0	71,2
Board of Directors	199,4	204,4	-5,0
Supervisory Board	481,4	689,0	-207,6
Joint operations	754,3	821,3	-66,9
Other related parties	1 432,9	1 272,2	160,7
Total	3 126,5	3 189,5	-63,1

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

49 Deposits by the related parties

	2019	2018	Change
CEO, deputy to the CEO, Board of Directors and Supervisory Board	874,7	558,7	316,0
Management Group	493,9	400,0	93,9
The Mortgage Society of Finland's pension foundation	145,2	123,0	22,2
Other insiders	1 078,8	577,6	501,2
Total	1 484,3	2 108,5	-624,2
	4 076,9	3 767,9	309,1

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

50 Related party transactions

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

The Mortgage Society of Finland's pension foundation	2019	2018	Muutos
Sales of investment properties	0,0	350,0	-350,0
Sales of services	24,1	22,3	1,8
Purchases of services	0,0	74,8	-74,8
Return of surplus assets	1 500,0	750,0	750,0
Receivables	1 500,0	772,3	727,7

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

NOTES CONCERNING GROUP'S SHAREHOLDINGS

€1,000 unless otherwise indicated.

51 Information about subsidiaries and joint operations

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

Amounts presented as result for the period and as equity for Bostadsaktiebolaget Taos is based on unaudited financial statements from financial year 2019.

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

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

Amounts presented as result for the period and as equity for Bostadsaktiebolaget Taos is based on unaudited financial statements from financial year 2018.

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

NOTES CONCERNING CONTROLLED ENTITIES OF THE GROUP

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

53 Maximum amount of credit and counterparty risk

2019	Book values, gross	Book value	Average book value during the period	Interest receivables	Expected credit loss allowance
Lending					
Not fallen due	2 226 912,7	2 225 770,9	2 223 497,5	1 045,2	96,6
Past due by 1–2 days*	339 249,2	338 321,5	337 807,9	925,7	2,0
Past due by 3 days–1 month	18 136,9	18 109,8	21 483,8	27,0	0,1
Past due by 1–3 months	1 465,6	1 462,9	2 734,8	2,8	0,0
Non-performing, past due by less than 3 months**	73,5	73,4	101,0	0,1	0,0
Non-performing, past due by more than 3 months	2 608,1	2 408,6	1 902,4	36,9	162,7
Total lending	2 588 446,0	2 586 147,0	2 587 527,4	2 037,7	261,4
Other					
Receivables from credit institutions					
Not fallen due					
Debt securities					
Not fallen due	282 687,5	282 668,0	246 161,9	19,5	0,0
Shares and holdings	132,4	132,4	132,4		
Derivative contracts					
Not fallen due	22 889,7	19 351,9	11 957,3	3 537,8	
Total other	305 709,6	302 152,3	258 251,6	3 557,2	0,0
Non-performing loans/total lending, %	0,10 %	0,10 %			

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

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

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

2018	Book values, gross	Book value	Average book value during the period	Interest receivables	Impaired receivables
Lending					
Not fallen due	2 222 554,7	2 221 224,2	2 199 380,2	1 232,4	98,1
Past due by 1–2 days*	338 219,9	337 294,3	170 560,1	924,5	1,1
Past due by 3 days–1 month	24 910,9	24 857,8	25 269,3	52,8	0,2
Past due by 1–3 months	4 013,6	4 006,7	3 412,1	6,9	0,0
Non-performing, past due by less than 3 months**	128,8	128,7	225,1	0,1	0,0
Non-performing, past due by more than 3 months	1 690,5	1 396,2	1 894,2	29,1	265,2
Total lending	2 591 518,3	2 588 907,9	2 400 741,1	2 245,8	364,6
Other					
Receivables from credit institutions					
Not fallen due	5 399,5	5 399,5	10 899,5		
Debt securities					
Not fallen due	210 162,2	209 655,9	247 187,3	489,8	16,6
Shares and holdings	132,4	132,4	132,4		
Derivative contracts					
Not fallen due	6 670,7	4 562,6	2 410,8	2 108,1	
Total other	222 364,9	219 750,4	260 629,9	2 597,9	16,6
Non-performing loan/total lending, %	0,07 %	0,06 %			

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

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

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

54 Forbearances

2019

	Performing and past due receivables			Non-performing loans		
	Receivables with modified terms	Refinancing	Total	Receivables with amended terms	Refinancing	Total
Forbearances 1 Jan 2019	1 493,3	255,3	1 748,6	1,3	0,0	1,3
Changes during the financial period	4 380,0	2 125,8	6 505,8	-1,3	54,4	53,1
Book value of forbearances 31 Dec 2019	5 873,3	2 381,1	8 254,4	0,0	54,4	54,4
Impairment recognized on receivables during the financial period			0,0			0,0

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

2018

	Performing and past due receivables			Non-performing loans		
	Receivables with modified terms	Refinancing	Total	Receivables with amended terms	Refinancing	Total
Forbearances 1 Jan 2018	1 049,1	207,0	1 256,0	402,8	58,5	461,3
Changes during the financial period	444,3	48,3	492,6	-401,6	-58,5	-460,0
Book value of forbearances 31 Dec 2018	1 493,3	255,3	1 748,6	1,3	0,0	1,3
Impairment recognized on receivables during the financial period			0,0			0,0

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

55 Concentration of lending

	2019				2018			
Lending by category		Expected credit loss allowance	Book value	%		Expected credit loss allowance	Book value	%
Households	816 456,3	261,2	816 195,1	31,6 %	810 469,2	364,3	810 104,8	31,3 %
Housing companies	1 702 565,3	0,1	1 702 565,2	65,8 %	1 697 811,9	0,1	1 697 811,8	65,6 %
Private companies (housing investors)	59 839,1	0,1	59 839,0	2,3 %	72 754,5	0,1	72 754,4	2,8 %
Other	7 547,6	0,0	7 547,6	0,3 %	8 236,8	0,0	8 236,8	0,3 %
Total	2 586 408,4	261,4	2 586 147,0	100,0 %	2 589 272,5	364,6	2 588 907,9	100,0 %
Lending by purpose of use								
Permanent dwelling	2 521 641,8	131,1	2 521 510,7	97,5 %	2 524 488,8	224,8	2 524 264,0	97,5 %
Consumer loan	33 255,1	14,8	33 240,3	1,3 %	34 237,9	24,1	34 213,8	1,3 %
Holiday home	8 204,2	115,4	8 088,9	0,3 %	8 880,9	115,4	8 765,5	0,3 %
Other	23 307,2	0,2	23 307,0	0,9 %	21 664,9	0,3	21 664,5	0,8 %
Total	2 586 408,4	261,4	2 586 147,0	100,0 %	2 589 272,5	364,6	2 588 907,9	100,0 %
Lending by province								
Uusimaa	1 995 654,9	68,3	1 995 586,6	77,2 %	1 979 708,3	86,0	1 979 622,4	76,5 %
Rest of Finland	590 753,4	193,0	590 560,4	22,8 %	609 564,1	278,6	609 285,5	23,5 %
Total	2 586 408,4	261,4	2 586 147,0	100,0 %	2 589 272,5	364,6	2 588 907,9	100,0 %

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

56 Loan to value by category

Loan to value in percent by households:	2019	%	2018	%
<10	7 472,2	0,3 %	7 341,5	0,3 %
10-20	25 817,9	1,0 %	26 330,8	1,0 %
20-30	49 531,9	1,9 %	45 783,0	1,8 %
30-40	76 160,0	2,9 %	76 216,0	2,9 %
40-50	114 487,2	4,4 %	110 316,7	4,3 %
50-60	133 755,5	5,2 %	134 429,1	5,2 %
60-70	162 767,9	6,3 %	170 569,0	6,6 %
70-80	130 681,9	5,1 %	128 115,4	4,9 %
80-90	81 737,7	3,2 %	85 146,8	3,3 %
90-100	31 331,2	1,2 %	23 221,7	0,9 %
>100	1 089,4	0,0 %	2 477,9	0,1 %
Loans that are not included in LTV calculation	1 627,9	0,1 %	1 268,6	0,0 %
	816 460,8	31,6 %	811 216,5	31,3 %

Loan to value in percent by housing companies, private companies and other:	2019	%	2018	%
<10	399 428,6	15,4 %	356 321,9	13,8 %
10-20	416 496,3	16,1 %	423 794,0	16,4 %
20-30	352 569,7	13,6 %	353 889,2	13,7 %
30-40	254 161,9	9,8 %	306 347,4	11,8 %
40-50	205 782,0	8,0 %	179 136,6	6,9 %
50-60	64 410,1	2,5 %	86 150,9	3,3 %
60-70	36 734,2	1,4 %	24 439,0	0,9 %
70-80	8 648,7	0,3 %	3 547,6	0,1 %
80-90	19 423,2	0,8 %	26 617,1	1,0 %
90-100	2 614,2	0,1 %	6 677,1	0,3 %
>100	677,4	0,0 %	1 278,8	0,0 %
Loans that are not included in LTV calculation	8 740,0	0,3 %	9 856,3	0,4 %
	1 769 686,2	68,4 %	1 778 055,9	68,7 %

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

57 IFRS 9 by risk category

Debt securities by risk category 2019

	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit-impaired (stage 3)	Total
Debt securities, Fair value through other comprehensive income				0,0
Risk class 1-5				0,0
Risk class 6-10				0,0
Risk class 11-15				0,0
Rating not classified	138 728,4			138 728,4
Loss allowance				0,0
Write-offs				0,0
	138 728,4			138 728,4

Debt securities by risk category 2018

	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit-impaired (stage 3)	Total
Debt securities, Fair value through other comprehensive income				0,0
Risk class 1-5				0,0
Risk class 6-10				0,0
Risk class 11-15				0,0
Rating not classified	154 844,7			154 844,7
Loss allowance	16,6			16,6
Write-offs				0,0
	154 828,1			154 828,1

Receivables from the public and public sector entities by risk category 2019

	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit-impaired (stage 3)	Total
Receivables from the public and public sector entities, amortised cost				0,0
Risk class 1-5				0,0
Risk class 6-10				0,0
Risk class 11-15				0,0
Rating not classified	2 573 605,5	9 961,8	2 841,0	2 586 408,4
Loss allowance	20,4	44,9	196,1	261,4
Write-offs				0,0
Total	2 573 585,2	9 916,9	2 644,9	2 586 147,0

Receivables from the public and public sector entities by risk category 2018

	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit-impaired (stage 3)	Total
Receivables from the public and public sector entities, amortised cost				0,0
Risk class 1-5				0,0
Risk class 6-10				0,0
Risk class 11-15				0,0
Rating not classified	2 580 391,9	7 090,5	1 790,1	2 589 272,5
Loss allowance	23,9	41,7	299,0	364,6
Write-offs				0,0
Total	2 580 368,0	7 048,8	1 491,0	2 588 907,9

Off balance sheet, granted but undrawn loans by risk category 2019

	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit-impaired (stage 3)	Total
Off balance sheet, granted but undrawn loans, amortised cost				0,0
Risk class 1-5				0,0
Risk class 6-10				0,0
Risk class 11-15				0,0
Rating not classified	110 268,7	3,2	12,2	110 284,1
Loss allowance	0,4	0,0	0,0	0,4
Write-offs				0,0
Total	110 268,3	3,2	12,2	110 283,7

Off balance sheet, granted but undrawn loans by risk category 2018

	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit-impaired (stage 3)	Total
Off balance sheet, granted but undrawn loans, amortised cost				0,0
Risk class 1-5				0,0
Risk class 6-10				0,0
Risk class 11-15				0,0
Rating not classified	269 128,9	105,5	9,6	269 244,0
Loss allowance	0,4	0,0	0,0	0,4
Write-offs				0,0
Total	269 128,5	105,5	9,6	269 243,6

58 IFRS 9 Loss allowance changes and transitions

Debt securities, Fair value through other comprehensive income

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2019	16,6			16,6
New financial assets				0,0
Maturities and repayments	-16,6			-16,6
Write-offs				0,0
Write-offs recoveries				0,0
Normal changes, e.g. change without stage change				0,0
Transfer to 12-month stage 1				0,0
Transfer to lifetime stage 2 not credit-impaired				0,0
Transfer to lifetime stage 3 credit-impaired				0,0
Changes to model assumptions and methodologies				0,0
Manual correction by loan				0,0
Loss allowance as at 31 December 2019	0,0	0,0	0,0	0,0

Debt securities, Fair value through other comprehensive income

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2018	25,3			25,3
New financial assets	0,6			0,6
Maturities and repayments	-9,3			-9,3
Write-offs				0,0
Write-offs recoveries				0,0
Normal changes, e.g. change without stage change	-0,1			-0,1
Transfer to 12-month stage 1				0,0
Transfer to lifetime stage 2 not credit-impaired				0,0
Transfer to lifetime stage 3 credit-impaired				0,0
Changes to model assumptions and methodologies				0,0
Manual correction by loan				0,0
Loss allowance as at 31 December 2018	16,6	0,0	0,0	16,6

Receivables from the public and public sector entities, amortised cost 2019

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2019	23,9	41,7	299,0	364,6
New financial assets (new loans)	11,0			11,0
Maturities and repayments	-3,1	-2,4	-15,7	-21,3
Write-offs			-81,1	-81,1
Write-offs recoveries				0,0
Normal changes, e.g. change without stage change	-11,4	5,6		-5,8
Transfer to 12-month stage 1	0,0		-6,0	-6,0
Transfer to lifetime stage 2 not credit-impaired	0,0			0,0
Transfer to lifetime stage 3 credit-impaired				0,0
Changes to model assumptions and methodologies				0,0
Manual correction by loan	0,0		-0,1	-0,1
Loss allowance as at 31 December 2019	20,4	44,9	196,1	261,4

Receivables from the public and public sector entities, amortised cost 2018

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2018	21,0	3,0	309,6	333,6
New financial assets (new loans)	14,4			14,4
Maturities and repayments	-2,2	-25,6	-35,3	-63,1
Write-offs				0,0
Write-offs recoveries				0,0
Normal changes, e.g. change without stage change	-8,9		106,9	98,0
Transfer to 12-month stage 1	0,0		-3,0	-3,0
Transfer to lifetime stage 2 not credit-impaired	-0,5	67,3		66,8
Transfer to lifetime stage 3 credit-impaired	0,0	-3,0	6,0	3,0
Changes to model assumptions and methodologies				0,0
Manual correction by loan			-85,2	-85,2
Loss allowance as at 31 December 2018	23,9	41,7	299,0	364,6

Off balance sheet, granted but undrawn loans by risk category 2019

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2019	0,4			0,4
New financial assets	0,4			0,4
Maturities and repayments	-0,4			-0,4
Write-offs				0,0
Write-offs recoveries				0,0
Normal changes, e.g. change without stage change				0,0
Transfer to 12-month stage 1				0,0
Transfer to lifetime stage 2 not credit-impaired				0,0
Transfer to lifetime stage 3 credit-impaired				0,0
Changes to model assumptions and methodologies				0,0
Manual correction by loan				0,0
Loss allowance as at 31 December 2019	0,4	0,0	0,0	0,4

Off balance sheet, granted but undrawn loans by risk category 2018

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2018	0,0			0,0
New financial assets	0,4			0,4
Maturities and repayments	0,0			0,0
Write-offs				0,0
Write-offs recoveries				0,0
Normal changes, e.g. change without stage change	0,0	0,0		0,0
Transfer to 12-month stage 1				0,0
Transfer to lifetime stage 2 not credit-impaired	0,0	0,0		0,0
Transfer to lifetime stage 3 credit-impaired				0,0
Changes to model assumptions and methodologies				0,0
Manual correction by loan				0,0
Loss allowance as at 31 December 2018	0,4	0,0	0,0	0,4

59 IFRS 9 Changes in the carrying amount of financial instruments

Debt securities, Fair value through other comprehensive income 2019

	Stage 1	Stage 2	Stage 3	Total
Carrying amount as at 1 January 2019	146 338,8	0,0	0,0	146 338,8
Transfers				0,0
Transfer from Stage 1 to Stage 2	0,0			0,0
Transfer from Stage 1 to Stage 3	0,0			0,0
Transfer from Stage 2 to Stage 3	0,0			0,0
Transfer from Stage 3 to Stage 2	0,0			0,0
Transfer from Stage 2 to Stage 1	0,0			0,0
Transfer from Stage 3 to Stage 1				0,0
New financial assets	32 500,0			32 500,0
Maturities and repayments	-55 116,8			-55 116,8
Write-offs				0,0
Write-offs recoveries				0,0
Carrying amount as at 31 December 2019	123 722,0	0,0	0,0	123 722,0

Debt securities, Fair value through other comprehensive income 2018

	Stage 1	Stage 2	Stage 3	Total
Carrying amount as at 1 January 2018	213 488,7	0,0	0,0	213 488,7
Transfers				0,0
Transfer from Stage 1 to Stage 2	0,0			0,0
Transfer from Stage 1 to Stage 3	0,0			0,0
Transfer from Stage 2 to Stage 3	0,0			0,0
Transfer from Stage 3 to Stage 2	0,0			0,0
Transfer from Stage 2 to Stage 1	0,0			0,0
Transfer from Stage 3 to Stage 1				0,0
New financial assets	26 845,8			26 845,8
Maturities and repayments	-93 995,7			-93 995,7
Write-offs				0,0
Write-offs recoveries				0,0
Carrying amount as at 31 December 2018	146 338,8	0,0	0,0	146 338,8

Receivables from the public and public sector entities, amortised cost 2019

	Stage 1	Stage 2	Stage 3	Total
Carrying amount as at 1 January 2019	2 580 027,3	7 204,0	1 676,6	2 588 907,9
Transfers	-3 750,1	2 525,9	1 224,2	0,0
Transfer from Stage 1 to Stage 2	-6 349,8	6 349,8		0,0
Transfer from Stage 1 to Stage 3	-895,6		895,6	0,0
Transfer from Stage 2 to Stage 3		-547,3	547,3	0,0
Transfer from Stage 3 to Stage 2		8,1	-8,1	0,0
Transfer from Stage 2 to Stage 1	3 284,8	-3 284,8		0,0
Transfer from Stage 3 to Stage 1	210,6		-210,6	0,0
New financial assets	519 699,1	63,1		519 762,2
Maturities and repayments	-522 391,2	123,9	-255,9	-522 523,1
Write-offs				0,0
Write-offs recoveries				0,0
Carrying amount as at 31 December 2019	2 573 585,2	9 916,9	2 644,9	2 586 147,0

Receivables from the public and public sector entities, amortised cost 2018

	Stage 1	Stage 2	Stage 3	Total
Carrying amount as at 1 January 2018	2 203 965,7	5 600,4	3 007,4	2 212 573,5
Transfers	-2 740,1	2 990,3	-250,3	0,0
Transfer from Stage 1 to Stage 2	-3 636,1	3 636,1		0,0
Transfer from Stage 1 to Stage 3	-328,4		328,4	0,0
Transfer from Stage 2 to Stage 3		-83,0	83,0	0,0
Transfer from Stage 3 to Stage 2		196,5	-196,5	0,0
Transfer from Stage 2 to Stage 1	759,3	-759,3		0,0
Transfer from Stage 3 to Stage 1	465,2		-465,2	0,0
New financial assets	790 830,9	42,0		790 872,9
Maturities and repayments	-412 029,2	-1 428,8	-1 080,6	-414 538,6
Write-offs				0,0
Write-offs recoveries				0,0
Carrying amount as at 31 December 2018	2 580 027,3	7 204,0	1 676,6	2 588 907,9

Off balance sheet, granted but undrawn loans by risk category 2019

	Stage 1	Stage 2	Stage 3	Total
Off balance sheet as at 1 January 2019	269 128,9	105,5	9,6	269 244,0
Transfers	100,5	-100,5	0,0	0,0
Transfer from Stage 1 to Stage 2				0,0
Transfer from Stage 1 to Stage 3				0,0
Transfer from Stage 2 to Stage 3				0,0
Transfer from Stage 3 to Stage 2				0,0
Transfer from Stage 2 to Stage 1	100,5	-100,5		0,0
Transfer from Stage 3 to Stage 1	0,0	0,0		0,0
Net change, lapsed and granted	-158 960,7	-1,8	2,6	-158 959,9
Off balance sheet as at 31 December 2019	110 268,7	3,2	12,2	110 284,1

Off balance sheet, granted but undrawn loans by risk category 2018

	Stage 1	Stage 2	Stage 3	Total
Off balance sheet as at 1 January 2018	274 766,9	258,3	38,7	275 063,9
Transfers	-17,2	32,7	-15,5	0,0
Transfer from Stage 1 to Stage 2	-85,0	85,0		0,0
Transfer from Stage 1 to Stage 3				0,0
Transfer from Stage 2 to Stage 3				0,0
Transfer from Stage 3 to Stage 2		15,5	-15,5	0,0
Transfer from Stage 2 to Stage 1	67,8	-67,8		0,0
Transfer from Stage 3 to Stage 1				0,0
Net change, lapsed and granted	-5 620,8	-185,5	-13,6	-5 819,9
Off balance sheet as at 31 December 2018	269 128,9	105,5	9,6	269 244,0

60 Liquidity risk

Cash flows from financial liabilities and derivatives 2019	<3 months	3-12 months	1-5 years	5-10 years	Total
Liabilities to credit institutions	782,2	80 929,8	3 338,7	0,0	85 050,7
Liabilities to the public and public sector entities	1 249 947,7	379 193,4	936,7	13 852,3	1 643 930,0
Debt securities issued to the public	6 500,0	34 650,0	974 925,0	303 000,0	1 319 075,0
Derivative contracts	-1 269,3	-3 682,8	-9 672,0	385,3	-14 238,6
Guarantees, granted but undrawn loans, rental liabilities and potential redemptions of partially owned housing units	112 466,0	0,0	0,0	0,0	112 466,0
Total liabilities	1 368 426,6	491 090,5	969 528,4	317 237,6	3 146 283,2

Cash flows from financial liabilities and derivatives 2018	<3 months	3-12 months	1-5 years	5-10 years	Total
Liabilities to credit institutions	791,0	3 019,7	85 073,7	0,0	88 884,4
Liabilities to the public and public sector entities	1 378 001,1	356 754,6	1 159,9	24,4	1 735 940,0
Debt securities issued to the public	81 000,0	90 650,0	670 950,0	301 125,0	1 143 725,0
Derivative contracts	391,3	-2 867,3	284,1	-220,1	-2 411,9
Guarantees, granted but undrawn loans, rental liabilities and potential redemptions of partially owned housing units	273 688,5	0,0	0,0	0,0	273 688,5
Total liabilities	1 733 871,9	447 557,1	757 467,7	300 929,3	3 239 826,1

61 Information concerning interest rate risk

Repricing time in 2019 (EUR million)	<3 months	3-12 months	1-5 years	5-10 years	Total
Floating-rate items					
Receivables	827,1	2 045,5	0,0	0,0	2 872,6
Liabilities	798,6	865,5	122,6	0,0	1 786,6
Net	28,6	1 180,0	-122,6	0,0	1 086,0
Fixed-rate items					
Receivables	259,4	17,6	1 012,6	420,8	1 710,3
Liabilities	592,7	668,1	1 044,8	419,4	2 725,1
Net	-333,3	-650,6	-32,3	1,3	-1 014,8

Group’s interest rate risks are related to the whole of its operations and are measured, monitored and managed by examining the Group’s banking book.

Lending, investments related to liquidity maintenance, derivative contracts and deposits and other funding involve interest risk.

In the table describing the interest rate risk, derivative contracts are shown in euros at nominal value, other receivables and liabilities at balance sheet values.

Derivative contracts are also shown in each group describing interest rate tying, combined with either the receivable or the liability group.

Floating-rate liabilities include items that are by nature payable on demand, and are assumed to be reprised within six months.
Contractual maturity assumptions are applied to the lending portfolio. The interest rate risk is measured at least once a month with regard to the investment portfolio and at least once

a quarter with regard to the entire banking book.

Sensitivity analysis

If market interest rates would have increased by 2 per cent (decreased by 0.25 per cent) on the balance sheet date, Group’s net interest income would decrease by EUR 7.0 million (increase by EUR 0.5 million) over a period of 12 months. The change in net interest income would mainly be caused by the repricing of floating-rate receivables and liabilities at higher (lower) interest rates than on the balance sheet date. An increase of two percentage points in market interest rates on the balance sheet date would deccrease the value of items measured at fair value by EUR 2.3 million. The financial value of Hypo would decrease by EUR 9.0 million due to a rise of 2 per cent in interest rates.

Repricing time in 2018 (EUR million)	<3 months	3-12 months	1-5 years	5-10 years	Total
Floating-rate items					
Receivables	847,2	1 999,1			2 846,3
Liabilities	588,7	894,4			1 483,1
Net	258,5	1 104,7	0,0	0,0	1 363,2
Fixed-rate items					
Receivables	232,9	12,2	727,8	379,7	1 352,6
Liabilities	810,9	584,0	838,9	413,2	2 647,1
Net	-578,0	-571,9	-111,0	-33,5	-1 294,5

Group’s interest rate risks are related to the whole of its operations and are measured, monitored and managed by examining the Group’s banking book.

Lending, investments related to liquidity maintenance, derivative contracts and deposits and other funding involve interest risk.

In the table describing the interest rate risk, derivative contracts are shown in euros at nominal value, other receivables and liabilities at balance sheet values.

Derivative contracts are also shown in each group describing interest rate tying, combined with either the receivable or the liability group.

Floating-rate liabilities include items that are by nature payable on demand, and are assumed to be reprised within six months.
Contractual maturity assumptions are applied to the lending portfolio. The interest rate risk is measured at least once a month with regard to the investment portfolio and at least once

a quarter with regard to the entire banking book.

Sensitivity analysis

If market interest rates would have increased by 2 per cent (decreased by 0.25 per cent) on the balance sheet date, Group’s net interest income would decrease by EUR 7.5 million (increase by EUR 0.7 million) over a period of 12 months. The change in net interest income would mainly be caused by the repricing of floating-rate receivables and liabilities at higher (lower) interest rates than on the balance sheet date. An increase of two percentage points in market interest rates on the balance sheet date would increase the value of items measured at fair value by EUR 4.0 million. The financial value of Hypo would decrease by EUR 4.4 million due to a rise of 2 per cent in interest rates.

INCOME STATEMENT OF PARENT COMPANY

€1,000	Note	1.1.-31.12.2019	1.1.-31.12.2018
Interest income	1	26 382,9	23 516,7
Interest expenses	1	-12 509,6	-11 362,9
NET INTEREST INCOME		**13 873,4**	**12 153,8**
Fee income	2	1 132,3	1 147,4
Fee expenses	2	-542,6	-363,2
Net income from currency operations and securities trading			
Net income from securities trading	3	-190,0	-1 144,7
Net income from financial assets at fair value through other comprehensive income	4	4,9	291,4
Net income from hedge accounting	5	73,9	33,2
Net income from investment properties	6	2 676,2	2 829,2
Other operating income	7	1 775,0	1 716,6
Administrative expenses			
Personnel expenses			
Wages and salaries		-5 161,5	-4 902,2
Other personnel related costs			
Pension expenses		586,6	-221,2
Other indirect personnel expenses		-126,3	-109,0
Other administrative expenses		-3 133,5	-2 585,3
		-7 834,7	-7 817,6
Depreciation and impairment losses on tangible and intangible assets	9	-645,6	-496,0
Other operating expenses	8	-1 887,7	-1 675,2
Net gains/losses on derecognition of financial assets measured at amortised cost	10	22,2	-31,3
Net gains/losses on derecognition of other financial assets	10	16,6	8,7
OPERATING PROFIT		**8 473,8**	**6 652,3**
Appropriations			
Income taxes		-1 668,8	-1 300,0
PROFIT FROM OPERATIONS AFTER TAXES		**6 805,0**	**5 352,3**
PROFIT FOR THE PERIOD		**6 805,0**	**5 352,3**

BALANCE SHEET OF PARENT COMPANY

€1,000	Note	31.12.2019	31.12.2018
ASSETS			
Cash	12,34	244 100,0	223 600,0
Debt securities eligible for refinancing with central banks			
Treasury bills			
Other		267 107,0	201 166,5
	15,32,34,49,51	267 107,0	201 166,5
Receivables from credit institutions			
Payable on demand		8 336,2	3 199,2
Other		29,8	60,8
	13,32,34	8 366,0	3 260,0
Receivables from the public and public sector entities			
Other than those payable on demand	14,32,34,49,51	2 587 053,2	2 589 641,7
Debt securities			
From public sector entities	15,32,34	15 006,4	8 506,0
		15 006,4	8 506,0
Shares and holdings	16,34	23,9	23,9
Shares and holdings in the same group of companies	16,34	6 687,7	6 687,7
Derivative contracts	17-21,34	19 351,9	4 562,6
Intangible assets			
Other long-term expenditure	22,24	3 599,4	2 782,5
Tangible assets			
Investment properties and shares and holdings in investment properties	23,24	55 499,6	54 522,7
Other properties and shares and holdings in housing property corporations	23,24	2 104,3	2 958,5
Other tangible assets	24	242,2	258,0
		57 846,2	57 739,2
Other assets	25	10 317,8	5 450,4
Deferred income and advances paid	26	7 559,4	5 257,5
Deferred tax receivables	27	0,0	148,5
TOTAL ASSETS		3 227 018,9	3 108 826,5

€1,000	Notes	31.12.2019	31.12.2018
LIABILITIES			
LIABILITIES			
Liabilities to credit institutions			
To central banks	32,34	80 000,0	80 000,0
To credit institutions			
Other than those payable on demand	32,34	1 659 069,3	1 753 191,6
Liabilities to the public and public sector entities			
Other liabilities			
Other than those payable on demand	32,34	14 294,1	16 917,6
Debt securities issued to the public			
Bonds		1 275 217,9	960 976,9
Other		36 483,2	168 435,6
	28,32,34	1 311 701,1	1 129 412,5
Derivative instruments and other liabilities held for trading	17-21,34	7 598,5	3 215,5
Other liabilities			
Other liabilities	29	31 281,9	12 974,1
Deferred expenses and advances received	30	6 734,1	5 127,7
Deferred tax liabilities	27	9 086,3	9 021,8
Accumulation of appropriations			
Voluntary reservations		41 683,4	41 683,4
Deferred tax liability		-8 336,7	-8 336,7
	35	33 346,7	33 346,7
EQUITY			
Basic capital	35,36	5 000,0	5 000,0
The revaluation reserve		2 243,4	2 243,4
Other restricted reserves			
Reserve fund		33 553,4	30 225,8
Fair value reserve			
From cash flow hedging		0,0	0,0
From valuation at fair value		755,0	-80,2
Unrestricted reserves			
Other reserves		22 923,5	22 923,5
Retained earnings		2 626,7	-45,8
PROFIT FOR THE PERIOD		6 805,0	5 352,3
	35	73 906,9	65 619,0
TOTAL LIABILITIES AND EQUITY		3 227 018,9	3 108 826,5

OFF-BALANCE SHEET COMMITMENTS OF PARENT COMPANY

€1,000			
Commitments given on behalf of a customer for the benefit of a third party			
Guarantees and other liabilities		2 181,9	2 181,9
Irrevocable commitments given on behalf of a customer			
Potential redemptions of partially owned housing units and those to be completed		0,0	2 262,6
Granted but unclaimed loans		110 284,1	269 244,0
Owned housing company loan		1 068,7	1 706,0
		111 352,8	273 212,6
OFF-BALANCE SHEET COMMITMENTS TOTAL	40	113 534,7	275 394,5

CASH FLOW STATEMENT OF PARENT COMPANY

€1,000	1.1.- 31.12.2019	1.1.- 31.12.2018
Cash flow from operating activities		
Interest received	24 028,0	22 926,4
Interest paid	-10 585,6	-11 065,3
Fee income	1 799,6	2 040,2
Fee expenses	-542,6	-363,2
Net income from securities and foreign currency transactions	-190,0	-1 144,7
Net income from financial assets at fair value through other comprehensive income	4,9	291,4
Net income from hedge accounting	73,9	33,2
Net income from investment properties	2 730,4	2 824,8
Other operating income	2 195,3	1 296,2
Administrative expenses	-7 571,0	-8 079,1
Other operating expenses	-2 061,1	-1 641,5
Credit and guarantee losses	38,8	-22,2
Income taxes	-2 484,1	6,6
Total net cash flow from operating activities	7 436,4	7 102,8
Operating assets increase (-) / decrease (+)		
Receivables from customers (lending)	3 494,0	-375 353,7
Cash collaterals, derivatives	12 539,9	2 501,3
Investment properties	71,2	-3 033,7
Operating assets increase (-) / decrease (+) total	16 105,0	-375 886,1
NET CASH FLOWS ACCRUED FROM OPERATING ACTIVITIES	23 541,4	-368 783,3
Change in fixed assets	-592,7	-431,2
Equity investments increase (-) / decrease (+)	0,0	0,0
NET CASH FLOWS ACCRUED FROM INVESTMENTS	-592,7	-431,2
Bank loans, new withdrawals	140 789,7	1 842 241,6
Bank loans, repayments	-234 912,0	-1 655 813,9
Bonds, new issues*	318 624,8	110 462,1
Bonds, repayments*	-14 828,5	-9 435,8
Certificates of deposit, new issues	134 328,4	195 485,8
Certificates of deposit, repayments	-266 280,8	-161 979,2
Other liabilities, new issues	0,0	0,0
Other liabilities, repayments	-2 623,5	-2 627,9
Subordinated liabilities, new withdrawals	0,0	11,4
Subordinated liabilities, repayments	0,0	-4 501,4
NET CASH FLOWS ACCRUED FROM FINANCING	75 098,1	313 842,7
NET CHANGE IN CASH AND CASH EQUIVALENTS	98 046,9	-55 371,9
Cash and cash equivalents at the end of the period	534 579,4	436 532,5
CHANGE IN CASH AND CASH EQUIVALENTS	98 046,9	-55 371,9

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

NOTES TO PARENT COMPANY'S FINANCIAL STATEMENTS 31 DECEMBER 2019

ACCOUNTING POLICIES OF PARENT COMPANY

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. 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.

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, the capital requirement for the counterparty credit risk is calculated using the current exposure 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 at Group level in a separate section of the Group's Board of the Directive's report.

Financial data is presented in company's operating currency, euros. The parent company's accounting policies follow most of the Group's accounting principles.

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

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 recognized on fair value through profit and loss 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 from financial instruments measured at fair value through other comprehensive income, 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
€1,000 unless otherwise indicated.

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

	2019 to / from subsidiaries	2019 Total	2018 to / from subsidiaries	2018 Total
Receivables from the public and public sector entities		19 090,3		18 528,0
Debt securities		573,0		268,3
Derivative contracts		6 291,5		4 283,1
Negative interest expenses		369,5		323,1
Other interest income		58,6		114,2
Total interest income	0,0	26 382,9	0,0	23 516,7
Liabilities to credit institutions	-4 073,4	-4 137,9	-3 973,6	-4 082,6
Liabilities to the public and public sector entities		-23,7		-43,0
Debt securities issued to the public		-5 434,0		-4 585,2
Derivative contracts		-2 044,7		-1 932,4
Subordinated liabilities		0,0		-128,0
Negative interest income		-869,3		-590,5
Other interest expenses		0,0		-1,1
Total interest expenses	-4 073,4	-12 509,6	-3 973,6	-11 362,9

2. Fee income and expense	2019	2018
From lending	948,3	862,4
From legal assignments	147,6	234,8
From other operations	36,4	50,2
Total fee income	1 132,3	1 147,4
Other fee expenses	-542,6	-363,2

3. Net income from currency opetarions and securities trading	2019	2018
Gains and losses from disposals of financial instruments (net)		
Net income arising from items recognised based on the fair value option	-3,3	800,2
Gains and losses arising from measurement at fair value (net)		
Net income arising from items recognised based on the fair value option	-490,2	-2 423,8
Derivative contracts not in hedge accounting relationships	303,4	478,9
Net income from securities trading	-190,0	-1 144,7
Net income from currency operations		
Total	-190,0	-1 144,7

4. Net income from financial assets at fair value through other comprehensive income	2019	2018
Net income from financial assets at fair value through other comprehensive income		
Capital gains from debt securities	4,9	291,4
Total	4,9	291,4

5. Net income from hedge accounting	2019	2018
Change in fair value, hedging items	-14 373,8	-9 414,7
Change in fair value, hedging instruments	14 447,7	9 447,9
Total	73,9	33,2

6. Net income from investment properties

	2019	2018
Rental income	1 880,6	1 887,6
Capital gains (losses)	133,8	376,0
Other income	1 325,3	1 025,7
Maintenance charges and other maintenance costs paid	-320,8	-325,8
Impairments	-254,8	0,0
Other expenses	-87,8	-134,3
Total	2 676,2	2 829,2

7. Other operating income

	2019	2018
Rental income, property assets in own use	10,7	12,0
Other income	1 764,2	1 704,6
Total	1 775,0	1 716,6

8. Other operating expenses

	2019	2018
Rental expenses	-63,7	-66,0
Expenses from properties in own use	-182,8	-107,0
Other expenses	-1 641,2	-1 502,2
Total	-1 887,7	-1 675,2

9. Depreciation and impairment losses on tangible amd intangible assets

	2019	2018
Depreciation according to plan	-645,6	-496,0

10. Expected credit losses on loans and other commitments and other financial assets

	2019	2018
Net gains/losses on derecognition of financial assets measured at amortised cost		
On receivables from the public and public sector entities		
Expected credit losses, net change	103,2	-31,0
Final credit losses	-81,0	
Off-balance sheet commitments, granted but unclaimed loans		
Expected credit losses, net change	0,0	-0,3
Total	22,2	-31,3
Net gains/losses on derecognition of other financial assets		
Debt securities eligible for refinancing with central banks		
Expected credit losses, net change	16,6	8,7
Total	16,6	8,7

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.

2019	Combined amount of income	Operating profit	Total assets	Total liabilities	Personnel
Lending and deposits and other housing products and services	17 570,6	6 712,5	3 227 018,9	3 153 112,0	52
Other operations	1 775,0	1 761,3	0,0		

2018	Combined amount of income	Operating profit	Total assets	Total liabilities	Personnel
Lending and deposits and other housing products and services	15 924,0	4 939,7	3 108 406,1	3 043 207,4	53
Other operations	1 728,5	1 712,6	0,0		

NOTES TO THE BALANCE SHEET OF PARENT COMPANY
€1,000 unless otherwise indicated.

12. Liquid assets	2019	2018
O/N-deposits, central bank	244 100,0	223 600,0

13. Receivables from credit institutions

2019	Payable on demand	Other than those payble on demand	Total
From the central bank		29,8	29,8
From domestic credit institutions	8 336,2		8 336,2
From foreign credit institutions			0,0
	8 336,2	29,8	8 366,0

2018	Payable on demand	Other than those payble on demand	Total
From the central bank		60,8	60,8
From domestic credit institutions	2 509,5		2 509,5
From foreign credit institutions	689,7		689,7
	3 199,2	60,8	3 260,0

14. Receivables from the public and public sector entities	2019	Expected credit loss allowance 2019	2018	Expected credit loss allowance 2018
Companies and housing corporations	1 768 622,6	0,2	1 776 439,7	0,3
Households	805 062,7	261,2	800 122,5	364,3
Financial and insurance institutions	1 750,0	0,0	1 750,0	0,0
Non-profit organisations serving households	504,4	0,0	613,6	0,0
Foreign countries	11 374,9	0,0	11 080,5	0,0
Total	2 587 314,6	261,4	2 590 006,3	364,6
Subordinated receivables	0,0		356,3	
Non perfoming loans	2 644,6		1 790,1	
Impairment losses on receivables recognised during the period				
Impairment losses at the beginning of the year	364,6		333,6	
Net impairment losses	-103,2		31,0	
Impairment losses at the end of the year	261,4	0,0	364,6	0,0
Final credit losses on receivables recognized during the period	81,0	0,0	0,0	

15. Debt securities

2019	Publicly quoted	Other	Total	Expected credit loss allowance
Debt securities issued by public sector entities				
Fair value through other comprehensive income				
Other bonds issued by public sector entities	138 728,4		138 728,4	
Option to designate a financial asset at fair value				
Government bonds	111 705,7		111 705,7	
Those issued by other than public sector entities				
Option to designate a financial asset at fair value				
Bonds issued by banks	31 679,4		31 679,4	
Total debt securities	282 113,4	0,0	282 113,4	0,0
Subordinated receivables			0,0	
Receivables eligible for refinancing with central banks			267 107,0	

2018	Publicly quoted	Other	Total	Expected credit loss allowance
Debt securities issued by public sector entities				
Fair value through other comprehensive income				
Government bonds	22 144,8		22 144,8	
Other bonds issued by public sector entities	100 476,6		100 476,6	
Option to designate a financial asset at fair value				
Government bonds	31 555,2		31 555,2	
Those issued by other than public sector entities				
Option to designate a financial asset at fair value				
Bonds issued by banks	23 272,6		23 272,6	
Fair value through other comprehensive income				
Bonds issued by banks	26 499,0		26 499,0	15,7
Other debt securities	5 724,4		5 724,4	0,9
Total debt securities	209 672,5	0,0	209 672,5	16,6
Subordinated receivables			0,0	
Receivables eligible for refinancing with central banks			201 166,5	

16. Shares and holdings

2019	Publicly quoted	Other	Total	Of which in credit institutions
Shares and holdings, fair value through other comprehensive income		23,9	23,9	
Shares and holdings in the same group of companies		6 687,7	6 687,7	6 687,7
Shares and holdings, total	0,0	6 711,5	6 711,5	6 687,7
Of which at acquisition cost		6 711,5	6 711,5	

2018	Publicly quoted	Other	Total	Of which in credit institutions
Shares and holdings, fair value through other comprehensive income		23,9	23,9	
Shares and holdings in the same group of companies		6 687,7	6 687,7	6 687,7
Shares and holdings, total	0,0	6 711,5	6 711,5	6 687,7
Of which at acquisition cost		6 711,5	6 711,5	

17. Derivative contracts

2019

	less than one year	1-5 years	Book value Assets	Liabilities
Derivative contracts in hedge accounting relationships				
OTC Interest rate swaps, cash flow hedge accounting model, fair value			0,0	0,0
OTC Interest rate swaps, fair value hedge accounting model, fair value			18 964,0	405,3
Derivative contracts not in hedge accounting relationships			0,0	0,0
OTC Interest rate swaps, fair value			387,9	7 193,2
			19 351,9	7 598,5
OTC Interest rate and currency swaps, accrued interest			3 537,8	3 919,8
Total			22 889,7	11 518,4

Remaining maturity	less than one year	1-5 years	5-10 years	Total
Nominal values of the underlying instruments	35 000,0	1 021 000,0	414 514,1	1 470 514,1
Fair value, assets	0,0	13 605,4	5 746,6	19 351,9
Fair value, liabilities	103,3	1 055,0	6 440,1	7 598,5

2018

	Book value Assets	Liabilities
Derivative contracts in hedge accounting relationships		
OTC Interest rate swaps, cash flow hedge accounting model, fair value		
OTC Interest rate swaps, fair value hedge accounting model, fair value	4 496,3	
Derivative contracts not in hedge accounting relationships		
OTC Interest rate swaps, fair value	66,3	3 215,5
	4 562,6	3 215,5
OTC Interest rate and currency swaps, accrued interest	2 108,1	2 609,0
Total	6 670,7	5 824,4

Remaining maturity	less than one year	1-5 years	5-10 years	Total
Nominal values of the underlying instruments	15 000,0	746 000,0	414 634,5	1 175 634,5
Fair value, assets		3 385,7	1 176,9	4 562,6
Fair value, liabilities	36,1	708,7	2 470,7	3 215,5

18. Hedge accounting, maturity

2019

	<3 months	3-12 months	1-5 years	5-10 years
Fair value Hedges				
Notional			910 000	309 514
Average fixed interest rate			0,37 %	0,50 %

2018

	<3 months	3-12 months	1-5 years	5-10 years
Fair value Hedges				
Notional			610 000,0	309 562,2
Average fixed interest rate			0,31 %	0,49 %

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

19. Instruments used for hedge accounting

2019

	Notional	Carrying amount, assets	Carrying amount, liabilities	Balance sheet line item(s)	Changes in fair value used for calculatin hedge ineffectiveness
Fair value Hedges					
Interest rate swaps	1 219 514,1	18 964,0	405,3	Derivative contracts	14 043,1

2018

	Notional	Carrying amount, assets	Carrying amount, liabilities	Balance sheet line item(s)	Changes in fair value used for calculatin hedge ineffectiveness
Fair value Hedges					
Interest rate swaps	919 562,2	4 496,3	0,0	Derivative contracts	9 447,9

20. Hedged exposures

2019

	Carrying amount		Accumulated amount of fair value adjustments on the hedged item		Balance sheet line item(s)	Changes in fair value used for calculating hedge ineffectiveness
	Assets	Liabilities	Assets	Liabilities		
Fair value Hedges						
Debt securities issued to the public		1 205 642,0		-19 824,3	Debt securities issued to the public	-14 373,8
Receivables from the public and public sector entities	19 014,6		404,6		Receivables from the public and public sector entities	404,6

2018

	Carrying amount		Accumulated amount of fair value adjustments on the hedged item		Balance sheet line item(s)	Changes in fair value used for calculating hedge ineffectiveness
	Assets	Liabilities	Assets	Liabilities		
Fair value Hedges						
Debt securities issued to the public	0,0	955 848,1	0,0	5 450,4	Debt securities issued to the public	-9 414,7

21. Hedge effectivenes

2019

	Gains/(loss) recognised in OCI	Hedge Ineffectiveness recognised in P&L	P&L line ite that includes hedge inefectivenes
Fair value Hedges			
Interest rate swaps	0	73,9	Net income from hedge accounting

2018

	Gains/(loss) recognised in OCI	Hedge Ineffectiveness recognised in P&L	P&L line ite that includes hedge inefectivenes
Fair value Hedges			
Interest rate swaps	0	33,2	Net income from hedge accounting

22. Intangible assets

	2019	2018
IT programs and projects	2 765,9	1 840,5
Other intagible assets	833,5	941,9
	3 599,4	2 782,5

23. Tangible assets

	2019	2018
Investment properties and investment property shares, balance sheet value		
Land and water areas	3 413,5	3 728,5
Shares and holdings in housing property corporations	52 086,1	50 794,3
Total balance sheet value	55 499,6	54 522,7
Total fair value of investment properties	58 499,6	56 841,4
Other properties and shares in housing property corporations, balance sheet value		
In own use		
Land and water areas	2 104,3	2 958,5
Total balance sheet value	2 104,3	2 958,5
Total fair value of other properties	4 050,8	5 630,2

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.

24. Changes in intangible and tangible assets during the financial period

2019

	Intangible assets	Investment properties and investment property shares	Other properties and housing property shares	Other tangible assets	Total tangibles
Acquisition cost 1 January 2019	4 515,8	54 727,6	165,2	2 334,1	57 226,9
Increases	1 720,8	1 891,6	0,0	49,4	1 941,0
Deductions	-293,1	-1 349,8	-164,2	-30,2	-1 544,3
Acquisition cost 31 December 2019	5 943,4	55 269,4	1,0	2 353,2	57 623,6
Accumulated depreciation and impairment losses 1 Jan 2019	1 733,3	543,8		2 076,1	2 619,8
Depreciation for the period	610,7			34,9	34,9
Impairment losses for the period	0,0	254,8	0,0	0,0	254,8
Accumulated depreciation and impairment losses 31 December 2019	2 344,0	798,6	0,0	2 111,0	2 909,6
Revaluations 1 Januery 2019	0,0	338,9	2 793,3		3 132,2
Increase in value adjustments for the period		689,9			689,9
Reversals of period revaluations			-689,9		-689,9
Book value 31 December 2019	3 599,4	54 809,7	2 794,2	242,2	57 846,2

2018

	Intangible assets	Investment properties and investment property shares	Other properties and housing property shares	Other tangible assets	Total tangibles
Acquisition cost 1 January 2018	4 078,2	51 898,6	165,2	2 340,5	54 404,3
Increases	446,6	5 157,9	0,0	1,6	5 159,6
Deductions	-9,0	-2 328,9	0,0	-8,1	-2 337,0
Acquisition cost 31 December 2018	4 515,8	54 727,6	165,2	2 334,1	57 226,9
Accumulated depreciation and impairment losses 1 Jan 2018	1 267,8	543,8		2 045,6	2 589,3
Depreciation for the period	465,5			30,5	30,5
Accumulated depreciation and impairment losses 31 December 2018	1 733,3	543,8	0,0	2 076,1	2 619,8
Revaluations 1 January 2018		338,9	2 793,3		3 132,2
Book value 31 December 2018	2 782,5	54 522,7	2 958,5	258,0	57 739,2

25. Other assets

	2019	2018
Other receivables	10 317,8	5 450,4

26. Deferred income and advances paid

	2019	2018
Interest receivables	7 198,6	4 843,7
Other deferred income	360,8	413,8
Total	7 559,4	5 257,5

27. Deferred tax receivables and liabilities

	2019		2018	
	Tax receivables	Tax liabilities	Tax receivables	Tax liabilities
Deferred tax of revaluation reserve of real estate investments		560,8		560,8
Deferred tax of fair value reserves		188,7	148,5	124,3
Deferred tax of loan loss provision		8 336,7		8 336,7
Total	0,0	9 086,3	148,5	9 021,8

28. Debt securities issued to the public

	2019		2018	
	Book value	Nominal value	Book value	Nominal value
Other than those payable on demand				
Bonds	1 275 217,9	1 260 000,0	960 976,9	960 000,0
Certificates of deposit and commercial papers	36 483,2	36 500,0	168 435,6	168 500,0
Total	1 311 701,1	1 296 500,0	1 129 412,5	1 128 500,0

29. Other liabilities

	2019	2018
Other liabilities	31 281,9	12 974,1

30. Deferred expenses and advances received

	2019	2018
Interest liabilities	4 171,5	2 247,5
Advance payments received	26,9	34,2
Other deferred expenses	2 535,7	2 846,0
Total	6 734,1	5 127,7

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

	2019	2018
Unsecured libilities	57 106,5	195 454,7
of which the remaining maturity is less than one year	20 623,3	10 719,1
Unsecured libilities ecl. liabilities recognized in own funds	0,0	0,0
of which the remaining maturity is less than one year	0,0	0,0
Common Equity Tier 1 (CET1) capital	104 060,0	96 371,4
Liabilities according to the Act on Resolution of Credit Institutions and Investment Firms total	124 683,3	107 090,5

32. Maturity distribution of financial assets and liabilities

	2019					
	<3 months	3–12 months	1–5 years	5–10 years	>10 years	Total
Receivables from credit institutions	8 366,0					8 366,0
Receivables from the public and public sector entities	23 793,0	120 008,0	594 853,0	683 092,0	1 165 307,2	2 587,1
Debt securities	20 015,0	17 129,2	129 750,1	115 219,1		282,1
Total	52 174,0	137 137,2	724 603,1	798 311,1	1 165 307,2	2 877 532,6
Liabilities to credit institutions	1 250 102,2	458 934,6	6 085,6		23 946,9	1 739 069,3
Liabilities to the public and public sector entities			494,1	13 800,0		14 294,1
Debt securities issued to the public	4 999,6	31 483,6	970 318,3	304 899,6		1 311 701,1
Total	1 255 101,8	490 418,2	976 898,0	318 699,6	23 946,9	3 065 064,5

	2018					
	<3 months	3–12 months	1–5 years	5–10 years	>10 years	Total
Receivables from credit institutions	3 260,0					3 260,0
Receivables from the public and public sector entities	22 318,0	102 909,0	448 719,0	537 667,0	1 478 028,7	2 589 641,7
Debt securities	8 506,0	1 004,3	139 981,0	60 181,2		209 672,5
Total	34 084,0	103 913,3	588 700,0	597 848,2	1 478 028,7	2 802 574,3
Liabilities to credit institutions	1 377 292,3	340 194,3	90 756,0	24,4	24 924,4	1 833 191,6
Liabilities to the public and public sector entities		16 300,0	617,6	0,0		16 917,6
Debt securities issued to the public	80 985,7	87 449,9	662 311,4	298 665,5		1 129 412,5
Total	1 458 278,0	443 944,3	753 685,1	298 689,9	24 924,4	2 979 521,7

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 and book values of financial assets and liabilities

	Classification	Fair value determination principle	2019 Book value	Fair value	Book value in the same group
Liquid assets	Amortised cost		244 100,0	244 100,0	
Receivables from credit institutions	Amortised cost		8 366,0	8 366,0	
Receivables from the public and public sector entities	Amortised cost		2 587 053,2	2 587 053,2	1 660,6
Debt securities	Fair value through other comprehensive income	1	138 728,4	138 728,4	
Debt securities	Option to designate a financial asset at fair value	1	143 385,0	143 385,0	
Derivative contracts	Fair value through profit or loss	2	19 351,9	19 351,9	
Shares and holdings	Fair value through other comprehensive income	2	23,9	23,9	
Shares and holdings in the same group of companies	Fair value through other comprehensive income	3	6 687,7	6 687,7	6 687,7
Total			3 147 696,1	3 147 696,1	8 348,2
Liabilities to credit institutions	Amortised cost		1 739 069,3	1 739 069,3	1 652 740,1
Liabilities to the public and public sector entities	Amortised cost		14 294,1	14 294,1	
Debt securities issued to the public	Amortised cost		1 311 701,1	1 311 701,1	
Derivative contracts	Fair value through profit or loss	2	7 598,5	7 598,5	
Total			3 072 663,0	3 072 663,0	1 652 740,1

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.

	Classification	Fair value determination principle	2018 Book value	Fair value	Book value in the same group
			223 600,0	223 600,0	
Receivables from credit institutions	Amortised cost		3 260,0	3 260,0	
Receivables from the public and public sector entities	Amortised cost		2 589 641,7	2 589 641,7	1 807,9
Debt securities	Fair value through other comprehensive income	1	154 844,7	154 844,7	
Debt securities	Option to designate a financial asset at fair value	1	54 827,8	54 827,8	
Derivative contracts	Fair value through profit or loss	2	4 562,6	4 562,6	
Shares and holdings	Fair value through other comprehensive income	2	23,9	23,9	
Shares and holdings in the same group of companies	Fair value through other comprehensive income	3	6 687,7	6 687,7	6 687,7
Total			3 037 448,4	3 037 448,4	8 495,5
Liabilities to credit institutions	Amortised cost		1 833 191,6	1 833 191,6	1 743 090,1
Liabilities to the public and public sector entities	Amortised cost		16 917,6	16 917,6	
Debt securities issued to the public	Amortised cost		1 129 412,5	1 129 412,5	
Derivative contracts	Fair value through profit or loss	2	3 215,5	3 215,5	
Total			2 982 737,1	2 982 737,1	1 743 090,1

Fair value determination principles:

1: Quoted prices in active markets

2: Verifiable price, other than quoted

3: Unverifiable market price

35. Equity

	Basic capital	Revaluation reserve	Reserve fund	Fair value reserve	Other reserves	Untaxed reserves	Retained earnings	Total
Equity 1 Jan 2018	5 000,0	2 243,4	29 273,8	-31,0	22 923,5	33 346,7	22,8	92 779,2
Change in accounting policy							-57,8	-57,8
Restated equity 1 January 2018	5 000,0	2 243,4	29 273,8	-31,0	22 923,5	33 346,7	-35,0	92 721,3
Hedging of cash flow								
Change in fair value				-89,0				-89,0
Amount transferred to the income statement				170,3				170,3
Financial assets available for sale								
Change in fair value				144,5				144,5
Amount transferred to the income statement				-291,4				-291,4
Cancellation of properties' revaluations								
Change in untaxed reserves								
The decision of the Annual General Meeting for the disposal of profits			10,7				-10,7	0,0
Entry fees			941,3					941,3
Profit for the period							5 352,3	5 352,3
Change in deferred taxes				16,4				16,4
Equity 31 Dec 2018	5 000,0	2 243,4	30 225,8	-80,2	22 923,5	33 346,7	5 306,5	98 965,8

	Basic capital	Revaluation reserve	Reserve fund	Fair value reserve	Other reserves	Untaxed reserves	Retained earnings	Total
Equity 1 Jan 2019	5 000,0	2 243,4	30 225,8	-80,2	22 923,5	33 346,7	5 306,5	98 965,8
Hedging of cash flow								
Change in fair value								0,0
Amount transferred to the income statement								0,0
Financial assets available for sale								
Change in fair value				1 052,9				1 052,9
Amount transferred to the income statement				-4,9				-4,9
Cancellation of properties' revaluations								
Change in untaxed reserves								
The decision of the Annual General Meeting for the disposal of profits			2 679,9				-2 679,9	0,0
Entry fees			647,8					647,8
Profit for the period							6 805,0	6 805,0
Change in deferred taxes				-212,9				-212,9
Equity 31 Dec 2019	5 000,0	2 243,4	33 553,4	755,0	22 923,5	33 346,7	9 431,7	107 253,7

36. 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
€1,000 unless otherwise indicated.

37. Collateral pledged and received

	2019	2018
Collateral pledged for own liabilities	Other collaterals	Other collaterals
Liabilities to the central bank	94 703,1	97 588,9
Debt securities issued to the public	1 598 597,2	1 239 491,3
Derivative contracts	13 375,2	7 963,9
Encumbered assets total	1 706 675,5	1 345 044,2

	2019	2018
Collateral received	Other collaterals	Other collaterals
Liabilities to the central bank		
Debt securities issued to the public		
Derivative contracts	23 350,0	6 060,0
Collateral received total	23 350,0	6 060,0

38. 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.

39. Leasing and other liabilities	2019	2018
Minimum rents paid on the basis of leasing and other rental agreements		
Within one year	147,1	26,0
Within more than a year and at most within five years	133,2	0,6
Total	280,3	26,5

40. Off-balance sheet commitments	2019	2018
Commitments given on behalf of a customer for the benefit of a third party		
Guarantees and other liabilities	2 181,9	2 181,9
Irrevocable commitments given on behalf of a customer		
Granted but unclaimed loans	110 284,1	269 244,0
Purchase commitments of housing units under construction		2 262,6
Housing company loan allocated to owned housing units	1 068,7	1 706,0
Total	113 534,7	275 394,5

NOTES CONCERNING THE AUDITOR'S FEE
€1,000 unless otherwise indicated.

41. Auditor's fees	2019	2018
Fees paid to the auditor for the audit	87,7	80,7
Fees paid to the auditor for other services, parent company	10,9	4,1
Total	98,6	84,8

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

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

€1,000 unless otherwise indicated.

42. Number of personnel

	2019		2018	
	Avarage number	At the end of the period	Avarage number	At the end of the period
Permanent full-time personnel	50	53	49	47
CEO and debuty to the CEO	2	2	2	2
Temporary personnel	2	3	4	2
Total	54	58	55	51

43. Salaries and remuneration paid to management

	2019	2018
CEO total salaries	329,3	321,4

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

Board of Directors	2019	2018
Total remuneration, chair	50,3	44,0
Total remuneration, vice chair	34,7	30,8
Total remunerations, members	129,0	112,1
Total	214,0	186,9
Supervisory Board		
Total remuneration, chair	12,4	11,9
Total remuneration, vice chair	7,3	6,2
Total remunerations, members	50,3	50,4
Total	69,9	68,5
Members of the Management Group (exc. CEO)		
Total remunerations	839,1	702,9

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

44. Loans granted to the related parties

	2019	2018
CEO and debuty to the CEO	187,3	202,7
Management Group	71,2	0,0
Board of Directors	199,4	204,4
Supervisory Board	481,4	689,0
Joint operations	1 660,6	1 807,9
Other related parties	1 432,9	1 272,2
Total	4 032,7	4 176,1

Loans to the related parties (private persons) are granted following the General Terms and in compliance with Hypo's Principles of Credit Risk Management.

NOTES CONCERNING PARENT COMPANY'S SHAREHOLDINGS

€1,000 unless otherwise indicated.

45. Information about ownerships

2019	Domicile	Holding, %	Equity	Result for the period
Subsidiaries combined in the consolidated financial statements				
Suomen Asuntohypopankki Oy	Helsinki	100,0	25 294,1	646,3
Other				
Bostadsaktiebolaget Taos	Helsinki	54,6	6 418,2	152,0
As Oy Vanhaväylä 17	Helsinki	48,2	2 101,7	-20,8
As Oy Helsingin Eiran Helmi	Helsinki	30,9	2 361,8	3,5
As Oy Helsingin Lauttasaarenranta	Helsinki	22,8	17 723,4	0,0

Amounts presented as result for the period and as equity for Bostadsaktiebolaget Taos is based on unaudited financial statements from financial year 2019. Profit for the period and shareholders' equity of other ownerships are indicated in accordance with the year's 2018 adopted financial statements of the company.

2018	Domicile	Holding, %	Equity	Result for the period
Subsidiaries combined in the consolidated financial statements				
Suomen Asuntohypopankki Oy	Helsinki	100,0	24 647,9	251,6
Other				
Bostadsaktiebolaget Taos	Helsinki	54,6	6 266,2	105,9
As Oy Vanhaväylä 17	Helsinki	48,2	1 681,9	-2,6
As Oy Helsingin Eiran Helmi	Helsinki	31,7	2 358,4	5,3
As Oy Helsingin Lauttasaarenranta	Helsinki	22,8	14 871,8	1 085,5

Amounts presented as result for the period and as equity for Bostadsaktiebolaget Taos is based on unaudited financial statements from financial year 2018. Profit for the period and shareholders' equity of other ownerships are indicated in accordance with the year's 2017 adopted financial statements of the company.

NOTES CONCERNING CONTROLLED ENTITY

46. Notes concerning controlled entity

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.

47. Maximum amount of credit and counterparty risk

	2019			2018		
	Book values, gross	Expected credit loss allowance	Average book value (gross) during the period	Book values, gross	Expected credit loss allowance	Average book value (gross) during the period
Lending						
Not fallen due	2 226 912,7	96,6	2 225 100,7	2 223 288,6	98,1	2 202 049,6
Past due by 1–2 days*	340 155,4	2,0	339 187,6	338 219,9	1,1	171 031,2
Past due by 3 days–1 month	18 136,9	0,1	21 523,9	24 910,9	0,2	25 322,0
Past due by 1–3 months	1 465,6		2 739,6	4 013,6		3 418,4
Non-performing, past due by less than 3 months**	73,5		101,1	128,8		225,3
Non-performing, past due by more than 3 months	2 608,1	162,7	2 149,3	1 690,5	265,2	2 211,0
Total lending	2 589 352,3	261,4	2 590 802,2	2 592 252,2	364,6	2 404 257,4
Other						
Receivables from credit institutions						
Not fallen due	8 366,0		5 813,0	3 260,0		4 622,9
Debt securities						
Not fallen due	282 687,5		246 424,9	210 162,2	16,6	247 689,1
Shares and holdings	6 711,5		6 711,5	6 711,5		6 711,5
Derivative contracts						
Not fallen due	22 889,7		14 780,2	6 670,7		3 464,8
Takaussaatavat ja muut taseen ulkopuoliset saatavat						
Total other	320 654,7	0,0	273 729,6	226 804,6	16,6	262 488,4

Non-performing loans/total lending, %	0,10 %	0,07 %

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

48. Concentration of lending

2019	Book value	Expected credit loss allowance	Total book value	%
Lending by category				
Households	816 456,3	261,2	816 195,1	32 %
Housing companies	1 703 471,5	0,1	1 703 471,4	66 %
Private companies (housing investors)	59 839,1	0,1	59 839,0	2 %
Other	7 547,6	0,0	7 547,6	0 %
Total	2 587 314,6	261,4	2 587 053,2	100 %
Lending by purpose of use				
Permanent dwelling	2 522 548,0	131,1	2 522 416,9	97 %
Consumer loan	33 255,1	14,8	33 240,3	1 %
Holiday home	8 204,2	115,4	8 088,9	0 %
Other	23 307,2	0,2	23 307,0	1 %
Total	2 587 314,6	261,4	2 587 053,2	100 %
Lending by province				
Uusimaa	1 996 561,2	68,3	1 996 492,8	77 %
Rest of Finland	590 753,4	193,0	590 560,4	23 %
Total	2 587 314,6	261,4	2 587 053,2	100 %

Concentration of lending

2018	Book value	Expected credit loss allowance	Total book value	%
Lending by category				
Households	811 203,0	364,3	810 838,7	31 %
Housing companies	1 697 811,9	0,1	1 697 811,8	66 %
Private companies (housing investors)	72 754,5	0,1	72 754,4	3 %
Other	8 236,8			0 %
Total	2 590 006,3	364,6	2 581 404,9	100 %
Lending by purpose of use				
Permanent dwelling	2 525 222,7	224,8	2 524 997,9	97 %
Consumer loan	34 237,9	24,1	34 213,8	1 %
Holiday home	8 880,9	115,4	8 765,5	0 %
Other	21 664,9	0,3	21 664,5	1 %
Total	2 590 006,3	364,6	2 589 641,7	100 %
Lending by province				
Uusimaa	1 980 442,2	86,0	1 980 356,2	76 %
Rest of Finland	609 564,1	278,6	609 285,5	24 %
Total	2 590 006,3	364,6	2 589 641,7	100 %

49. IFRS 9 by risk category

Debt securities by risk category 2019

	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit-impaired (stage 3)	Total
Debt securities, Fair value through other comprehensive income				0,0
Risk class 1-5				0,0
Risk class 6-10				0,0
Risk class 11-15				0,0
Rating not classified	138 728,4			138 728,4
Loss allowance				0,0
Write-offs				0,0

Debt securities by risk category 2018

	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit-impaired (stage 3)	Total
Debt securities, Fair value through other comprehensive income				0,0
Risk class 1-5				0,0
Risk class 6-10				0,0
Risk class 11-15				0,0
Rating not classified	154 844,7			154 844,7
Loss allowance	16,6			16,6
Write-offs				0,0

Receivables from the public and public sector entities by risk category 2019

	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit-impaired (stage 3)	Total
Off balance sheet, granted but undrawn loans, amortised cost				0,0
Risk class 1-5				0,0
Risk class 6-10				0,0
Risk class 11-15				0,0
Rating not classified	2 574 511,8	9 961,8	2 841,0	2 587 314,6
Loss allowance	20,4	44,9	196,1	261,4
Write-offs				0,0
Total	2 574 491,4	9 916,9	2 644,9	2 587 053,2

Receivables from the public and public sector entities by risk category 2018

	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit-impaired (stage 3)	Total
Off balance sheet, granted but undrawn loans, amortised cost				0,0
Risk class 1-5				0,0
Risk class 6-10				0,0
Risk class 11-15				0,0
Rating not classified	2 581 125,8	7 090,5	1 790,1	2 590 006,3
Loss allowance	23,9	41,7	299,0	364,6
Write-offs				0,0
Total	2 581 101,9	7 048,8	1 491,0	2 589 641,7

Off balance sheet, granted but undrawn loans by risk category 2019

	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit-impaired (stage 3)	Total
Off balance sheet, granted but undrawn loans, amortised cost				0,0
Risk class 1-5				0,0
Risk class 6-10				0,0
Risk class 11-15				0,0
Rating not classified	110 268,7	3,2	12,2	110 284,1
Loss allowance	0,4	0,0	0,0	0,4
Write-offs				0,0
Total	110 268,3	3,2	12,2	110 283,7

Off balance sheet, granted but undrawn loans by risk category 2018

	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit-impaired (stage 3)	Total
Off balance sheet, granted but undrawn loans, amortised cost				0,0
Risk class 1-5				0,0
Risk class 6-10				0,0
Risk class 11-15				0,0
Rating not classified	269 128,9	105,5	9,6	269 244,0
Loss allowance	0,4	0,0	0,0	0,4
Write-offs				0,0
Total	269 128,5	105,5	9,6	269 243,6

50. IFRS 9 Loss allowance changes and transitions

Debt securities, Fair value through other comprehensive income 2019

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2019	16,6			16,6
New financial assets				0,0
Maturities and repayments	-16,6			-16,6
Write-offs				0,0
Write-offs recoveries				0,0
Normal changes, e.g change without stage change				0,0
Transfer to 12-month stage 1				0,0
Transfer to lifetime stage 2 not credit-impaired				0,0
Transfer to lifetime stage 3 credit-impaired				0,0
Changes to model assumptions and methodologies				0,0
Manual correction by loan				0,0
Loss allowance as at 31 December 2019	0,0	0,0	0,0	0,0

Debt securities, Fair value through other comprehensive income 2018

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2018	25,3			25,3
New financial assets	0,6			0,6
Maturities and repayments	-9,3			-9,3
Write-offs				0,0
Write-offs recoveries				0,0
Normal changes, e.g change without stage change	-0,1			-0,1
Transfer to 12-month stage 1				0,0
Transfer to lifetime stage 2 not credit-impaired				0,0
Transfer to lifetime stage 3 credit-impaired				0,0
Changes to model assumptions and methodologies				0,0
Manual correction by loan				0,0
Loss allowance as at 31 December 2018	16,6	0,0	0,0	16,6

Receivables from the public and public sector entities, amortised cost 2019

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2019	23,9	41,7	299,0	364,6
New financial assets (new loans)	11,0			11,0
Maturities and repayments	-3,1	-2,4	-15,7	-21,3
Write-offs			-81,1	-81,1
Write-offs recoveries				0,0
Normal changes, e.g change without stage change	-11,4	5,6		-5,8
Transfer to 12-month stage 1	0,0		-6,0	-6,0
Transfer to lifetime stage 2 not credit-impaired	0,0			0,0
Transfer to lifetime stage 3 credit-impaired				0,0
Changes to model assumptions and methodologies				0,0
Manual correction by loan	0,0		-0,1	-0,1
Loss allowance as at 31 December 2019	20,4	44,9	196,1	261,4

Receivables from the public and public sector entities, amortised cost 2018

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2018	21,0	3,0	309,6	333,6
New financial assets (new loans)	14,4			14,4
Maturities and repayments	-2,2	-25,6	-35,3	-63,1
Write-offs				0,0
Write-offs recoveries				0,0
Normal changes, e.g change without stage change	-8,9		106,9	98,0
Transfer to 12-month stage 1	0,0		-3,0	-3,0
Transfer to lifetime stage 2 not credit-impaired	-0,5	67,3		66,8
Transfer to lifetime stage 3 credit-impaired	0,0	-3,0	6,0	3,0
Changes to model assumptions and methodologies				0,0
Manual correction by loan			-85,2	-85,2
Loss allowance as at 31 December 2018	23,9	41,7	299,0	364,6

Off balance sheet, granted but undrawn loans by risk category 2019

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2019	0,4			0,4
New financial assets	0,4			0,4
Maturities and repayments	-0,4			-0,4
Write-offs				
Write-offs recoveries				
Normal changes, e.g change without stage change				
Transfer to 12-month stage 1				
Transfer to lifetime stage 2 not credit-impaired				
Transfer to lifetime stage 3 credit-impaired				
Changes to model assumptions and methodologies				
Manual correction by loan				
Loss allowance as at 31 December 2019	0,4	0,0	0,0	0,4

Off balance sheet, granted but undrawn loans by risk category 2018

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2018	0,0			0,0
New financial assets	0,4			0,4
Maturities and repayments	0,0			0,0
Write-offs				0,0
Write-offs recoveries				0,0
Normal changes, e.g change without stage change	0,0	0,0		0,0
Transfer to 12-month stage 1				0,0
Transfer to lifetime stage 2 not credit-impaired	0,0	0,0		0,0
Transfer to lifetime stage 3 credit-impaired				0,0
Changes to model assumptions and methodologies				0,0
Manual correction by loan				0,0
Loss allowance as at 31 December 2018	0,4	0,0	0,0	0,4

51. IFRS 9 Changes in the carrying amount of financial instruments

Debt securities, Fair value through other comprehensive income 2019

	Stage 1	Stage 2	Stage 3	Total
Carrying amount as at 1 January 2019	146 338,8	0,0	0,0	146 338,8
Transfers				0,0
Transfer from Stage 1 to Stage 2	0,0			0,0
Transfer from Stage 1 to Stage 3	0,0			0,0
Transfer from Stage 2 to Stage 3	0,0			0,0
Transfer from Stage 3 to Stage 2	0,0			0,0
Transfer from Stage 2 to Stage 1	0,0			0,0
Transfer from Stage 3 to Stage 1				0,0
New financial assets	32 500,0			32 500,0
Maturities and repayments	-55 116,8			-55 116,8
Write-offs				0,0
Write-offs recoveries				0,0
Carrying amount as at 31 December 2019	123 722,0	0,0	0,0	123 722,0

Debt securities, Fair value through other comprehensive income 2018

	Stage 1	Stage 2	Stage 3	Total
Carrying amount as at 1 January 2018	213 488,7	0,0	0,0	213 488,7
Transfers				0,0
Transfer from Stage 1 to Stage 2	0,0			0,0
Transfer from Stage 1 to Stage 3	0,0			0,0
Transfer from Stage 2 to Stage 3	0,0			0,0
Transfer from Stage 3 to Stage 2	0,0			0,0
Transfer from Stage 2 to Stage 1	0,0			0,0
Transfer from Stage 3 to Stage 1				0,0
New financial assets	26 845,8			26 845,8
Maturities and repayments	-93 995,7			-93 995,7
Write-offs				0,0
Write-offs recoveries				0,0
Carrying amount as at 31 December 2018	146 338,8	0,0	0,0	146 338,8

Receivables from the public and public sector entities, amortised cost 2019

	Stage 1	Stage 2	Stage 3	Total
Carrying amount as at 1 January 2019	2 580 027,3	7 204,0	1 676,6	2 588 907,9
Transfers	-3 750,1	2 525,9	1 224,2	0,0
Transfer from Stage 1 to Stage 2	-6 349,8	6 349,8		0,0
Transfer from Stage 1 to Stage 3	-895,6		895,6	0,0
Transfer from Stage 2 to Stage 3		-547,3	547,3	0,0
Transfer from Stage 3 to Stage 2		8,1	-8,1	0,0
Transfer from Stage 2 to Stage 1	3 284,8	-3 284,8		0,0
Transfer from Stage 3 to Stage 1	210,6		-210,6	0,0
New financial assets	519 699,1	63,1		519 762,2
Maturities and repayments	-521 485,0	123,9	-255,9	-521 616,9
Write-offs				0,0
Write-offs recoveries				0,0
Carrying amount as at 31 December 2019	2 574 491,4	9 916,9	2 644,9	2 587 053,2

Receivables from the public and public sector entities, amortised cost 2018

	Stage 1	Stage 2	Stage 3	Total
Carrying amount as at 1 January 2018	2 204 771,3	5 600,4	3 007,4	2 213 379,1
Transfers	-2 740,1	2 990,3	-250,3	0,0
Transfer from Stage 1 to Stage 2	-3 636,1	3 636,1		0,0
Transfer from Stage 1 to Stage 3	-328,4		328,4	0,0
Transfer from Stage 2 to Stage 3		-83,0	83,0	0,0
Transfer from Stage 3 to Stage 2		196,5	-196,5	0,0
Transfer from Stage 2 to Stage 1	759,3	-759,3		0,0
Transfer from Stage 3 to Stage 1	465,2		-465,2	0,0
New financial assets	790 830,9	42,0		790 872,9
Maturities and repayments	-412 100,9	-1 428,8	-1 080,6	-414 610,3
Write-offs				0,0
Write-offs recoveries				0,0
Carrying amount as at 31 December 2018	2 580 761,2	7 204,0	1 676,6	2 589 641,7

Off balance sheet, granted but undrawn loans by risk category 2019

	Stage 1	Stage 2	Stage 3	Total
Off balance sheet as at 1 January 2019	269 128,9	105,5	9,6	269 244,0
Transfers	100,5	-100,5	0,0	0,0
Transfer from Stage 1 to Stage 2				0,0
Transfer from Stage 1 to Stage 3				0,0
Transfer from Stage 2 to Stage 3				0,0
Transfer from Stage 3 to Stage 2				0,0
Transfer from Stage 2 to Stage 1	100,5	-100,5		0,0
Transfer from Stage 3 to Stage 1				0,0
Net change, lapsed and granted	-158 960,7	-1,8	2,6	-158 959,9
Off balance sheet as at 31 December 2019	110 268,7	3,2	12,2	110 284,1

Off balance sheet, granted but undrawn loans by risk category 2018

	Stage 1	Stage 2	Stage 3	Total
Off balance sheet as at 1 January 2018	274 766,9	258,3	38,7	275 063,9
Transfers	-17,2	32,7	-15,5	0,0
Transfer from Stage 1 to Stage 2	-85,0	85,0		0,0
Transfer from Stage 1 to Stage 3				0,0
Transfer from Stage 2 to Stage 3				0,0
Transfer from Stage 3 to Stage 2		15,5	-15,5	0,0
Transfer from Stage 2 to Stage 1	67,8	-67,8		0,0
Transfer from Stage 3 to Stage 1				0,0
Net change, lapsed and granted	-5 620,8	-185,5	-13,6	-5 819,9
Off balance sheet as at 31 December 2018	269 128,9	105,5	9,6	269 244,0

52. Liquidity risk

Cash flows from financial liabilities and derivatives 2019	2019					
Liabilities to credit institutions	<3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Liabilities to the public and public sector entities	1 268 596,9	465 477,4	3 882,2	0,0	0,0	1 737 956,5
Debt securities issued to the public	64,2	84,6	400,8	13 852,3	0,0	14 402,0
Derivative contracts	6 500,0	34 650,0	974 925,0	303 000,0	0,0	1 319 075,0
Subordinated liabilities	-1 269,3	-3 682,8	-9 672,0	385,3	0,0	-14 238,6
Off-balance sheet commitments (inc. granted but unclaimed loans)	0,0	0,0	0,0	0,0	0,0	0,0
Total liabilities	113 534,7	0,0	0,0	0,0	0,0	113 534,7
	1 387 426,6	496 529,3	969 536,1	317 237,6	0,0	3 170 729,6

Cash flows from financial liabilities and derivatives 2018	2018					
Liabilities to credit institutions	<3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Liabilities to the public and public sector entities	1 398 257,2	348 210,9	85 739,7	24,8		1 832 232,5
Debt securities issued to the public	69,5	16 388,7	503,2	0,0		16 961,4
Derivative contracts	81 000,0	90 650,0	670 950,0	301 125,0		1 143 725,0
Subordinated liabilities	391,3	-2 867,3	284,1	-220,1		-2 411,9
Off-balance sheet commitments (inc. granted but unclaimed loans)		0,0				0,0
Total liabilities	275 394,5					275 394,5
	1 755 112,4	452 382,4	757 477,0	300 929,7	0,0	3 265 901,5

53. Information concerning interest rate risk

Repricing time in 2019 (EUR million)	2019					
Floating-rate items	<3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Receivables						
Liabilities	827,2	2046,3	0,0	0,0	0,0	2873,5
Net	634,1	2288,8	0,0	0,0	0,0	2922,9
Fixed-rate items	193,1	-242,5	0,0	0,0	0,0	-49,3
Receivables						
Liabilities	259,4	17,6	1012,6	420,8	0,0	1710,3
Net	20,0	131,5	1041,8	419,4	0,0	1612,7
	239,4	-113,9	-29,2	1,3	0,0	97,6

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 4.9 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.

Repricing time in 2018 (EUR million)	2018					
Floating-rate items	<3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Receivables						
Liabilities	847,2	1998,7	0,0	0,0	0,0	2845,9
Net	336,2	2383,9	0,0	0,0	0,0	2720,1
Fixed-rate items	510,9	-385,1	0,0	0,0	0,0	125,8
Receivables						
Liabilities	232,9	12,2	727,8	379,7		1352,6
Net	91,0	92,4	838,3	413,2		1435,0
	141,9	-80,3	-110,5	-33,5	0,0	-82,4

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 1.8 million (increase by EUR 0.0 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.

SIGNATURES OF THE FINANCIAL STATEMENTS AND THE BOARD OF DIRECTORS' REPORT 2019

Helsinki, February 27, 2020

Board of Directors

Sari Lounasmeri chair	Harri Hiltunen vice chair	Kai Heinonen
Pasi Holm	Mikko Huopio deputy 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 2, 2020

PricewaterhouseCoopers Oy,
Authorised Public Accountant Firm

Jukka Paunonen,
Authorised Public Accountant

INFORMATION CONCERNING PARENT COMPANY'S RISK MANAGEMENT

Risk management

The risk management of the Mortgage Society of Finland is organized according to and as part of the risk management principles of the Group.

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 (hereinafter also referred to as "the Bank" or "AsuntoHypoPankki"). In addition to this Board of Directors' Report, more information about corporate governance is available in separate Corporate Governance Statement and Remuneration Statement as well as on the Hypo website at www.hypo.fi.

Capital adequacy management

The main purpose of capital adequacy management is to ensure that the quantity and quality of 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 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 risk is calculated using the standard method. The own funds requirement of the counterparty credit risk is calculated using the current exposure method and for the operative risk using the basic method. Hypo is not subject to a countercyclical buffer requirement. The systemic capital buffer set for Hypo must be fulfilled with consolidated CET1-capital and is taken into account as part of the Group's capital requirements.

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.

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 strategy are considered, as are certain potential changes in the operating environment. The sufficiency of Group's own funds in relation to business 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 assembles regularly.

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 Risk Manager 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 Risk Manager, 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, 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 concentration arising out of use of the credit risk mitigation techniques is the development of the housing market in Finland and especially in the largest growth centers of Finland.

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.

As of beginning of 2018, credit risk adjustments have been based on calculation of expected credit losses (ECL) and potentially final credit losses in line with IFRS 9 regulation. ECL is recorded in accordance with the model developed in the Group. In the model, the credit portfolio and other receivables are divided in three stages. Stage 1 includes normal and performing receivables. Stage 2 includes receivables with significantly increased credit risk. Stage 3 includes non-performing receivables. In credit portfolio, on stage 1, ECL is calculated for 12 months period and high level of collateralization is taken into account. On stages 2 and 3 in credits, ECL is calculated for the remaining maturity and on the level of individual credit, taking into account the collateral, in line with a defined method. On all stages in credits, future expectations of collateral values are given impact in the ECL calculation. In other receivables i.e. liquidity investments, stages 1 to 3 are defined in by utilizing probability of default (PD) and loss given default (LGD) values based on regulation. On stage 1, ECL is calculated for 12 months period and on stages 2 and 3 ECL is calculated for the remaining maturity of the receivable.

The amount of forbearances increased during 2019 but still remained on an excellent level compared to the industry average. A forbearance is a credit whose payment scheme or terms have been temporary modified with e.g. amortization-free periods (primary method), lengthening of the loan maturity, or other arrangement, due to the debtor's existing or anticipated financial difficulties.

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

Liquidity investments and derivatives
Those countries, credit institutions and companies for which the management has confirmed a country and counterparty limit are accepted as 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 assigning the regulatory risk weight corresponding the ratings. The current credit ratings are used for the receivables from the following counterparties:

- sovereigns and central banks
- regional governments or local authorities
- public 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. The counterparty risk related to derivative contracts is calculated using the current exposure method. The liquidity investments belonging to the banking book are included in the credit risk calculation. Hypo does not have a trading book and can only have a minor trading book permitted by the law (usually EUR 15 million or 5 per cent of total assets at most and always EUR 20 million or 6 per cent of total assets at most.

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 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.

The renewal of core banking systems has been initiated during 2019 and has progressed as planned.

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
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 the Group's Internal Capital Adequacy Assessment also considering the stress scenario.

Liquidity risks

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 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.

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

The long-term i.e. structural funding risk on the balance sheet
The long-term financing risk, also known as the structural funding risk, on the balance sheet refers to the temporal imbalance that is related to the funding of long-term lending and results from funding on market terms. If the risk is materialized, it jeopardizes the continuance of growth-orientated lending as well as Hypo's funding position.

The existing programs and authorizations for arranging long-term funding and securing the funding position are kept at a sufficient level in relation to Hypo's business goals and the uncertainty caused by its operating environment. Hypo also has permission to act as a counterparty to central bank funding. Implemented debt issuances and liquidity investments are regularly reported to the management.

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

Short-term liquidity risk
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 risk reporting in accordance with the principles of liquidity risk management.

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

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

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

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

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.

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

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 Hypo 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 the 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 macro economy 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
Unfavorable 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.

Hypo's recognizability
Hypo's recognisability is continuously increased by means of networking, increasing Hypo'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 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, especially due to ongoing changes in the operations of the central IT-system service providers.

Table: Other information describing capital adequacy and risk position

54. Other information describing capital adequacy and risk position

Risk type	Indicator	2019	2018
Credit risk	LTV-ratio (Loan to Value, average), %	35,3	35,8
Credit risk	Non-performing loans, % of loan portfolio	0,1	0,07
Credit risk	Net impairment losses, EUR million	0,10	0,03
Liquidity risk	Long-term funding out of total funding, %	98,8 %	94,3 %
Liquidity risk	Short-term liquidity, EUR million	537,6	440,3
Liquidity risk	Short-term liquidity, months	38,4	28,3
Liquidity risk	Share of short -term liquidity of the balance sheet total, %	16,7 %	14,2 %
Liquidity risk	Average maturity of liabilities, in years	3,5	3,3
Interest rate risk	Interest rate risk in the banking book, EUR million	-3,9	-1,7
Interest rate risk	Net Present Value risk, EUR million	-4,0	0,9
Risk related to ownership of housing units and residential land	Total amount of housing property holdings of the balance sheet total, %	1,7 %	1,8 %
Risk related to ownership of housing units and residential land	Book values of investement properties, % out of estimated fair values	94,9 %	95,9 %
Risk related to ownership of housing units and residential land	Occupancy rate, %	95,4 %	97,9 %
Risk related to ownership of housing units and residential land	Net profit of investment properties calculates by book value	4,6 %	4,6 %
Risk related to ownership of housing units and residential land	Average monthly rent per square metre in housing units EUR per square meter	19,4	21,0

Risk indicator	Description
LTV-ratio (Loan to Value, average), %	Remaining amount of credit divided by total amount of collaterals allocated to the credit. Only housing collaterlas are taken into account. LTV average is calculated by weighting the loant-to-value ratio of the credit by the remaining amount of credit.
Non-performing lonas, % of loan portfolio	Receivables from the public and public sector entities deemed unlikely to be paid + receivables past due and unpaid over 90 days
Net impairment losses, EUR million	Net amount of final credit losses and impairment loss recognized through profit or loss.
Long-term funding out of total funding, %	Original maturity including a funding of over a year divided by total funding.
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.

Auditor's Report (Translation of the Finnish Original)

To the members of the Mortgage Society of Finland

Report on the Audit of the Financial Statements

Opinion

In our opinion

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

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

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 2019. The financial statements comprise:

- the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and notes to group's financial statements, including a summary of significant accounting policies

- the income statement of parent company, the balance sheet statement of parent company, the cash flow statement of parent company and notes to parent company's financial statements.

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.

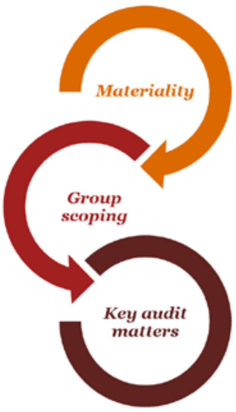
Independence

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 45 to the Financial Statements.

Our Audit Approach

Overview



- Overall group materiality: 4 million euros, which represents 0.12 % of the balance sheet total

- 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	4 million euros (previous year 3 million euros)
How we determined it	0.12% of the balance sheet total
Rationale for the materiality benchmark applied	We chose the balance sheet total as a benchmark, because in our view, it is the appropriate benchmark to assess the group’s performance, and it is a generally accepted benchmark. We chose 0.12%, which 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 31.12.2019 the receivables from the public and public sector entities are 2 586.1 million euros, comprising around 80% of the group balance sheet total (3 230.7 million euros). The Group's lending focuses on loans granted to households (private customers) and housing companies against property collateral. Credit risk is regularly measured in the group using both factors that anticipate credit risks and factors that describe the quality and distribution of the loan portfolio. The group evaluates regularly whether there is objective evidence that a single receivable or a group of receivables is impaired. 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.	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 processes and controls testing was to ascertain that the group evaluates based on the group's principles whether there is objective evidence that a single receivable or a group of receivables is impaired. We also tested individual accounting entries on a sample basis and performed detailed substantive procedures related to the accuracy of the details used in the evaluation of the loan receivables. 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 27 in the consolidated financial statements for the related disclosure

In the group financial statements 31.12.2019 investment properties totalled 61.6 million euros, which is around 2% of the group balance sheet (3 230.7 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 investment properties are exposed to impairment risk. 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 assessed the valuation principles of the investment properties, impairment principles, as well as the valuation model.

We also examined individual accounting entries and performed testing 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 24 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 2 March 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Jukka Paunonen
Authorised Public Accountant (KHT)