



HYPO

THE MORTGAGE SOCIETY OF FINLAND  
ANNUAL REPORT 2021

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# BACK TO DETERMINED AND PROFITABLE GROWTH

The coronavirus pandemic keeps on testing our society. The virus in its different forms has repeatedly hit the foundations of the society, the economy and social networks just when the disease peaks have appeared to be calming down. As I write this, there are once again promises of the crisis to be fading. Things will not return to how they used to be, but we must start finding answers to how they will change. During the ongoing year, it is time to make conclusions on the future.

However, Hypo has been preparing for a new global crisis since the last financial crisis. Therefore, I have been very confident during the whole corona pandemic that we will overcome this challenge as well, at the same time renewing our own operations in a way the operating environment requires. It came true.

Now, in early 2022, we have succeeded in implementing the first parts of the modern core banking system built with TietoEVERY and at the same time we are ending our long-term partnership with Samlink. Hypo's operation has continued safely and without disruptions during the entire corona pandemic and during the renewing of our technology. Targets for income and balance sheet were also achieved as planned.

In addition, most importantly, our customers have shown their continuing and growing faith in us by sending continuously increasing amounts of credit applications. Our customers have applied for collateralized home financing for urban housing needs from us now worth 21 billion euros since the beginning of year 2013. During that time, we have resolved these needs for over 6 billion euros – the three last years being more restrictive because of the ongoing renewal of our technology. In 2022, we will go back to normal meaning determined and profitable growth by taking risks and managing them. We promise to answer to each loan application faster and more tailored than before.

The development of the housing and mortgage markets in the middle of the pandemic reinforces our faith in the strategy chosen by Hypo to focus operating only in the strongest housing markets in the country. Many other operators in the housing and mortgage markets have come to the same conclusion. The long-term

change in the markets has continued despite of the pandemic just as the predictions have shown.

The latest population forecasts reinforced our views on the fact that in the 2040's, there will be only three genuinely growing urban regions left in Finland, being the Helsinki, Tampere and Turku regions. However, it is good to remember that also inside many urban regions there are different kinds of development to be seen: the centers may grow while the surrounding areas lose population. And vice versa. Depending on the time and circumstances.

We follow this individual and different-paced development of municipalities through Hypo Regional Rating, which is updated and published regularly. The Rating offers a clear, contemporary and new way to follow the internal development of Finland to anyone interested in housing markets, considering the global trends and challenges. The Rating looks at the markets through the eyes of a mortgage lender by opening the regional risks and advantages openly and analytically. As geographical regions, we have chosen municipalities.

The Finnish housing finance system and the Finnish housing market are challenged by the strongly dividing and fractioning development. Our country is divided into housing markets that are collateralized or non-collateralized and function with own money or with donated money. This poses brand new challenges for the banks who practice



Photo: Susa Junnola



home financing as well as for other operators in the housing market. The old dividing line of home owning and home renting will come back again. This will happen because these two forms of living are totally different when it comes to financing and risk management.

In home owning, the repayment of the mortgage depends on the salary which is not connected to the collateral. In home renting, the repayment of the investment loan depends on the rental income, which is connected to the collateral and under competition between lessors, as well as the political decisions concerning it. The other is traditional, low risk financing of home owning, as the other is financing the heavily growing housing business with higher risks. The old local bank-like thinking of functioning solely on local deposits and collaterals is not enough in a world of international financial markets and credit ratings. There are many operators in the housing market who will still find this change difficult for many years to come. Not to mention mortgage lenders.

The competition between cities and municipalities for jobs, health care and inhabitants has increased during the corona crisis and will keep on increasing. It would be very welcomed if cities and municipalities could more independently decide how to find their way. The accustomed way of developing whole Finland equally is coming to a dead end. Structural changes are not progressing almost anywhere in the country. The regional structure built during decades has been maintained with debt which will be increased even more than before under the pretext of the corona crisis and the so-called "rebuilding" following it. The growing portion of home rental speaks of growing concentration risks in the housing markets of the city in question. Affordable long-term financing will vote with its feet.

It is clear that the predicted development will influence significantly the housing market and house prices in Finland. In growing number of areas, there are more and more homes which become not valid in the housing collateral market and then in the housing market. This has put nationwide non-urban banks, who have an international credit rating and acquire housing funding from international finance market, to a difficult position. The traditional market share is melting and the competition in the urban bank market is heating significantly while there are new traditional and also brand-new operators entering Finland. The competition in prices and quality toughens every year. The banking technology will divide banks to winners and losers in the 2020's, as the ability to renew technology in practice instead of on paper is the key to success.

It will affect house financing, house production, repair construction, real estate brokerage, real estate investing, real estate managing and maintenance. The nationwide operators are being challenged by the regional fractioning of the markets, as the goals and needs are becoming different. Many will have to renew internally and even to divide due to internal disputes. This can already be seen in the increasing competition between different lobbying organizations, and in the mergers and specialization in the banking industry. I still

predict that in the 2030's there will be only 25 genuinely independent banks instead of the current 250 banks. The suspected cartels in the real estate managing industry and the overreactions in the home rental business tell a contemporary but sad story. In the field of housing, some negative phenomena have developed over the years and one must not be naïve when it comes to them. The protection of consumers and owners must keep up with the development.

The price and availability for financier's own long-term funding have become the key factors. Funding depends more and more on liquid housing collateral which holds its value, as there is no competitive long-term funding without it, nor are the regulatory requirements met. The development is self-reinforcing and typical to all Nordic countries and especially challenging to us Finns, as we are used to local banking funded with deposits, where all the customers are mutually equal in respect of credit availability and terms, among others. Population ages, decreases and lives in a large country built very dispersedly. Billions of marks and euros have been invested into the infrastructure and real estate for decades believing they will hold their value. Now there is no money to even make proper evaluations for the essential repair needs. And the money is needed also in the social and education services, rail investments, not to mention climate goals.

Around the municipal elections there were many political conversations of using the government's support to displace work, cut debts and build new houses to where the population declines. Fear for coronavirus and the admiration of remote work acted as incentives. Country romance exceeded the common sense. Luckily, the common sense and near work seem to be coming back.

The corona years have taught us that households must consider even more carefully where in Finland and how they will live permanently. Work opportunities, functioning health care and functioning housing market at all times, especially in a crisis, are even more important than before. In addition, one must carefully evaluate the housing company before buying a home from it. Is it truly a housing company with owner occupants or practically a rental company with rental apartments? It should also be considered is the building situated on an owned land, indefinite rental land or rental land that can be reclaimed.

The direction of Finland is seen in cities even after the pandemic; our country is urbanizing, not ruralizing. The development should be expected, and people must adapt to it. Hypo has been the only specialized operator in the Finnish housing market and has acted as an awakener for many years. Now the role of the awakener has become very popular. Especially among those who most strongly aim at denying the whole phenomenon.

Too many still seem to be thinking "even more rural and even less urban". One can run from urbanization in the hype of remote work but not hide from it. The price of long-term funding and international credit ratings put it as it is. The whole country only gets funding

thanks to the government and municipalities, that is the taxpayers, but the amount of government and municipality debt is alarmingly high already. The current “keeping the whole country populated” politics is impossible to continue without significantly increasing the taxpayers’ responsibility. This puts enormous pressure on the credit rating of Finland and accordingly to all credit ratings in the financial industry – all this was already seen before the extra debts brought by the coronavirus, which however makes the situation even more difficult. The availability and terms of long-term funding are even more diverged than before and strengthen the polarization of the society.

The speeches of politicians and decision makers are extremely worrying. The necessary structural changes are neglected and turned into debt by one election after another. The common responsibilities of taxpayers are increasing significantly in whole Europe, and especially here in the small declining periphery of the Northeastern Europe. With a credit rating of AA, Finland gets more and more left behind compared to the Nordic and European countries with AAA ratings. The most important question from the point of view of house financing is: Will Finland aim back to AAA league with Germany, Sweden, Denmark and Norway, or will it give in and accept a decline to single A with Iceland? Government rating is the anchor rating for the whole Finnish financial industry and to its customers. It does matter, how the government manages its finances, as the home savers eventually feel it in their wallets. Especially in the times of growing interest and inflation rates.

Hypo has taken this into account in its operations and is ready to face the challenges in its own part. Our loan portfolio is more transparent than our competitors’ and we focus on quality by keeping the quantity always on an adequately high level for international funding markets. Our customer promises “Best from Finland” and “Better living. Safely” guide our operations on both sides of the balance sheet, keeping in mind the continuously strengthening ESG-aspects. During the entire corona crisis, we have been renewing the technology platform of Hypo. The Samlink-platform has been in use for decades and has come to its end. The cooperation with our new long-term strategic partner TietoEVRY has been successful and we are pleased with the chosen technological solution. The technology of the solution was built and adapted in years 2019, 2020 and 2021. Year 2022 is the implementation year of the new technology and in 2023 we will turn our eyes to year 2030. In the second half of year 2022 we will return to a determined growth-path of the business and will begin to expand our products and services in the field of housing and home financing. All this profitably and managing risks and aiming for the jubilee year 2030.

We have shown our ability to renew ourselves in the pressure of the financial crisis and the corona crisis, so I am very confident of facing all challenges of the 2020's. Especially surprising and unpre-

dicted ones. Proven in the past and ongoing crises, our agility and flexibility combined with conservative risk taking has created a very strong position to develop the operations of the Group in all circumstances. Especially in very demanding, surprising and unpredictable situations.

Hypo compares itself with the toughest competitors, that are international listed companies, as it forces our rare company form – the mortgage society – to renew constantly and profitably while managing risks. Hard numbers keep speaking for themselves: over EUR 3.5 billion balance sheet, using standard and basic approaches, RAC (Risk Adjusted Capital) adequacy about 18%, ROE nearly 5% and credit losses still around 0.0%, which is a tough combination even in international comparison. In addition, the soft numbers show a balanced development: Customer and employee satisfaction, internal audit, competence and well-being at work are all on the right track and on a good level despite of very demanding operating environment both internally and externally. Still we aim for the best international level regarding both the hard and soft numbers. As an independent and self-sufficient credit institution specialized in home financing and housing, which bases its operations on the latest technology solution in the industry, created together with a chosen partner.

On behalf of myself and our governing bodies, I thank the personnel of Hypo for a very hard, high-quality and profitable work made for Hypo in the middle of the corona crisis. Our strategically important technology project has demanded a lot from the personnel. Even more because of the corona. We will celebrate face-to-face the jubilee years, defeating the corona, finishing the project and many more special occasions only after the corona crisis is over. There's a lot to catch up there. Well-earned and safely.

We thank our Head of Development Tom Miller, Controller Arttu Mönkkönen, Data Protection Officer Ulla-Maija Niemi and Risk Manager Deni Seitz for their hard work in Hypo and especially with the newly implemented core system solution. We wish them success in future endeavors in the service of TietoEVRY, Nordea, FSG Risk & Compliance and the Finnish Financial Supervisory Authority. All familiar collaborators.

Finally, I wish to thank our many customers, old and new, for a growing interest in the 161-year-old Hypo Group and all its services.

To Better Living. Safely. Also during the corona and especially after it.

In Helsinki, 11 February 2022

**Ari Pauna**  
CEO



Sustainability is one of the biggest trends in recent years both in the financial sector and elsewhere in the society. When speaking of sustainability, the term ESG (Environmental, Social, Governance) is often used; it contains aspects concerning the environment, social responsibility, and good corporate governance. Organisations must consider all three aspects in order to be sustainable operators. ESG is fast integrating into daily life and all business processes of banks. We describe here how sustainability currently shows in Hypo, how ESG regulation is developing, and which aspects of this development are considered especially important regarding our operations.

Sustainability is a natural part of Hypo's operations in many ways. Our main business area is home financing, where we focus in improving the state of home-owning. Our customer promise "Better living. Safely." crystallizes our goal to increase well-being responsibly by taking care of residential property. Our strong specialisation encourages us to participate actively in public conversation concerning housing markets and the economy. Our aim there is to promote best practices and point defects we have observed. Hypo also has developed ways to analyse environmental risks in housing. Our Housing Market Review published in February 2021 introduced our new Hypo Regional Rating, which focuses on regional housing markets from a risk perspective of a mortgage lender. In September 2021 we published an update of the Rating, including for the first time a review of environmental risks related to housing in Finland. The

reviews can be found on Hypo's webpages at <http://www.hypo.fi/tietoa-hyposta/uutishuone/>.

We act responsibly in lending by applying the orders and recommendations of the Finnish Financial Supervisory Authority as well as other regulations and guidelines from the authorities. Environmental goals have also been integrated into lending: Hypo has collaborated for over a decade with the Nordic Investment Bank (NIB) in loan programs directed to environmental investments in residential buildings. The NIB-financing is primarily pointed to repairment projects improving the energy efficiency of housing co-operatives.

As a financial institution, Hypo is regulated by a large amount of obligatory regulation, guidelines and reporting requirements from the authorities. The goal in banking regulation is to secure the functioning ability of banks in all circumstances and make their operations open and transparent to all stakeholders. Contributions to deposit guarantee funds and resolution funds are collected from banks in order to protect the depositors and taxpayers. In financial year 2021, Hypo paid over 2 million euros in these contributions. Applying, following and implementing the regulation is a substantial part of banks' operation these days, and when successful, the bank does not get warnings from the authorities. Hypo has succeeded well in this basic task. In addition, Hypo participates actively in common lobbying work in the financial sector, which focuses strongly on



new banking regulatory projects. ESG is one of the most important current themes also in this field.

Hypo practises social responsibility also as an employer and taxpayer. Well-being of the personnel is actively taken care of by investing in health care services and other benefits, among other things. Employee turnover is small, and Hypo has a lot of long-term, committed personnel. Regularly confirmed principles of personnel management set goals for equality and non-discrimination, which are monitored regularly. In financial year 2021, Hypo paid 7.2 million euros in salaries and 3.3 million euros in pension expenses, other side expenses and taxes. In addition, Hypo makes donations to non-profit organisations, lately for example the Baltic Sea Action Group and Save the Children Finland. In the field of good corporate governance, Hypo applies the governance code of Finnish listed companies in its administration.

Paying attention to sustainability has been voluntary for organisations for a long time, and the practices have been varying. In practice, the criteria for sustainability and ESG have been numerous, and their equivalence has been difficult to estimate. ESG regulation has developed strongly in recent years, and it aims to create a single rule book concerning the ESG criteria. EU Taxonomy Regulation has a key role in this; it sets a single, unanimous criteria for environmentally sustainable economic operations. The taxonomy lays the foundations for sustainability reporting and evaluation in the EU.

The current binding ESG regulation mainly concerns disclosures. In addition to the Taxonomy Regulation, disclosure requirements are set in the Sustainable Finance Disclosure Regulation (SFDR), which concerns sustainability related ESG disclosures in the financial services sector, and in the future Corporate Sustainability Reporting Directive (CSRD), which will significantly expand the scope of sustainability reporting and specify the reporting requirements. For now, Hypo does not have binding ESG disclosure requirements, but we follow the progressing of the CSRD proposal in the EU and its future implementation on national level, as well as the disclosure requirements coming from the changes in capital requirements regulation.

The EU sustainable finance strategy was published in July 2021. The strategy includes a goal to integrate ESG risks in credit ratings and outlooks. Currently, rating agencies publish their own ESG estimates as supplementary information of credit ratings, but they do not yet affect the actual credit ratings. A proposition for EU Green Bond Standard was also published together with the strategy. It is a voluntary classification based on the Taxonomy Regulation and defines the criteria a bond must meet in order to get EuGB label.

The proposition for a new banking package published by the European Commission in October 2021 contains several ESG risk management related aspects. The proposed changes to the Capital Requirements Directive integrate ESG risks in the established risk management framework of banks and obligates the authorities to supervise ESG risk management together with other risk areas. A definition and reporting obligation of ESG risks are proposed to be added to the Capital Requirements Regulation. The current disclosure requirement of ESG information in the Regulation, concerning large banks, is proposed to be expanded in the scope of information and institutions. In addition, the timeline concerning the review made of prudential treatment of exposures related to environmental and social goals is moved by two years to 2023, after which the Commission will make a legal proposition of it.

Hypo follows closely the ESG regulation and prepares to take care of its future responsibilities. In the following years, the ESG criteria will integrate into all processes of the bank. In the point of view of a mortgage lender, especially important aspect is the ESG criteria of residential estates; i.e. how the taxonomy will be applied to residential estates and what kind of practice will develop. In the field of funding, the future EU Green Bond Standard is significant. However, many open issues remain concerning the application of the Taxonomy Regulation, for example the availability of data needed in the taxonomy and the constant renewal of the taxonomy. Both from the lender's and investor's perspectives, it would be important to make sure that the taxonomy is applied consistently through the maturity of a loan or a bond. It is expected that sustainability and the taxonomy will guide to a greater extent the lending, investments and funding of banks.

# HISTORY OF HYPO

The year 2021 was the 161<sup>st</sup> operational year for the Mortgage Society of Finland.

- 21 Dec 1858** The Senate of Finland decides on the proclamation to be made to establish the Mortgage Society of Finland.
- 25 May 1859** His Imperial Majesty's Gracious Proclamation on the terms and general principles of the Mortgage Society of Finland.
- 15 Sep 1859** First general meeting in Helsinki for the establishment of the Mortgage Society of Finland.
- 4–6 Jul 1860** Decision on the establishment of the Mortgage Society of Finland at a general agricultural meeting in Hamina.
- 24 Oct 1860** The Senate ratifies the rules of the Mortgage Society of Finland. Consul **Otto Reinhold Frenckell** serves as the first managing director 1860–1867.
- 2/1862** Lending begins with funds received from the Bank of Finland and the Society's own bonds. Loans are repayable over 55 years in level annuity instalments.
- 1 Feb 1862** First private bond issue in Finland.
- 12/1864** First foreign loan from M.A.V. Rothschild & Söhne, Frankfurt am Main: 3 million Prussian thaler (FIM 8,998,300 after a 19 per cent issue discount).
- 21 Jan 1865** The Finnish mark, markka, is tied to a silver standard backed by a FIM 8 million currency reserve deposited at the Bank of Finland by the Society.
- 1868–1869** Senator Aleksander **August Brunou** serves as managing director.
- 1869–1881** Senator **J.V. Snellman** serves as managing director at a fixed annual salary of FIM 8,000.
- 1881–1884** Senator **Gustav Robert Alfred Charpentier** serves as managing director.
- 1865–1914** Freedom fighter, Lieutenant and Knight of Danneborg **Herman Liikanen** serves the Society as an accountant for nearly 50 years.
- 1884–1905** Senator **Pehr Kasten Samuel Antell** serves as managing director.
- 1890s** Economic growth. The Society's loan portfolio totals FIM 22 million in 1890 and FIM 73 million in 1913.
- 1906–1920** **Ernst Emil Schybergson**, Bachelor of Laws, serves as managing director.
- 1914–1918** First World War. In the 1920s, based on the guarantee of the Grand Duchy of Finland, the Republic of Finland pays off bonds issued before the war as creditors demand payment on four currency-based loans in Swedish krona, the currency least affected by inflation.
- 1913–1917** The Society finances AB Brändö Villastad, the garden suburb of Kulosaari in Helsinki.
- 1920–1928** Senator **August Ramsay** serves as managing director.
- 1927–1979** Suomen Asuntohypoteekkipankki (the Housing Mortgage Bank of Finland). The bank had a market share of 18 per cent in loans made on urban property in the late 1920s. Slightly less than 70 per cent of these loans went to Helsinki. The bank was eventually toppled by foreign exchange losses.
- 1929–1942** **Auli Markkula**, LL.M. (trained on the bench), serves as managing director.
- 1929** The Great Depression.
- 1937** The head office, which now houses the Ministry of Transport and Communications, is taken over by the government as old bonds and the related agricultural loans are assumed by the state.
- 1939–1945** Second World War.
- 1942–1967** **Ilmo Ollinen**, Doctor of Laws, serves as managing director.
- 1945–1959** Post-war period of reconstruction and resettlement. In addition to land loans, government funds are used for loans for housing companies and their owners – that is, home mortgage banking. Kansallis-Osake-Pankki and Pohjoismaiden Yhdyspankki serve as agents, as does Postisäästöpankki later on. Loan portfolio grows slowly. Farm loans from government funds.
- 1960–1980**
- 1967–1976** **Pentti Huhanantti**, LL.M. (trained on the bench), serves as president.
- 1977–1978** **Pentti Linkomo** serves as acting managing director.





- 1979–1987 Osmo Kalliala**, LL.M. (trained on the bench) serves as managing director. Lending expands into home building and apartment purchasing, into housing companies for renovation projects, and into new developments.
- 1987–2001 Risto Piepponen**, LL.M. (trained on the bench), serves as managing director. Lending focuses increasingly on housing companies and rental communities instead of private individuals. A positive net income even during the banking crisis. The euro is adopted. Y2K preparations. Loan portfolio at EUR 280 million. Average number of personnel: 30.
- 2002–2012 Matti Inha**, Bachelor of Laws, honorary financial counsellor, serves as CEO. The decade of “A secure way for for better living”. Under the leadership of Inha, Hypo reawakens and establishes its position as the only bank specialising in housing and home financing in Finland. The Group nearly triples its loan portfolio and balance sheet, to EUR 725 million and EUR 930 million, respectively. AsuntoHypoPankki establishes its position as a Group company and achieves a deposit portfolio of EUR 308 million. The number of customers doubles to approximately 25,000 during Inha’s term, and the Group’s own funds increase to nearly EUR 80 million with capital adequacy remaining strong. All of this was achieved during the worst global financial and government crisis in economic history so far, driven by a staff of less than 30 home financing specialists on average.
- 2013 Ari Pauna**, LL.M., becomes the 15th CEO of Hypo. His first goal is to increase Hypo’s loan portfolio to more than EUR 1 billion in a profitable and risk-conscious manner.
- In 2013, the loan portfolio grew from EUR 725 million to EUR 978 million.
- 2014** The loan portfolio increased to EUR 1.2 billion, and the deposit portfolio grew to EUR 500 million.
- Operating profit EUR 7.5 million. Capital adequacy ratio 15.1 per cent. Non-performing receivables/total lending 0.23 per cent. Personnel 50.
- 2015** Hypo opened its extended street-level banking office in Hypo House. Standard & Poor’s Rating Services issued an international credit rating for Hypo. Hypo’s loan portfolio exceeded EUR 1.4 billion, and its deposits exceeded EUR 1.0 billion.
- 2016** In May Hypo issued its first covered bond totaling EUR 300 million. In December another covered bond was issued with a nominal amount of EUR 100 million.
- Coverd bonds have a credit rating of ‘AAA’ stable assigned by S&P Global Ratings (S&P).
- In November S&P Global Ratings (S&P) affirmed its credit rating ‘BBB/A-3’ with stable outlook to The Mortgage Society of Finland.
- Hypo’s own funds increased to over EUR 100 million.
- The credit portfolio grew to EUR 1.8 billion and the deposits exceeded EUR 1.2 billion.
- 2017** S&P Global Ratings raises Hypo’s short-term counterparty credit rating to ‘A-2’ from ‘A-3’ and affirms the ‘BBB’ long-term rating with stable outlook.
- Hypo’s credit portfolio grew to EUR 2.2 billion and the deposits exceeded EUR 1.5 billion.
- 2018** Hypo launched a new Mobile bank alongside the familiar online bank service. Hypo’s loan book grew to EUR 2.6 billion and deposits to EUR 1.7 billion.
- 2019** Hypo initiated the renewal project of the core banking system. The amount of covered bonds issued grew to EUR 1.3 billion. Hypo’s loan book at the end of the year was EUR 2.6 billion and deposits EUR 1.6 billion.
- 2020** The Mortgage Society of Finland was founded 160 years ago. The amount of covered bonds issued grew to EUR 1.45 billion. Hypo’s loan book at the end of the year was EUR 2.5 billion and deposits EUR 1.6 billion.
- 2021** The Mortgage Society of Finland issued for the first time a covered bond with a tenor of 10 years. Hypo Group focused on the renewal project of the core banking system and the implementation of its first phase. Hypo’s loan book at the end of the year was EUR 2.6 billion and deposits EUR 1.7 billion.

# BOARD OF DIRECTORS' REPORT 2021

## 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 our operations. Over 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 rents out office premises from the property.

The operations of Hypo and AsuntoHypoPankki are supervised by the Finnish 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 (S&P) has assigned a 'BBB/A-2' issuer credit rating with stable outlook to The Mortgage Society of Finland. Rating for the covered bonds of The Mortgage Society of Finland 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 2021

During the financial period, Hypo Group focused on strengthening its core businesses and managing the loan portfolio. The renewal project of the core banking system with TietoEVERY, launched in 2019, has progressed as planned. The first phase of the new solution is expected to be ready for implementation in early 2022. The contract with the current core banking system deliverer, Oy Samlink Ab, will end in April 2022.

In March 2021 Hypo issued a EUR 300 million covered bond with a tenor of 10 years. The proceeds from the bond were used to repay a covered bond that matured in May 2021 and to other funding needs. The outstanding amount of issued covered bonds remained at 1 450 million euros. Hypo also strengthened its funding position by taking part in the TLTRO III operations of the European Central Bank.

During the financial period, Hypo published four housing market reviews and two reviews of the economy. A new mortgage credit rating, Hypo Regional Rating, was introduced in the February 2021 issue of housing market review. The Rating focuses on regional housing market from a risk perspective of a mortgage lender. In September 2021 Hypo published an update of the Rating, including for the first time a review of environmental risks related to living in Finland. All reviews can be found from Hypo's webpages at <http://www.hypo.fi/tietoa-hyposta/ uutishuone/>.

The financial year was marked by COVID-19 pandemic phases. The pandemic and related restrictions have changed multiple times during the financial year. Hypo Group has monitored the situation closely and followed the instructions of the authorities in all its operations. The Group has practised remote working since the beginning of the pandemic and has succeeded in maintaining its ability to function throughout the whole year. Customers have been guided to operate online or by telephone and have been offered moratoria on loan repayments within the normal credit policy. Customer demand for moratoria on loan repayment remained limited.

The pandemic has not had a major effect on credit demand as the number of loan applications remained on a high level during the financial period. The amount of non-performing loans remained on a low level and it is not expected to grow significantly during the next financial period. The Forward Looking Factor (FLF) affecting the amount of Expected Credit Losses (ECL), remained on basic level and no significant changes in ECL levels or increase in provision was made.

Even though the pandemic has not yet had a major effect on the Hypo Group, the Group prepared, in financial year 2020, for future possible effects by making a supplementary provision of 32 thousand euros based on management judgement. The provision is allocated to loans on a certain ECL level and it has been made to cover the general uncertainty concerning the COVID 19 pandemic. The provision remained unchanged during financial year 2021.

## OPERATING ENVIRONMENT

Growth of the global economy continued during the fourth quarter of 2021, albeit disruptions of manufacturing supply chains and the spread of the Omicron variant of the coronavirus caused uncertainty for the near-term growth prospects. Supply restrictions have boosted inflation and delivery times have been prolonged as a consequence of strong consumer demand. Supply bottlenecks are reflected in the global composite output Purchasing Managers' index which tells about uncertainty especially in manufacturing. Differences in the vaccination coverage remain significant between different regions.

Non-financial sector companies' stock prices declined by 1.1% while the bank equity prices of euro area edged up by 0.2% from 9 September to 15 December 2021. The Governing Council of ECB decided to hold the key interest rates unchanged in its meeting in December. The Council permits a step-by-step reduction in the pace of its asset purchases over the coming quarters. The long-term risk-free interest rates hiked significantly towards the end of the year. The Euribor rates remained still low and 12 months Euribor rate was close to -0.5% at the end of the year.

The Finnish working day adjusted change of total output grew more than 4% in the fourth quarter from previous year's

corresponding quarter. The employment situation improved and the number of unemployed was lower than a year ago by 16 000 persons in December. The number was still higher than two years ago by 26 000 persons. Consumer confidence weakened to its lowest level of the year in December.

According to preliminary data, prices of old dwellings went up in more than 3% between October and December from the previous year in the whole country. The corresponding price change was more than 4% in the metropolitan area while in the whole country excluding greater Helsinki prices rose by almost 2%. Home sales volumes were slightly higher and average times to sale fell in the whole country. The housing loan stock growth was 4.1% and the average interest rate on mortgage loans was 0.78% in the end of December.

The number of housing starts of residential buildings went up by more than 6% compared to the previous year between October and December. The year-on-year change in consumer prices was 3.5% in December.

## BALANCE SHEET AND OFF-BALANCE SHEET COMMITMENTS

Most of Hypo's assets are invested in lending, liquidity and investment properties. The balance sheet total was EUR 3,324.8 million (EUR 3,213.1 million) on 31 December 2021. The increase of 3.5% was mainly due to the increase of the loan portfolio. Liquidity investments decreased, but the amount of cash increased. Housing and residential land holdings decreased slightly.

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 amount of total funding increased by 4% totaling EUR 3,132.2 million (EUR 3,012.0 million) on 31 December 2021. The deposits increased by 6% totaling EUR 1,660.3 million (EUR 1,562.2 million) while the amount of debt securities issued remained on the same



level as previous financial year, EUR 1,311.4 million (EUR 1,334.4 million). The share of long-term deposit and other funding remained high and was 45.4% (46.6%) of total funding at the end of the year.

The off-balance sheet commitments amounted to EUR 215.8 million (EUR 163.8 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. The weighted average Loan-to-value (LTV) ratio was 33.1 percent (33.8%). The total amount of non-performing loans remained on a low level, totaling EUR 3.8 million (EUR 2.7 million), representing only 0.14 percent (0.11%) of the total loan portfolio.

At the end of the year, Hypo's loan portfolio stood at EUR 2,637.0 million (EUR 2,510.9 million). Granted but undrawn loans totaled EUR 215.8 million (EUR 161.6 million).

## Liquidity

Group continued to strengthen its liquidity during the financial year. The cash and cash equivalents which totaled EUR 587.9 million (EUR 587.7 million) consisted of assets distributed widely across various counterparties, and of debt securities tradable on the secondary market, of which 100.0% (100.0%) had a credit rating of at least 'AA-' or were of equivalent credit quality and 100.0% (100.0%) were ECB repo eligible. The Liquidity Coverage Ratio (LCR) was 179.9% (194.5%).

The cash and cash equivalents in accordance with the cash flow statement, combined with current account and other binding credit facilities, totaled EUR 590.9 million (EUR 590.7 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 4.7 million (EUR 4.9 million) higher than their book value. Change in fair value was caused by house price increases. Property investments constituted 1.7 percent (1.8 percent) of the balance sheet total, which is clearly less than the 13 percent maximum allowed in the Act on Credit Institutions. Group's housing and residential land holdings were EUR 56.0 million (EUR 58.2 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 4.9 million (EUR 5.1 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 decreased slightly during the financial year mainly due to maturing contracts. The changes in market interest rates cause volatility in the fair value of derivative contracts. On 31 December 2021, the balance sheet value of derivative receivables was EUR 14.3 million (EUR 26.7 million), and that of derivative liabilities was EUR 10.7 million (EUR 7.9 million).

## Deposits

Group's financing position remained stable, and the share of deposit funding of the total funding increased. Deposits

# BOARD OF DIRECTORS' REPORT 2021

increased to EUR 1,660.3 million (EUR 1,562.2 million), representing 53.0 percent (51.9 percent) of total funding. The ratio between deposits and loans was 158.8 percent (160.7 percent).

## Covered bonds and other funding

The outstanding amount of bonds on 31 December 2021 was EUR 1,260.4 million (EUR 1,283.4 million). Certificates of deposits were issued totaling EUR 51.0 million (EUR 51.0 million).

## EQUITY

The changes in equity are presented in more detail in the Financial Statements for 2021 under "Statement of changes in equity between 1 January and 31 December 2021." Equity stood at EUR 143.7 million at the end of the financial year (EUR 136.9 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 13.6% on 31 December 2021 (13.9% on 31 December 2020).

Own funds were EUR 128.3 million (EUR 123.8 million). Minimum CET1 requirement is 11.75 percent. Group's leverage ratio at the end of the year was 3.8% (3.8%).

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

The FIN-FSA has set a discretionary capital add-on of 1.25% (Pillar 2 requirement) to the Mortgage Society of Finland. The requirement is to be met with Common Equity Tier 1 (CET 1) capital. The requirement entered into force on 31 December 2019 and applies indefinitely, but not longer than until 31 December 2022. The decision was made as a normal part of the Group's continuous supervisory report.

The Group's total capital requirement at the end of the financial year was 11.75%, consisting of minimum capital requirement (8%), capital conservation buffer requirement (2.5%), discretionary capital add-on (Pillar 2 requirement) (1.25%) and countercyclical buffer requirements of foreign exposures.

## SUMMARY OF CAPITAL ADEQUACY

€ 1,000	31.12.2021	31.12.2020
Common Equity Tier 1 capital before deductions	143,705.0	136,949.6
Deductions from Common Equity Tier 1 capital	-15,451.5	-13,178.3
Total Common Equity Tier 1 capital (CET1)	128,253.5	123,771.3
Additional Tier 1 capital before deductions	-	-
Deductions from Additional Tier 1 capital	-	-
Total Additional Tier 1 capital (AT1)	-	-
Tier 1 capital (T1 = CET1 + AT1)	128,253.5	123,771.3
Tier 2 capital before deductions	-	-
Deductions from Tier 2 capital	-	-
Total Tier 2 capital (T2)	-	-
Total capital (TC = T1 + T2)	128,253.5	123,771.3
Total risk weighted assets	944,445.6	887,458.6
of which credit risk	881,669.4	840,689.8
of which market risk (foreign exchange risk)	-	-
of which operational risk	43,383.2	39,900.8
of which other risks	19,393.0	6,868.0
CET1 Capital ratio (CET1-%)	13.6	13.9
T1 Capital ratio (T1-%)	13.6	13.9
Total capital ratio (TC-%)	13.6	13.9
Minimum capital	5,000.0	5,000.0

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The Finnish Financial Stability Authority has made a decision on 28 April 2021 of setting a minimum requirement of own funds and eligible liabilities (MREL) as in the act on the Resolution of Credit Institutions and Investment Firms (1194/2014) chapter 8, section 7 for the Mortgage Society of Finland, applying from 1 January 2022. The requirement will consist solely of the loss-absorption amount (LAA) according to the act 1194/2014 chapter 8, section 7, subsection 2, paragraph 1. It can be covered with the same own funds as the capital adequacy requirement and therefore it will not cause any need to increase MREL-eligible funds. During the financial year 2020, the Finnish FSA classified the Mortgage Society of Finland as a small and non-complex institution as defined in the Capital Requirements Regulation (EU) 2019/876 (CRR II) which entered into force on 28 June 2021. The classification enables the Hypo Group to benefit from the simplification of requirements of CRR II (2019/876/EU).

The information required by EU's Capital Requirements Regulation (EU) 575/2013 Part eight (ie. Pillar 3 -information) is published yearly for the most part. The key metrics are published semi-annually. The amending regulation (EU) 2019/876 (ie. CRR II) entered into force on 28 June 2021, connecting the disclosure requirements to the size and complexity of the institution. The Finnish FSA has classified the Mortgage Society of Finland as a small and non-complex institution, for whom the disclosure requirements were simplified in the amendment.

## HYPO GROUP'S RESULT AND PROFITABILITY

Group's operating profit for the financial period 1 January to 31 December 2021 was EUR 8.1 million (EUR 8.0 million for 1 January to 31 December 2020). The income grew by 16% from previous year, but the profitability of core business operations was heaved by the 25% increased expenses. Net interest income grew to EUR 17.3 million (EUR 14.6 million). Income totaled EUR 26.1 million (EUR 22.5 million) and expenses EUR 18.0 million (EUR 14.4 million). Group's cost-to-income ratio was 69.0% (63.9%).

### Income

Net interest income grew to EUR 17.3 million (EUR 14.6 million) due to the growth of other interest income and lower funding costs. Net fee and commission income totaled EUR 4.1 million (EUR 3.7 million). Net income from investment properties (housing units and residential land) amounted to EUR 3.0 million (EUR 3.3 million). Capital gains from the sales of investment properties increased totaling EUR 0.5 million (EUR 0.3 million). Capital gains generated from liquidity in-

vestments and interest rate swaps hedging the portfolio totaled to 1.7 million euros (EUR 1.0 million).

### Expenses

Expenses increased during the financial period, due to the growth of other operating expenses and the conservative expensing without activating the internal expenses of the core banking project. Administrative expenses totaled EUR 13.8 million (10.8 million). Salaries and indirect employee costs increased by 20% from the previous year, constituting 62.7 percent (67.1 percent) of total administrative expenses. Other administrative costs amounted to EUR 5.1 million (EUR 3.5 million).

Other operating expenses grew to EUR 3.4 million (EUR 2.7 million), resulting among others from the growth in various regulatory contribution expenses. The largest single expense item was the yearly contribution to the Single Resolution Fund EUR 1.9 million (EUR 1.7 million) which grew by 11% from the previous year and represented as much as 11% of total expenses.

Depreciation amounted to EUR 0.8 million (EUR 0.9 million) and consisted mainly of items related to start the mortgage banking and other system investments.

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

Net losses from expected credit losses from loans during the financial period totaled EUR 0.04 million (net gains EUR 0.07 million).

### Comprehensive income

Group's comprehensive income was EUR 6.8 million (EUR 7.2 million). Group's profit for the period, net of income taxes for the period was EUR 6.6 million (EUR 6.6 million). Income taxes totaled EUR 1.5 million (EUR 1.5 million). Comprehensive income includes profit for the financial period as well as the change in the fair value reserve EUR -0.4 million (EUR 0.1 million) and the revaluation of defined benefit pension plans EUR 0.6 million (EUR 0.5 million). The change in the fair value reserve was caused by valuation originated 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.



# BOARD OF DIRECTORS' REPORT 2021

## KEY FINANCIAL INDICATORS 2017-2021

Group	IFRS 2017	IFRS 2018	IFRS 2019	IFRS 2020	IFRS 2021
Turnover, EUR million	29.2	29.3	32.8	34.1	36.9
Operating profit/profit before appropriations and taxes, EUR million	6.7	7.2	8.4	8.0	8.1
Operating profit/turnover, %	22.7	24.4	25.7	23.5	22.0
Return on equity (ROE), %	4.9	5.0	5.5	4.9	4.7
Return on assets (ROA), %	0.2	0.2	0.2	0.2	0.2
Equity ratio, %	4.1	3.9	4.0	4.3	4.3
Cost-to-income ratio, %	62.5	60.6	59.6	63.9	69.0
Non-performing loans, % of loan portfolio	0.14	0.07	0.10	0.11	0.14
Loan-to-value ratio (average LTV), %	37.4	35.8	35.3	33.8	33.1
Loans/Deposits, %	143.6	150.7	158.8	160.7	158.8
<b>Indicators set in the EU's Capital Requirements Regulation and in national legislation</b>					
Leverage Ratio, %	3.7	3.5	3.7	3.8	3.8
Common Equity Tier 1 (CET1) ratio, %	12.7	12.1	13.4	13.9	13.6
Capital adequacy, %	12.7	12.1	13.4	13.9	13.6
LCR-ratio, %	147.6	122.6	163.8	194.5	179.9
Pysyvän varainhankinnan vaatimus (NSFR)				107.0	114.1
<b>Other key figures</b>					
Receivables from the public and public sector entities	2,212.6	2,588.9	2,586.1	2,510.9	2,637.0
Deposits (incl. deposits of financial institutions)	1,540.4	1,718.2	1,628.8	1,562.2	1,660.3
Balance sheet total, EUR million	2,792.5	3,113.8	3,230.7	3,213.1	3,324.8
Total Capital, EUR million	106.1	112.3	120.0	123.8	128.3
Common Equity Tier 1 (CET1), EUR million	106.1	112.3	120.0	123.8	128.3
Minimum requirement of Total Capital, EUR million*	87.9	97.2	114.3	104.3	111.0
Average number of personnel	58	53	52	60	56
Salaries and remuneration, EUR million	4.3	4.2	4.6	5.4	6.5

\* 31.12.2021 the total capital adequacy requirement was 11.75%, consisting of minimum capital requirement 8%, capital conservation buffer requirement 2.5% 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.

# BOARD OF DIRECTORS' REPORT 2021

## GROUP'S DEVELOPMENT PER QUARTER

€ 1,000	10-12/2021	7-9/2021	4-6/2021	1-3/2021	10-12/2020
Interest income	7,067.8	6,799.1	7,450.0	6,700.5	6,666.3
Interest expenses	-2,627.4	-2,584.5	-2,855.2	-2,674.5	-2,879.8
<b>NET INTEREST INCOME</b>	<b>4,440.4</b>	<b>4,214.6</b>	<b>4,594.8</b>	<b>4,026.0</b>	<b>3,786.5</b>
Fee income	984.4	924.5	1,354.9	882.7	933.4
Fee expenses	-23.4	-12.0	-20.4	-13.6	-12.6
Net income from currency operations and securities trading					
Net income from securities trading	565.4	419.6	298.8	387.9	361.7
Net income from financial assets at fair value through other comprehensive income	53.1	0.0	0.0	0.0	0.0
Net income from hedge accounting	-77.3	-32.2	12.9	128.4	252.8
Net income from investment properties	766.9	688.1	790.5	761.1	956.5
Other operating income	-2.5	-11.0	-10.2	-5.3	46.2
Administrative expenses					
Personnel expenses					
Salaries and remuneration	-1,919.5	-1,894.4	-1,688.6	-1,651.8	-1,697.6
Indirect personnel expenses					
Pension expenses	-316.8	-255.4	-327.1	-268.6	-273.9
Other indirect personnel expenses	-81.1	-127.0	-66.7	-47.8	-52.8
Other administrative expenses	-2,719.5	-717.7	-749.8	-949.4	-917.1
Total administrative expenses	-5,036.9	-2,994.6	-2,832.3	-2,917.5	-2,941.4
Depreciation and impairment losses on tangible and intangible assets	-186.6	-171.6	-220.2	-217.9	-229.3
Other operating expenses	-558.5	-298.9	-608.1	-1,944.2	-218.7
Net gains/losses on derecognition of financial assets measured at amortised cost	-5.6	-34.9	3.4	0.9	-29.0
<b>OPERATING PROFIT</b>	<b>919.6</b>	<b>2,691.6</b>	<b>3,364.1</b>	<b>1,088.6</b>	<b>2,906.3</b>
Income taxes	-126.5	-468.0	-617.6	-293.5	-497.0
<b>PROFIT FROM OPERATIONS AFTER TAXES</b>	<b>793.1</b>	<b>2,223.6</b>	<b>2,746.5</b>	<b>795.1</b>	<b>2,409.3</b>
<b>PROFIT FOR THE PERIOD</b>	<b>793.1</b>	<b>2,223.6</b>	<b>2,746.5</b>	<b>795.1</b>	<b>2,409.3</b>

## CONSOLIDATED COMPREHENSIVE INCOME STATEMENT, IFRS

€ 1,000	10-12/2021	7-9/2021	4-6/2021	1-3/2021	10-12/2020
Profit for the period	793.1	2,223.6	2,746.5	795.1	2,409.3
Items that may be included in the income statement later					
Change in fair value reserve					
Financial assets at fair value through other comprehensive income	-106.5	-33.1	-78.0	-228.8	52.7
	-106.5	-33.1	-78.0	-228.8	52.7
Items that may not be included in the income statement at a later date					
Revaluation of defined benefit pension plans	225.9	146.5	225.2	45.9	110.1
	225.9	146.5	225.2	45.9	110.1
Total other comprehensive income	119.3	113.4	147.2	-182.9	162.8
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>912.4</b>	<b>2,337.0</b>	<b>2,893.7</b>	<b>612.2</b>	<b>2,572.1</b>

## KEY EVENTS SINCE THE END OF THE FINANCIAL PERIOD

There have been no significant changes in Hypo's or Group's prospects nor financial position since the end of the financial period from 1 January 2021 to 31 December 2021. The first parts of the new core banking system have been successfully implemented in February 2022 and Hypo Group now uses TietoEVERY's BAAS solution. Thus, Samlink banking system is no longer in use.

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

## FUTURE OUTLOOK

The economy and labor market continue grow slowly as the society recovers from the two-year pandemic conditions. However the economic outlook is darkened by the uncertainty due to the armed attack by Russia into Ukraine. Also risks of prolonged and new Covid-19 restrictions, impacts of high inflation as well as worries of central bank actions and future development of interest rates dampen the outlook. Housing markets in the growth centers remain strong even after the coronavirus crisis. Urbanization will even increase due to the strong newbuilding to Helsinki-Tampere-Turku -areas. Low interest rates, institutional investors and subsidized building supports construction activity. Housing sales are supported by increased housing demand from households and housing loan demand remains strong in the growth centers.

Hypo Group focuses on renewal of its core systems and on strengthening its core business and expects the share of profit made by it to rise following the increase of net interest and net fee income. Capital adequacy and liquidity will remain on a strong level.

The operating profit for 2022 is expected to be on the same level or slightly smaller than in 2021. The expectation contains uncertainties due to the development in economy and interest rates as well as the coronavirus pandemic.

## 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 3,220,400.93 of Hypo's result for 2021 (EUR 6,440,801.85) 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 Finnish Financial Supervisory Authority monitors the operations of Hypo and the Group.

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

During the financial year, the average number of permanent employees was 56 (58) and the average number of fixed-term employees was 4 (2). Total of combined person years was 58 (58). At the end of the financial year, permanent employees numbered 55 (57) and the number of fixed-term employees was 8 (3). These figures do not include the CEO and the vice CEO. All employment contracts were full-time contracts.

Two 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, 65 percent work in direct customer service duties and 35 percent in administration. The average age of employees is 46.0 years. At the end of the year, the youngest employee was 27.0 years of age and the oldest was 64.2. The average length of an employment relationship is 7.5 years. Of all employees, 33 percent are men and 67 percent are women. Three of the four members of the Management Group (excl. CEO and the vice CEO) are men and one is a woman. In addition, the secretary to the Management Group is a woman. Of Group's employees, 35 percent hold a higher education degree, 24 percent have graduated from a university of applied sciences (polytechnic) and 42 percent have completed upper secondary education. Of the women employed by Hypo Group, 22 percent hold a higher education degree, 19 percent have graduated from a university of applied sciences (polytechnic) and 59 percent have completed upper secondary education. For the men, the proportions are 61 percent, 33 percent and 6 percent, respectively. The above-mentioned figures do not include temporary staff, the CEO or the vice CEO.



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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 vice 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 regarding 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 are

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 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 2 employees in total. Through Department M, the pension foundation covers a total of 82 people.

## INFORMATION CONCERNING GROUP'S RISK MANAGEMENT

### RISK MANAGEMENT

Group manages risks in accordance with confirmed principles and practices which cover all its operations. Parent company The Mortgage Society of Finland and subsidiary Suomen AsuntoHypoPankki manage their risks according to the Group's principles and practices and as a part of Group's risk management.

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](http://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 minimum amount of Group's own funds allocated to the credit risk and to the counterparty credit risk is calculated using the standard method. The minimum amount of Group's own funds allocated to the operational risk is calculated using the basic method.

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

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 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 regularly in 2021.

## 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.

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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. Considering 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, 50–80 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 2021 but still remained on an excellent level compared to the industry average. A forbearance is a credit whose payment scheme or terms have been temporary modified with e.g. amortization-free periods (primary method), lengthening of the loan maturity, or other arrangement, due to the debtor's existing or anticipated financial difficulties.

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

## Liquidity investments and derivatives

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

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

## Other credit risk counterparties

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

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

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

## Use of external credit rating agencies

In capital adequacy calculation the following credit rating agencies 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 and the counterparty risk related to derivative contracts is calculated using the standard method in accordance with capital adequacy regulations. 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, (EU 575/2013, Article 94,5 per cent of total assets and EUR 50 million 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.

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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. Risks associated with the renewal of the core banking system have been considered as part of strategic risks in the capital adequacy assessment process of the Group.

## 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, regular stress testing is performed considering among others a potential bank run on sight deposits and wider disfunctioning of the finance market. The survival period in the stress scenario has been limited with a minimum level and a monitoring limit.

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

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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.



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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.

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## OTHER INFORMATION DESCRIBING CAPITAL ADEQUACY AND RISK POSITION

Risk type	Indicator	2021	2020
Credit risk	LTV-ratio (Loan to Value, average), %	33.1	33.8
Credit risk	Non-performing loans, % of loan portfolio	0.14	0.11
Credit risk	Net impairment losses, EUR million	-0.04	-0.07
Liquidity risk	Long-term funding out of total funding, %	45.4	46.6
Liquidity risk	Deposits out of total funding, %	53.0	51.9
Liquidity risk	Average maturity of liabilities, in years	3.8	2.7
Liquidity risk	LCR-ratio, %	179.9	194.5
Liquidity risk	Short-term liquidity, EUR million	590.9	590.7
Liquidity risk	Short-term liquidity, months	29.4	26.4
Liquidity risk	Share of short-term liquidity of the balance sheet total, %	17.8	18.4
Interest rate risk	Interest rate risk in the banking book, EUR million	-5.6	-5.1
Interest rate risk	Net Present Value risk, EUR million	0.8	-3.2
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 investment properties, % out of estimated fair values	92.2	92.1
Risk related to ownership of housing units and residential land	Occupancy rate, %	95.2	96.1
Risk related to ownership of housing units and residential land	Net profit of investment properties calculates by book value	5.1	5.0

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 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, and subordinated liabilities. 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 (divided 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 parallelly 1% on the reporting date
Present value risk, EUR million	Change in present value of banking book if interest rates increase parallelly 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

# BOARD OF DIRECTORS' REPORT 2021

## 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.

	<b>Turnover</b>	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	
	<b>Operating profit/profit before appropriations and taxes, EUR million</b>	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)	
	<b>Operating profit/Turnover, %</b>	$\frac{\text{Operating profit}}{\text{Turnover}} \times 100$	x 100
	<b>Return on equity % (ROE)</b>	$\frac{\text{Operating profit - income taxes}}{\text{Equity + accumulated appropriations less deferred tax liabilities (average total at the beginning and end of the year)}} \times 100$	x 100
	<b>Return on assets % (ROA)</b>	$\frac{\text{Operating profit - income taxes}}{\text{Average balance sheet total (average total at the beginning and end of the year)}} \times 100$	x 100
	<b>Equity ratio, %</b>	$\frac{\text{Equity + accumulated appropriations less deferred tax liabilities}}{\text{Balance sheet total}} \times 100$	x 100
	<b>Cost-to-income ratio, %</b>	$\frac{\text{Administrative expenses + depreciation and impairment losses on tangible and intangible assets + other operating expenses}}{\text{Net interest income + income from equity investments + net fee and commission income + net income from currency operations and securities trading + net income from available-for-sale financial assets + net income from hedge accounting + net income from investment properties + other operating income}} \times 100$	x 100
	<b>LTV-ratio (Loan to Value, Weighted average), %</b>	$\frac{\text{Receivables from the public and public sector entities}}{\text{Fair value of collateral received against the receivables from the public and public sector entities}} \times 100$ Loan-to-value ratio is calculated by dividing the outstanding loan balance with the fair value of the total amount of the collaterals allocated to the loan. Only housing and residential property collaterals are taken into account. The average LTV ratio is the weighted average of individual loan-to-value ratios.	x 100
	<b>Loans/deposits, %</b>	$\frac{\text{Receivables from the public and public sector entities}}{\text{Deposits}} \times 100$	x 100
	<b>Deposits out of total funding, %</b>	$\frac{\text{Deposits}}{\text{Total funding}} \times 100$ Total funding includes liabilities to credit institutions, liabilities to the public and public sector entities, debt securities issued to the public as well as subordinated liabilities.	x 100
	<b>Long-term funding out of total funding, %</b>	$\frac{\text{Total funding with a remaining maturity of 12 months}}{\text{Total funding}} \times 100$ Total funding includes liabilities to credit institutions, liabilities to the public and public sector entities, debt securities issued to the public as well as subordinated liabilities.	x 100
	<b>Average number of personnel</b>	Number of personnel includes those in employment relationship during the financial year (excl. The CEO and the vice 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.	
	<b>Salaries and remuneration, EUR million</b>	Total of personnel's salaries and remuneration	

# BOARD OF DIRECTORS' REPORT 2021

## DESCRIPTION OF ALTERNATIVE PERFORMANCE MEASURES:

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

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

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

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

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

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

**Deposits out of total funding, %** indicator describes the structure of funding.

**Long-term funding out of total funding, %** the ratio describes the structural funding risk of a credit institution. Long-term funding extends the planning and implementation horizon of the credit institution's funding therefore reducing the risk of having to raise funds under disadvantageous market conditions.

**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 (EU 575/2013):

<b>Non-performing assets, % of the loan portfolio</b>	Receivables from the public and public sector entities deemed unlikely to be paid + receivables past due and unpaid over 90 days	x 100
	Receivables from the public and public sector entities	
<b>LCR-ratio, %</b>	Liquid assets	x 100
	Outflow of liquidity – Inflow of liquidity (within 30 days)	
<b>NSFR-ratio, %</b>	Available stable funding	x 100
	Required stable funding	
<b>Leverage Ratio, %</b>	Tier 1 Capital	x 100
	Total exposure	
<b>Common Equity Tier 1 (CET1) ratio, %</b>	Common Equity Tier 1, CET1	x 100
	Total risk	
	The capital requirement for total risk is calculated using the standard method. The capital requirement for operational risk is calculated using the basic method.	

Key financial indicators are calculated in accordance with the EU's Capital Requirement Regulation CRR (EU 575/2013).



# FINANCIAL STATEMENTS 2021

## CONSOLIDATED INCOME STATEMENT, IFRS

€ 1,000	Note	1.1.-31.12.2021	1.1.-31.12.2020
Interest income	1, 3	28,017.3	26,146.7
Interest expenses	1, 3	-10,741.6	-11,584.3
<b>NET INTEREST INCOME</b>		<b>17,275.7</b>	<b>14,562.4</b>
Fee and commission income	2, 3	4,146.5	3,727.5
Fee and commission expenses	2	-69.4	-52.1
Net income from securities and foreign currency transactions			
Net income from securities trading	4	1,671.7	754.4
Net income from financial assets at fair value through other comprehensive income	5	53.1	207.6
Net income from hedge accounting	6	31.8	-47.7
Net income from investment properties	7	3,006.6	3,322.4
Other operating income	8	-29.0	-0.7
Administrative expenses			
Personnel costs			
Wages and salaries		-7,154.3	-6,028.5
Other personnel related costs			
Pension costs		-1,167.9	-1,010.7
Other personnel related costs		-322.7	-178.6
Other administrative expenses		-5,136.4	-3,535.2
Total administrative expenses		-13,781.3	-10,753.0
Depreciation and impairment losses on tangible and intangible assets	10	-796.3	-893.7
Other operating expenses	9	-3,409.6	-2,715.8
Net gains/losses on derecognition of financial assets measured at amortised cost	11	-36.1	-67.0
<b>OPERATING PROFIT</b>		<b>8,063.9</b>	<b>8,044.4</b>
Income taxes	12	-1,505.6	-1,462.6
<b>PROFIT FROM OPERATIONS AFTER TAXES</b>		<b>6,558.3</b>	<b>6,581.8</b>
<b>PROFIT FOR THE PERIOD</b>		<b>6,558.3</b>	<b>6,581.8</b>

## CONSOLIDATED COMPREHENSIVE INCOME STATEMENT, IFRS

€ 1,000	1.1.-31.12.2021	1.1.-31.12.2020
Profit for the period	6,558.3	6,581.8
Other comprehensive income		
Items that may in the future be recognized through profit or loss		
Change in fair value reserve		
Financial assets at fair value through other comprehensive income	-446.4	116.1
	-446.4	116.1
Items that may not be included in the income statement at a later date		
Revaluation of defined benefit pension plans	643.5	489.4
	643.5	489.4
Total other comprehensive income	197.0	605.5
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>6,755.4</b>	<b>7,187.3</b>

# FINANCIAL STATEMENTS 2021

## CONSOLIDATED BALANCE SHEET, IFRS

€ 1,000	Note	31.12.2021	31.12.2020
<b>ASSETS</b>			
Cash	14, 15, 38	388,200.0	359,150.0
Debt securities eligible for refinancing with central banks			
Other	15, 18, 19, 36, 38, 57, 58, 59	191,526.2	219,333.5
		191,526.2	219,333.5
Receivables from credit institutions			
Payable on demand	15, 16, 36, 38	8,148.1	9,182.5
Other	15, 16, 36, 38	47.3	1,775.9
		8,195.5	10,958.4
Receivables from the public and public sector entities			
Other than those payable on demand	17, 36, 38, 54, 55, 57, 58, 59	2,636,986.1	2,510,909.8
Shares and holdings	20, 38	23.9	132.4
Derivative contracts	21-25, 38, 39	14,250.5	26,731.9
Intangible assets	26, 28	9,173.9	6,840.2
Tangible assets			
Investment properties and shares and holdings in investment properties	27, 28	55,410.4	57,569.4
Other properties and shares and holdings in housing property corporations	27, 28	630.0	637.3
Other tangible assets	28	516.1	463.3
		56,556.4	58,670.0
Other assets	29	17,227.3	13,637.0
Deferred income and advances paid	30	2,692.9	6,719.4
Deferred tax receivables	31	6.3	0.0
<b>TOTAL ASSETS</b>		<b>3,324,838.8</b>	<b>3,213,082.5</b>

# FINANCIAL STATEMENTS 2021

## CONSOLIDATED BALANCE SHEET, IFRS

€ 1,000	Note	31.12.2021	31.12.2020
<b>LIABILITIES</b>			
LIABILITIES			
Liabilities to credit institutions			
To central banks	36, 38	150,000.0	100,000.0
To credit institutions			
Other than those payable on demand	36, 38	1,110.9	3,331.7
		151,110.9	103,331.7
Liabilities to the public and public sector entities			
Deposits			
Payable on demand	36, 38	940,016.3	872,258.3
Other than those payable on demand	36, 38	720,271.6	689,976.1
		1,660,288.0	1,562,234.4
Other liabilities			
Other than those payable on demand	36, 38	9,447.1	11,970.6
		1,669,735.0	1,574,205.0
Debt securities issued to the public			
Bonds	32, 36, 38	1,260,394.3	1,283,448.5
Other	32, 36, 38	50,994.8	50,987.8
		1,311,389.0	1,334,436.2
Derivative contracts	21-25, 38, 39	10,680.7	7,944.3
Other liabilities			
Other liabilities	33	23,339.5	39,410.2
Deferred expenses and advances received	34	5,166.5	6,937.3
Deferred tax liabilities	31	9,712.3	9,868.0
<b>EQUITY</b>			
Basic capital	40	5,000.0	5,000.0
Other restricted reserves			
Reserve fund		31,316.9	28,893.0
Fair value reserve			
From valuation at fair value		424.7	871.1
Defined benefit pension plans			
Actuarial gains/losses		3,972.4	3,329.0
Unrestricted reserves			
Other reserves		22,923.5	22,923.5
Retained earnings		73,509.2	69,351.2
Profit for the period		6,558.3	6,581.8
		143,705.0	136,949.6
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3,324,838.8</b>	<b>3,213,082.5</b>

# FINANCIAL STATEMENTS 2021

## STATEMENT OF CHANGES IN EQUITY

€ 1,000	Basic capital	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
<b>Equity 1 Jan 2020</b>	<b>5,000.0</b>	<b>25,490.5</b>	<b>3,594.5</b>	<b>22,923.5</b>	<b>72,753.8</b>	<b>129,762.3</b>
Profit for the period					6,581.8	6,581.8
Other comprehensive income						
Distribution of profits		3,402.5			-3,402.5	0.0
Financial assets at fair value through other comprehensive income						
Change in fair value			352.8			352.8
Amount transferred to the income statement			-207.68			-207.6
Change in deferred taxes			-29.08			-29.0
Defined benefit pension plans						
Actuarial gains/losses			611.78			611.7
Change in deferred taxes			-122.38			-122.3
Total other comprehensive income	0.0	3,402.5	605.5	0.0	-3,402.5	605.5
<b>Equity 31 Dec 2020</b>	<b>5,000.0</b>	<b>28,893.0</b>	<b>4,200.0</b>	<b>22,923.5</b>	<b>75,933.1</b>	<b>136,949.6</b>

  

€ 1,000	Basic capital	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
<b>Equity 1 Jan 2021</b>	<b>5,000.0</b>	<b>28,893.0</b>	<b>4,200.0</b>	<b>22,923.5</b>	<b>75,933.1</b>	<b>136,949.6</b>
Profit for the period					6,558.3	6,558.3
Other comprehensive income						
Distribution of profits		2,423.8			-2,423.8	0.0
Financial assets at fair value through other comprehensive income						
Change in fair value			-504.9			-504.9
Amount transferred to the income statement			-53.1			-53.1
Change in deferred taxes			111.6			111.6
Defined benefit pension plans						
Actuarial gains/losses			804.3			804.3
Change in deferred taxes			-160.9			-160.9
Total other comprehensive income	0.0	2,423.8	197.0	0.0	-2,423.8	197.0
<b>Equity 31 Dec 2021</b>	<b>5,000.0</b>	<b>31,316.9</b>	<b>4,397.1</b>	<b>22,923.5</b>	<b>80,067.5</b>	<b>143,705.0</b>

Since the end of the financial period of 1 January–31 December 2021, there have not been any significant changes in the outlook or financial standing of the Mortgage Society of Finland or its Group. After the financial year, neither Hypo nor Group companies have been involved in administrative or legal proceedings, arbitrations or other events that would have had a material effect on Hypo's financial position. Furthermore, Hypo is not aware of such proceedings or events being under consideration or being otherwise threatened.

According to section 26 of the rules of the Mortgage Society of Finland, at least 80 percent of annual profits must be transferred to a contingency fund or a reserve fund if the ratio between equity and risk-adjusted commitments (capital adequacy ratio) is less than 8 percent. If the capital adequacy ratio is at least 8 percent but less than 9 percent, at least 70 percent of annual profits must be transferred to a contingency or reserve fund. If the ratio is at least 9 percent, at least 50 percent of annual profits must be transferred to a contingency or reserve fund. The Board of Directors proposes that EUR 3 220 400,93 of Hypo's result for 2021 (EUR 6 440 801,85) be transferred to the reserve fund and the rest remain unused.



# FINANCIAL STATEMENTS 2021

## CONSOLIDATED CASH FLOW STATEMENT

€ 1,000	1.1.-31.12.2021	1.1.-31.12.2020
<b>Cash flow from operating activities</b>		
Interest received	32,122.9	27,302.2
Interest paid	-13,433.0	-11,996.9
Fee income	3,997.2	3,823.3
Fee expenses	-69.4	-52.1
Net income from currency operations and securities trading	1,671.7	754.4
Net income from financial assets at fair value through other comprehensive income	53.1	207.6
Net income from hedge accounting	31.8	-47.7
Net income from investment properties	2,881.1	3,706.5
Other operating income	-29.0	-0.7
Administrative expenses	-13,671.1	-8,445.2
Other operating expenses	-3,442.2	-2,735.0
Credit and guarantee losses	-36.0	-67.3
Income taxes	-1,744.6	-1,890.7
<b>Total net cash flow from operating activities</b>	<b>8,332.6</b>	<b>10,558.3</b>
<b>Operating assets increase (-) / decrease (+)</b>		
Receivables from customers (lending)	-126,362.4	73,653.3
Cash collaterals, derivatives	-18,004.8	5,844.1
Investment properties	2,207.2	3,870.5
<b>Operating assets increase (-) / decrease (+) total</b>	<b>-142,160.0</b>	<b>83,367.8</b>
<b>Operating liabilities increase (+) / decrease (-)</b>		
Liabilities to the public and public sector entities (deposits)	98,053.6	-66,558.8
<b>Operating liabilities increase (+) / decrease (-) total</b>	<b>98,053.6</b>	<b>-66,558.8</b>
<b>NET CASH FLOWS ACCRUED FROM OPERATING ACTIVITIES</b>	<b>-35,773.9</b>	<b>27,367.4</b>
<b>Cash flows from investments</b>		
Change in fixed assets	-3,175.4	-4,311.0
Equity investments increase (-) / decrease (+)	108.5	0.0
<b>NET CASH FLOWS ACCRUED FROM INVESTMENTS</b>	<b>-3,066.9</b>	<b>-4,311.0</b>
<b>Cash flows from financing</b>		
Bank loans, new withdrawals	50,015.6	100,034.0
Bank loans, repayments	-2,236.5	-83,031.5
Other liabilities increase (+) / decrease (-)	-2,629.0	-2,382.2
Bonds, new issues	19,176.2	8,576.4
Bonds, repayments	-27,012.7	-7,380.0
Certificates of deposit, new issues	103,071.0	179,664.8
Certificates of deposit, repayments	-103,064.0	-165,160.2
<b>NET CASH FLOWS ACCRUED FROM FINANCING</b>	<b>37,320.6</b>	<b>30,321.4</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>-1,520.2</b>	<b>53,377.7</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>589,441.9</b>	<b>536,064.1</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>587,921.7</b>	<b>589,441.9</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>-1,520.2</b>	<b>53,377.7</b>

## 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 2022, the Board of Directors approved the Financial Statements Release 1.1 - 31.12.2021 to be published on 1 February 2022 and on 25 February 2022, the presentation of this Financial Statements to the Auditor and to the Supervisory Board for verification. The Supervisory Board meeting was held on 28 February 2022. Financial Statements is presented for confirmation to the Annual General Meeting of the Mortgage Society of Finland, which will be held on 22 March 2022.

### 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 and the counterparty credit risk is calculated using the standard method. The capital requirement for operational risk is calculated using the basic method. Disclosures required under the EU Capital Requirements Regulation Part Eight are published as a separate document at the same time with the annual report. The document contains partly disclosed information required from a large subsidiary, AsuntoHypoPankki.

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 presented in thousands of 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 2020. Amendments to existing standards during the financial year 1.1.-31.12.2021 did not have a significant effect on the financial statements of the Group.

ESEF (European Single Electronic Format): Hypo Group will publish its Financial Statements 2021 for the first time in ESEF format.

Other 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: Future amendments to standards are not expected to have substantial influence on the financial statements of the Group.

## CHANGES IN ACCOUNTING POLICIES

In preparing these financial statements, The Group has followed the same accounting policies as in the Annual Financial statements for 2020.

## 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 amor-

tized 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 finan-

cial 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 through other comprehensive 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 8EU 575/2013), CRR article 47a. 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 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 (EU 575/2013), 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 collateral-

ization, 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. Derivatives with positive fair value according to netting sets, including interest, are recognised as assets in the balance sheet in the item derivatives. Derivatives with negative fair value according to netting sets, including interest, are recognised as liabilities in the balance sheet in the item derivatives. Interest income and interest expenses from interest rate derivatives are recognized at contract level net amounts in interest expenses or interest income.

### 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 derivative 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 derivative 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 prop-

erties". 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.

## 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 2-5 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.

## IFRS 16 LEASES

Hypo Group began to apply IFRS 16 as of 1 January 2019. Hypo Group uses the simplified retrospective approach.

### 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 in cash flows from operating activities and a decline in cash flows from financing activities.

### Hypo Group as lessor

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

# FINANCIAL STATEMENTS 2021

## NOTES TO THE CONSOLIDATED INCOME STATEMENT

€ 1,000, unless otherwise indicated.

<b>1. BREAKDOWN OF INTEREST INCOME AND EXPENSES BY BALANCE SHEET ITEM</b>	<b>2021</b>	<b>2020</b>
Receivables valued at amortized cost		
Receivables from the public and public sector entities	16,978.3	17,851.9
Total	16,978.3	17,851.9
Debt securities, financial assets at fair value through other comprehensive income	19.8	72.2
Derivative contracts	9,551.5	7,201.7
Negative interest expenses of financial liabilities	1,158.2	508.3
Other interest income	309.5	512.7
Total interest income	28,017.3	26,146.7
Liabilities valued at amortized cost		
Liabilities to credit institutions	-22.5	-38.1
Liabilities to the public and public sector entities	-1,722.6	-2,525.2
Debt securities issued to the public	-5,546.5	-5,980.7
Total	-7,291.6	-8,544.0
Derivative contracts	-1,901.7	-1,919.7
Negative interest income of cash and cash equivalents	-1,528.0	-1,109.2
Other interest expenses	-20.3	-11.4
Total interest expenses	-10,741.6	-11,584.3

<b>2. FEE INCOME AND EXPENSE</b>	<b>2021</b>	<b>2020</b>
From lending and deposits	999.1	1,014.8
From legal assignments	985.1	841.3
From residential property trustee service	1,794.4	1,420.7
From other operations	368.0	450.6
Total fee income	4,146.5	3,727.5
Other fee expenses	-69.4	-52.1
Total fee expenses	-69.4	-52.1

<b>3. INCOME DISTRIBUTION</b>	<b>10-12/2021</b>	<b>10-12/2020</b>	<b>1-12/2021</b>	<b>1-12/2020</b>
<b>Group's total income</b>				
Interest income	7,067.8	6,666.3	28,017.3	26,146.7
Interest expense	-2,627.4	-2,879.8	-10,741.6	-11,584.3
Net interest income	4,440.4	3,786.5	17,275.7	14,562.4
Net fee income				
from lending operations	471.3	442.4	1,923.6	1,837.2
from land trustee services	384.2	424.7	1,784.3	1,409.7
from other operations	105.5	53.6	369.2	428.5
Total net fee income	961.0	920.8	4,077.1	3,675.4
Net income from treasury operations	541.2	614.6	1,756.7	914.3
Net income from investment properties	682.7	825.0	2,518.7	2,999.9
Capital gains on investment properties	84.2	131.5	487.9	322.5
Other income	-2.5	46.2	-29.0	-0.7
Non-interest income	1,305.6	1,617.4	4,734.3	4,236.0
Total income	6,707.0	6,324.8	26,087.1	22,473.8

# FINANCIAL STATEMENTS 2021

## NOTES TO THE CONSOLIDATED INCOME STATEMENT

<b>4. NET INCOME FROM CURRENCY OPERATIONS AND SECURITIES TRADING</b>	<b>2021</b>	<b>2020</b>
Gains and losses from disposals of financial instruments (net)		
Net income arising from items recognized based on the fair value option	858.4	2,232.6
Non-hedging derivative contracts	-820.6	-1,607.6
Gains and losses arising from measurement at fair value (net)		
Net income arising from items recognized based on the fair value option	-2,401.2	273.7
Non-hedging derivative contracts	4,035.2	-144.3
Net income from securities trading	1,671.7	754.4
Total net income from currency operations and securities trading	1,671.7	754.4

<b>5. NET INCOME FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME</b>	<b>2021</b>	<b>2020</b>
Net income from financial assets at fair value through other comprehensive income		
Capital gains from debt securities	53.1	207.6
Total	53.1	207.6

<b>6. NET INCOME FROM HEDGE ACCOUNTING</b>	<b>2021</b>	<b>2020</b>
Change in fair value, hedging items	20,710.8	-7,116.2
Change in fair value, hedging instruments	-20,679.0	7,068.5
Total	31.8	-47.7

<b>7. NET INCOME FROM INVESTMENT PROPERTIES</b>	<b>2021</b>	<b>2020</b>
Rental income	2,256.2	2,402.2
Capital gains (losses)	487.9	322.5
Other income	1,334.1	1,259.7
Maintenance charges and other maintenance costs paid		
From investment properties that have accrued rental income during the period	-612.1	-558.4
Other expenses	-51.2	-42.1
Impairment losses	-346.7	0.0
Depreciation according to plan	-61.5	-61.5
Total	3,006.6	3,322.4

<b>8. OTHER OPERATING INCOME</b>	<b>2021</b>	<b>2020</b>
Rental income, property assets in own use	15.4	15.0
Other income	-44.4	-15.7
Total	-29.0	-0.7

<b>9. OTHER OPERATING EXPENSES</b>	<b>2021</b>	<b>2020</b>
Rental expenses	-19.4	-7.2
Expenses from properties in own use	-50.6	-40.5
Other expenses	-3,339.6	-2,668.0
Total	-3,409.6	-2,715.8

Contribution of EUR 1.890,5 (EUR 1.698,7) to Financial Stability Authority are included in Other expenses.

<b>10. DEPRECIATION AND IMPAIRMENT LOSSES ON TANGIBLE AND INTANGIBLE ASSETS</b>	<b>2021</b>	<b>2020</b>
Depreciation according to plan	-796.3	-893.7

# FINANCIAL STATEMENTS 2021

## NOTES TO THE CONSOLIDATED INCOME STATEMENT

### 11. EXPECTED CREDIT LOSSES / IMPAIRMENT LOSSES ON LOANS AND OTHER COMMITMENTS AND OTHER FINANCIAL ASSETS

	2021	2020
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	118.0	-67.5
Final credit losses	-205.1	
Loan loss recoveries	51.1	0.2
Off-balance sheet commitments, granted but unclaimed loans		
Expected credit losses, net change	0.1	0.4
Total	-36.1	-67.0

### 12. INCOME TAXES

	2021	2020
Breakdown of taxes in the income statement		
Tax expense based on taxable income for the financial period	-1,717.8	-1,475.2
Change in deferred taxes	211.2	12.6
Taxes from previous periods	1.0	0.0
<b>Taxes in the income statement</b>	<b>-1,505.6</b>	<b>-1,462.6</b>
Reconciliation of taxes		
Profit before taxes	8,063.9	8,044.4
Tax-free income	-570.5	-649.4
Non-deductible expenses	-0.5	8.5
Recognition of previously unrecorded tax losses	40.0	-90.6
<b>Total</b>	<b>7,532.9</b>	<b>7,313.0</b>
Taxes calculated using the tax rate of 20 %	-1,506.6	-1,462.6
Taxes from previous periods	1.0	0.0
<b>Taxes in the income statement</b>	<b>-1,505.6</b>	<b>-1,462.6</b>

### 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 of lending and deposits and other housing products and services. Lending and deposits, including other housing products and services, are considered to constitute one business area due to the special characteristics of Hypo's customers and products (partial ownership, reverse mortgages, residential property trustee service). Residential property trustee service covers, among other things, legal and administrative assignments related to the sale and rental of land. Group's operating area is Finland. Other operations mainly consist of marketing and sales operations for MasterCard charge cards issued by card partners (card operations are ending and new cards are no longer issued) and services provided to a company outside Group.

2021	Combined amount of income	Operating profit	Total assets	Total liabilities	Personnel
Lending and deposits and other housing products and services	25,842.7	7,782.7	3,324,763.8	3,181,133.8	56
Other operations	313.8	281.1	75.0	0.0	
	26,156.5	8,063.9	3,324,838.8	3,181,133.8	56
2020	Combined amount of income	Operating profit	Total assets	Total liabilities	Personnel
Lending and deposits and other housing products and services	21,660.0	7,683.6	3,212,866.3	3,076,113.5	60
Other operations	393.5	360.8	216.2	19.4	
	22,053.6	8,044.4	3,213,082.5	3,076,132.9	60

# FINANCIAL STATEMENTS 2021

## NOTES TO THE CONSOLIDATED BALANCE SHEET

14. LIQUID ASSETS	2021	2020
Cash	500.0	500.0
Receivables from central bank	387,700.0	358,650.0
	388,200.0	359,150.0

15. CASH AND CASH EQUIVALENTS AND NET DEBT IN THE CASH FLOW STATEMENT	2021 book value	2020 book value
Liquid assets	388,200.0	359,150.0
Debt securities eligible for refinancing with central banks	191,526.2	219,333.5
Receivables from credit institutions	8,195.5	10,958.4
	587,921.7	589,441.9

Net debt	2021	2020
Cash and cash equivalents	587,921.7	589,441.9
Funding, repayable within one year	-50,994.8	-50,987.8
Funding, repayable after one year	-1,418,126.4	-1,380,812.8
<b>Net debt</b>	<b>-881,199.5</b>	<b>-842,358.7</b>
Cash and cash equivalents	587,921.7	589,441.9
Funding, fixed rate	-50,994.8	-50,987.8
Funding, floating rate	-1,418,126.4	-1,380,812.8
<b>Net debt</b>	<b>-881,199.5</b>	<b>-842,358.7</b>

	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
<b>Net debt 2021</b>							
<b>Net debt 1.1.2021</b>	359,150.0	219,333.5		10,958.4	-50,987.8	-1,380,812.8	-842,358.7
Cash flows	29,050.0	-28,825.5		-2,762.9	-3.9	-37,313.6	-39,856.0
Other non-cash movements		1,018.2			-3.1		1,015.1
<b>Net debt 31.12.2021</b>	388,200.0	191,526.2	0.0	8,195.5	-50,994.8	-1,418,126.4	-881,199.5

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

	Cash and cash equivalents				Funding		
	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
<b>Net debt 2020</b>							
<b>Net debt 1.1.2020</b>	244,100.0	267,107.0	15,006.4	9,850.7	-36,483.2	-1,364,996.0	-865,415.1
Cash flows	115,050.0	-48,791.7	-15,008.9	1,107.7	-14,488.8	-14,699.9	23,168.3
Other non-cash movements		1,018.2	-2.5		-15.8	-1,116.9	-117.0
<b>Net debt 31.12.2020</b>	359,150.0	219,333.5	0.0	10,958.4	-50,987.8	-1,380,812.8	-842,363.7

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).

	2021			2020		
16. RECEIVABLES FROM CREDIT INSTITUTIONS (LOANS AND RECEIVABLES)	Payable on demand	Other than those payable on demand	Total	Payable on demand	Other than those payable on demand	Total
From the central bank		47.3	47.3		33.2	33.2
From domestic credit institutions		6,323.0	6,323.0	7,750.1	1,742.7	9,492.8
From foreign credit institutions		1,825.1	1,825.1	1,432.4		1,432.4
<b>Total</b>		8,148.1	8,195.5	9,182.5	1,775.9	10,958.4

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



# FINANCIAL STATEMENTS 2021

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 17. RECEIVABLES FROM THE PUBLIC AND PUBLIC SECTOR ENTITIES (LOANS AND RECEIVABLES)

	2021	Expected credit loss allowance 2021	2020	Expected credit loss allowance 2020
Companies and housing corporations	1,767,550.6	0.1	1,690,870.3	0.1
Households	857,111.2	210.8	810,551.3	328.8
Non-profit organizations serving households	422.2		447.4	
Foreign countries	12,113.0		9,369.7	
Total	2,637,197.0	210.9	2,511,238.7	328.9
Non performing loans	3,803.1		2,667.0	

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

	2021	2020
Impairment losses on receivables recognized during the period		
Impairment losses at the beginning of the year	328.9	261.4
Expected credit losses, net change	-118.0	67.5
Impairment losses at the end of the year	210.9	328.9
No group-specific impairment losses have been recognized.		
Final credit losses on receivables recognized during the period	115.5	

### 18. DEBT SECURITIES

	2021				2020			
	Publicly quoted	Other	Total	Expected credit loss allowance	Publicly quote	Other	Total	Expected credit loss allowance
Issued by public sector entities								
Fair value through other comprehensive income								
Government bonds	20,731.0		20,731.0				0.0	
Other bonds issued by public sector entities	57,083.7		57,083.7		118,713.9		118,713.9	
Option to designate a financial asset at fair value								
Government bonds	94,813.5		94,813.5		85,845.0		85,845.0	
Those issued by other than public sector entities								
Option to designate a financial asset at fair value								
Bonds issued by banks	18,897.9		18,897.9		14,774.6		14,774.6	
Total debt securities	191,526.2		191,526.2		219,333.5		219,333.5	
Receivables eligible for refinancing with central banks			191,526.2				219,333.5	

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

### 19. DEBT SECURITIES BY CREDIT RATING

Credit rating	2021			
	Governments and public sector entities	Companies and banks	Covered bonds	Total
S&P equivalency				
AAA	68,367.8		10,694.9	79,062.7
AA+ - AA-	104,260.5	8,203.0		112,463.5
A+ - A-				0.0
BBB+ - BBB-				0.0
BB+ or below				0.0
Credit rating	2020			
	Governments and public sector entities	Companies and banks	Covered bonds	Total
S&P equivalency				
AAA	21,099.9		6,406.3	27,506.2
AA+ - AA-	183,459.0	8,368.2		191,827.3
A+ - A-				0.0
BBB+ - BBB-				0.0
BB+ or below				0.0

# FINANCIAL STATEMENTS 2021

## NOTES TO THE CONSOLIDATED BALANCE SHEET

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

	2021			2020		
	Publicly quoted	Other	Total	Publicly quoted	Other	Total
Shares and holdings, fair value through other comprehensive income		23.9	23.9		132.4	132.4
Of which at acquisition cost		23.9	23.9		132.4	132.4
Of which in credit institutions					108.5	108.5

### 21. DERIVATIVE CONTRACTS

	2021		2020	
	Book value Assets	Liabilities	Book value Assets	Liabilities
Derivative contracts in hedge accounting relationships				
OTC Interest rate swaps, fair value hedge accounting model, fair value	14,016.6	7,004.7	26,261.1	542.3
of which: cleared by a central counterparty		6,694.8		
Derivative contracts not in hedge accounting relationships				
OTC Interest rate swaps, fair value	233.9	3,676.0	470.8	7,402.0
of which: cleared by a central counterparty		1,640.3		4,342.6
	14,250.5	10,680.7	26,731.9	7,944.3
OTC Interest rate and currency swaps, accrued interest			3,687.5	3,759.5
Total	14,250.5	10,680.7	30,419.4	11,703.9

The accounting policy for derivative contracts was changed in 2021. The fair value of the contracts in 2021 contains the accrued interest (dirty value). In 2020, the fair value is presented without the accrued interest (clean value) and the accrued interest is presented separately.

	2021			
Remaining maturity	less than one year	1-5 years	>5 years	Total
Nominal values of the underlying instruments	136,000.0	974,417.7	295,000.0	1,405,417.7
of which: cleared by a central counterparty	20,000.0	20,000.0	295,000.0	335,000.0
Fair value, assets	584.7	13,665.7		14,250.5
of which: cleared by a central counterparty				0.0
Fair value, liabilities	187.7	2,907.8	7,585.2	10,680.7
of which: cleared by a central counterparty	81.3	668.6	7,585.2	8,335.1

	2020			
Remaining maturity	less than one year	1-5 years	>5 years	Total
Nominal values of the underlying instruments	275,000.0	781,000.0	364,465.9	1,420,465.9
of which: cleared by a central counterparty		25,000.0	75,000.0	100,000.0
Fair value, assets	451.4	15,520.2	10,760.3	26,731.9
of which: cleared by a central counterparty				0.0
Fair value, liabilities	63.4	3,208.3	4,672.6	7,944.3
of which: cleared by a central counterparty		63.4	4,279.2	4,342.6

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 2021 totaled EUR 620 479. The amount of risk is calculated over the netting sets and taking into account the collateral delivered.

### 22. HEDGE ACCOUNTING, MATURITY

	2021			
	<3 months	3-12 months	1-5 years	5-10 years
Fair value hedges				
Notional		60,000.0	909,417.7	250,000.0
Average fixed interest rate		0.22,%	0.17,%	0.01,%
	2020			
	<3 months	3-12 months	1-5 years	5-10 years
Fair value hedges				
Notional		250,000.0	660,000.0	309,465.9
Average fixed interest rate		0.14,%	0.41,%	0.50,%

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

# FINANCIAL STATEMENTS 2021

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 23. INSTRUMENTS USED FOR HEDGE ACCOUNTING

					2021
	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	1,219,417.7	14,016.6	7,004.7	Derivative contracts	-20,408.4
					2020
	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	1,219,465.9	26,261.1	542.3	Derivative contracts	6,929.4

The accounting policy for derivative contracts was changed in 2021. The fair value of the contracts in 2021 contains the accrued interest (dirty value). In 2020, the fair value is presented without the accrued interest (clean value).

### 24. HEDGED EXPOSURES

					2021
	Carrying amount		Accumulated amount of fair value adjustments on the hedged item		Changes in fair value used for calculating hedge ineffectiveness
	Assets	Liabilities	Assets	Liabilities	Balance sheet line item(s)
Fair value Hedges					
Debt securities issued to the public		1,005,172.4		-6,229.6	Debt securities issued to the public
Receivables from the public and public sector entities	18,845.1		273.1		Receivables from the public and public sector entities
					2020
	Carrying amount		Accumulated amount of fair value adjustments on the hedged item		Changes in fair value used for calculating hedge ineffectiveness
	Assets	Liabilities	Assets	Liabilities	Balance sheet line item(s)
Fair value Hedges					
Debt securities issued to the public		1,206,493.6		-26,940.5	Debt securities issued to the public
Receivables from the public and public sector entities	18,929.9		543.7		Receivables from the public and public sector entities

### 25. HEDGE EFFECTIVENESS

2021	Gains/(loss) recognised in OCI	Hedge Ineffectiveness recognised in P&L	P&L line item that includes hedge ineffectiveness
Fair value Hedges			
Interest rate swaps		31.8	Net income from hedge accounting
2020	Gains/(loss) recognised in OCI	Hedge Ineffectiveness recognised in P&L	P&L line item that includes hedge ineffectiveness
Fair value Hedges			
Interest rate swaps		-47.7	Net income from hedge accounting

### 26. INTANGIBLE ASSETS

	2021	2020
IT programs and projects	8,589.0	6,131.0
Other intangible assets	584.9	709.2
	9,173.9	6,840.2
Amount of agreement-based commitments concerning acquisition of intangible assets	855.4	1,223.1

# FINANCIAL STATEMENTS 2021

## NOTES TO THE CONSOLIDATED BALANCE SHEET

27. TANGIBLE ASSETS	2021	2020
Investment properties and investment property shares, balance sheet value		
Land and water areas	7,885.3	7,975.7
Buildings	770.5	832.0
Shares and holdings in housing property corporations	46,754.5	48,761.7
<b>Total balance sheet value</b>	<b>55,410.4</b>	<b>57,569.4</b>
Total fair value of investment properties	60,090.7	62,273.1
of which share based on assessments of a qualified third-party valuer	15,146.0	
Non-cancellable land lease agreements		
Rental receivables within one year	143.7	145.0
Rental income is only calculated for one year ahead, as the future redemptions of the land holdings of housing companies are not yet known.		
Agreement-based obligations of investment properties		
Liabilities related to construction		2,181.9
Total	0.0	2,181.9
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	538.4	538.4
Buildings	91.5	98.9
<b>Total balance sheet value</b>	<b>630.0</b>	<b>637.3</b>
Total fair value of other properties	2,925.6	2,583.7

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.

# FINANCIAL STATEMENTS 2021

## NOTES TO THE CONSOLIDATED BALANCE SHEET

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

2021	Intangible assets	Investment properties and investment property shares	Other properties and housing property shares	Other tangible assets	Total tangibles
<b>Acquisition cost 1 January 2021</b>	<b>10,691.2</b>	<b>61,010.2</b>	<b>739.4</b>	<b>2,786.4</b>	<b>64,536.0</b>
Increases, new acquisitions	4,333.3	2,047.8		260.9	2,308.7
Deductions	-1,567.4	-3,634.3		-76.8	-3,711.1
<b>Acquisition cost 31 December 2021</b>	<b>13,457.1</b>	<b>59,423.6</b>	<b>739.4</b>	<b>2,970.5</b>	<b>63,133.6</b>
Accumulated depreciation and impairment losses 1 Jan 2020	3,851.0	1,148.7	102.2	2,323.1	3,573.9
Depreciation for the period	432.2	225.8	7.3	131.4	364.4
Impairment losses for the period		346.7			346.7
<b>Accumulated depreciation and impairment losses 31 December 2020</b>	<b>4,283.2</b>	<b>1,721.1</b>	<b>109.5</b>	<b>2,454.4</b>	<b>4,285.1</b>
Revaluation reserve 1 December 2021		-2,292.1			-2,292.1
<b>Book value 31 December 2021</b>	<b>9,173.9</b>	<b>55,410.4</b>	<b>630.0</b>	<b>516.1</b>	<b>56,556.4</b>

### 2020

<b>Acquisition cost 1 January 2020</b>	<b>6,891.9</b>	<b>64,788.0</b>	<b>739.4</b>	<b>2,491.9</b>	<b>68,019.2</b>
Increases, new acquisitions	3,835.1	945.6	0.1	294.5	1,240.1
Deductions	-35.9	-4,723.4			-4,723.4
<b>Acquisition cost 31 December 2020</b>	<b>10,691.2</b>	<b>61,010.2</b>	<b>739.4</b>	<b>2,786.4</b>	<b>64,536.0</b>
Accumulated depreciation and impairment losses 1 Jan 2020	3,255.2	931.5	94.9	2,249.7	3,276.0
Depreciation for the period	595.8	217.2	7.3	73.4	297.9
<b>Accumulated depreciation and impairment losses 31 December 2020</b>	<b>3,851.0</b>	<b>1,148.7</b>	<b>102.2</b>	<b>2,323.1</b>	<b>3,573.9</b>
Revaluation reserve 1 December 2020		-2,292.1			-2,292.1
<b>Book value 31 December 2020</b>	<b>6,840.2</b>	<b>57,569.4</b>	<b>637.3</b>	<b>463.3</b>	<b>58,670.0</b>

### 29. OTHER ASSETS

	2021	2020
Defined benefit pension plans/surplus	4,896.0	5,147.9
Other receivables	12,331.3	8,489.1
Total	17,227.3	13,637.0

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

### 30. DEFERRED INCOME AND ADVANCES PAID

	2021	2020
Interest receivables	1,937.6	6,043.1
Other deferred income	755.4	676.3
Total	2,692.9	6,719.4



# FINANCIAL STATEMENTS 2021

## NOTES TO THE CONSOLIDATED BALANCE SHEET

<b>31. TAX RECEIVABLES AND LIABILITIES</b>	<b>2021</b>	<b>2020</b>
Income tax receivables	136.4	89.6
Deferred tax receivables	6.3	
<b>Total tax receivables</b>	<b>142.6</b>	<b>89.6</b>
Income tax liabilities		192.3
Deferred tax liabilities	9,712.3	9,868.0
<b>Total tax liabilities</b>	<b>9,712.3</b>	<b>10,060.3</b>
<b>DEFERRED TAX RECEIVABLES</b>		
Total	6.3	0.0
<b>DEFERRED TAX LIABILITIES</b>		
Earnings-related pensions	979.2	1,029.6
Revaluation reserve	284.0	284.0
Fair value reserve	112.4	217.8
Credit loss provisions	8,336.7	8,336.7
Total	9,712.3	9,868.0
<b>Net deferred tax receivable (+)/liability (-)</b>	<b>-9,706.0</b>	<b>-9,868.0</b>
<b>CHANGES IN DEFERRED TAXES</b>		
Deferred tax receivables/liabilities 1 January	-9,868.0	-9,729.3
<b>Recognized in the income statement:</b>		
EVL 46§:n mukainen luottotappiovaraus		
IAS 19 calculation	11.2	10.4
Työeläke-etuudet	200.0	0.0
Elimination of revaluation reserve	0.0	2.2
<b>Recognized in the consolidated comprehensive income statement and equity:</b>		
Financial assets at fair value through other comprehensive income	111.6	-29.0
Revaluation of defined benefit pension plans	-160.9	-122.3
<b>Net deferred tax receivables (+)/liabilities (-), total 31 December</b>	<b>-9,706.0</b>	<b>-9,868.0</b>
<b>Income tax receivables (+)/liabilities (-), net</b>	<b>136.4</b>	<b>-102.7</b>
<b>Total tax receivables (+)/liabilities (-), net</b>	<b>-9,569.7</b>	<b>-9,970.7</b>

<b>32. DEBT SECURITIES ISSUED TO THE PUBLIC</b>	<b>2021</b>		<b>2020</b>	
	Book value	Nominal value	Book value	Nominal value
Other than those payable on demand				
Bonds	1,260,394.3	1,260,000.0	1,283,448.5	1,260,000.0
Certificates of deposit and commercial papers	50,994.8	51,000.0	50,987.8	51,000.0
<b>Total</b>	<b>1,311,389.0</b>	<b>1,311,000.0</b>	<b>1,334,436.2</b>	<b>1,311,000.0</b>

The bonds are 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.

<b>33. OTHER LIABILITIES</b>	<b>2021</b>	<b>2020</b>
Other liabilities	23 339,5	39 410,2

# FINANCIAL STATEMENTS 2021

## NOTES TO THE CONSOLIDATED BALANCE SHEET

<b>34. DEFERRED EXPENSES AND ADVANCES RECEIVED</b>	<b>2021</b>	<b>2020</b>
Interest liabilities	1,707.1	4,373.6
Advance payments received	38.5	87.6
Tax liability based on taxes for the period		192.3
Other deferred expenses	3,420.8	2,283.8
Total	5,166.5	6,937.3

<b>35. LIABILITIES ACCORDING TO THE ACT ON RESOLUTION OF CREDIT INSTITUTIONS AND INVESTMENT FIRMS</b>	<b>2021</b>	<b>2020</b>
Deposits, not covered and not preferential, with a remaining maturity more than one year		5,011.4
Unsecured liabilities		66,290.1
of which the remaining maturity is less than one year		15,302.3
Common Equity Tier 1 (CET1) capital	128,253.5	123,771.3
Total liabilities according to the Act on Resolution of Credit Institutions and Investment Firms	128,253.5	144,085.0

<b>36. MATURITY DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES</b>						
<b>2021</b>	<3 months	3–12 months	1–5 years	5–10 years	>10 years	Total
Receivables from credit institutions	8,195.5					8,195.5
Receivables from the public and public sector entities	26,407.0	122,573.0	643,480.0	689,016.0	1,155,510.1	2,636,986.1
Debt securities		77,814.7	41,511.5	72,200.0		191,526.2
Total	34,602.5	200,387.7	684,991.5	761,216.0	1,155,510.1	2,836,707.7
Liabilities to credit institutions		1,110.9	150,000.0			151,110.9
Liabilities to the public and public sector entities	1,348,826.7	320,524.0	384.3			1,669,735.0
Debt securities issued to the public	28,999.3	82,327.4	908,493.0	291,569.3		1,311,389.0
Total	1,377,826.0	403,962.3	1,058,877.3	291,569.3	0.0	3,132,234.9
<b>2020</b>	<3 months	3–12 months	1–5 years	5–10 years	>10 years	Total
Receivables from credit institutions	10,958.4					9,850.7
Receivables from the public and public sector entities	26,486.0	133,105.0	591,644.0	653,983.0	1,105,691.8	2,586,147.0
Debt securities		61,301.6	99,801.3	58,230.6		282,113.4
Total	37,444.4	194,406.6	691,445.3	712,213.6	1,105,691.8	2,878,111.1
Liabilities to credit institutions		3,331.7	100,000.0			86,329.2
Liabilities to the public and public sector entities	1,321,701.3	246,895.2	5,608.4			1,643,087.3
Debt securities issued to the public	27,993.5	324,207.9	672,211.8	310,023.0		1,311,701.1
Total	1,349,694.8	574,434.9	777,820.3	310,023.0	0.0	3,041,117.6

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

Balance sheet items do not include foreign currency items.

# FINANCIAL STATEMENTS 2021

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 38. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

			2021		2020	
	Classification	Fair value determination principle	Book value	Fair value	Book value	Fair value
Liquid assets	Amortised cost		388,200.0	388,200.0	359,150.0	359,150.0
Receivables from credit institutions	Amortised cost		8,195.5	8,195.5	10,958.4	10,958.4
Receivables from the public and public sector entities	Amortised cost		2,636,986.1	2,636,986.1	2,510,909.8	2,510,909.8
Debt securities	Fair value through other comprehensive income	1	77,814.7	77,814.7	118,713.9	118,713.9
Debt securities	Option to designate a financial asset at fair value	1	113,711.5	113,711.5	100,619.6	100,619.6
Shares and holdings	Fair value through other comprehensive income	2	23.9	23.9	132.4	132.4
Derivative contracts*	Fair value through profit or loss	2	14,250.5	14,250.5	26,731.9	26,731.9
Total			3,239,182.1	3,239,182.1	3,127,216.0	3,127,216.0
Liabilities to credit institutions	Amortised cost		151,110.9	151,110.9	103,331.7	103,331.7
Liabilities to the public and public sector entities	Amortised cost		1,669,735.0	1,669,735.0	1,574,205.0	1,574,205.0
Debt securities issued to the public	Amortised cost		1,311,389.0	1,311,389.0	1,334,436.2	1,334,436.2
Derivative contracts*	Fair value through profit or loss	2	10,680.7	10,680.7	7,944.3	7,944.3
Total			3,142,915.6	3,142,915.6	3,019,617.3	3,019,617.3

\*The accounting policy for derivative contracts was changed in 2021. The fair value of the contracts in 2021 contains the accrued interest (dirty value). In 2020, the fair value is presented without the accrued interest (clean value).

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 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. There have been no transfers between the stages (1,2,3). The principles are as follows:

- 1: Quoted prices in active markets
- 2: Verifiable price, other than quoted
- 3: Unverifiable market price

### 39. NETTING OF FINANCIAL ASSETS AND LIABILITIES

				Amounts not offset on the balance sheet		
2021	Gross amounts	Netted on the balance sheet	Amounts shown on the balance sheet	Financial instruments	Cash collateral received/paid	Net amount
Derivative liabilities	10,909.1	228.4	10,680.7		10,450.1	230.5
Derivative receivables	14,250.5		14,250.5		13,630.0	620.5

				Amounts not offset on the balance sheet		
2020	Gross amounts	Netted on the balance sheet	Amounts shown on the balance sheet	Financial instruments	Cash collateral received/paid	Net amount
Derivative liabilities	8,694.8		8,694.8		7,905.4	789.5
Derivative receivables	30,419.4		30,419.4		29,090.0	1,329.4

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

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 40. BASIC CAPITAL

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

### 41. EMPLOYEE BENEFITS

#### Short-term employee benefits

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

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

#### Pension obligations and other post-employment benefits

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

#### Defined contribution plans

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

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

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

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

#### Defined benefit plans

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

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

#### Net defined benefit asset

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

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

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

#### Accounting of obligation

Accounting for defined benefit plan requires use of actuarial method which takes into account variables such as 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.

# FINANCIAL STATEMENTS 2021

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 41. EMPLOYEE BENEFITS

<b>Employee benefits in Consolidated Income Statement</b>	Salaries and other short term employee benefits	Defined contribution plans	Defined benefit plans	Total
<b>2021</b>				
Interest income			25.5	25.5
Other operating income (+) / expense (-)			-64.0	-64.0
Salaries and remuneration	-7,154.3			-7,154.3
Pension expenses		-1,167.9	-17.8	-1,185.6
Other indirect personnel expenses		-322.7		-322.7
Other administrative expenses	-1.4			-1.4
Total	-7,155.8	-1,490.6	-56.2	-8,702.6

	Salaries and other short term employee benefits	Defined contribution plans	Defined benefit plans	Total
<b>2020</b>				
Interest income			31.7	31.7
Other operating income (+) / expense (-)			-60.5	-60.5
Salaries and remuneration	-6,028.5			-6,028.5
Pension expenses		-1,010.7	-23.4	-1,034.1
Other indirect personnel expenses		-178.6		-178.6
Other administrative expenses	-0.7			-0.7
Total	-6,029.2	-1,189.2	-52.2	-7,270.6

	<b>2021</b>	<b>2020</b>
<b>Employee benefits in Consolidated Comprehensive Income Statement</b>	Defined benefit plans	Defined benefit plans
Net actuarial profit (+) / loss (-)	804.3	-611.7

	<b>2021</b>	<b>2020</b>
<b>Employee benefits in Consolidated Balance Sheet Assets</b>	Defined contribution plans	Defined benefit plans
Other assets		4,896.0
Deferred income and advances paid	1,000.0	
Total	1,000.0	4,896.0

	<b>2020</b>	<b>2020</b>
<b>Employee benefits in Consolidated Balance Sheet Assets</b>	Defined contribution plans	Defined benefit plans
Other assets		5,147.9
Total	0.0	5,147.9

	<b>2021</b>	<b>2021</b>
<b>Employee benefits in Consolidated Balance Sheet Liabilities</b>	Salaries and other short term employee benefits	Defined benefit plans
Other liabilities		394.4
Deferred tax liabilities		979.2
Deferred expenses and advances received	1,439.4	
Fair value reserve, net actuarial gain (+) / loss (-)		4,965.5
Fair value reserve, deferred tax liabilities		-993.1
Total	1,439.4	4,951.6

	<b>2020</b>	<b>2020</b>
<b>Employee benefits in Consolidated Balance Sheet Liabilities</b>	Salaries and other short term employee benefits	Defined benefit plans
Other liabilities		197.3
Deferred tax liabilities		1,029.6
Deferred expenses and advances received	1,177.9	
Fair value reserve, net actuarial gain (+) / loss (-)		4,161.2
Fair value reserve, deferred tax liabilities		-832.2
Total	1,177.9	4,358.5



# FINANCIAL STATEMENTS 2021

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 41. EMPLOYEE BENEFITS

Defined benefit plans						
The defined benefit obligation and Plan assets			2021		2020	
Present value of Defined benefit obligation			-6,415.1		-6,276.1	
Fair value of Plan assets			11,311.1		11,424.0	
Net demined benefit asset (+) / liability (-)			4,896.0		5,147.9	
Change in Net defined benefit assets			2021		2020	
Net defined benefit asset as of 1.1.			5,147.9		4,588.4	
Current service cost			-17.8		-23.4	
Interest income of the net defined benefit asset (+), cost (-)			25.5		31.7	
Administrative cost			-64.0		-60.5	
Net actuarial gain (+) / loss (-) for the period			804.3		611.7	
Contributions			-1,000.0			
Net defined benefit asset as of 31.12.			4,896.0		5,147.9	
Fair value of Plan assets			2021		2020	
	Listed	Non-listed	Total	Listed	Non-listed	Total
Equity instruments		853.6	853.6	1,014.8	1,134.6	2,149.4
Debt instruments	208.4		208.4	214.5		214.5
Investment funds	3,654.6		3,654.6	2,492.1		2,492.1
Properties and land	6,594.6		6,594.6	6,567.9		6,567.9
Fair value of Plan assets	10,457.5	853.6	11,311.1	10,289.3	1,134.6	11,424.0
			2021		2020	
Group's own financial instruments included in plan assets			980.2		496.2	
Duration, years			12.21		12.38	
Discount rate			1.00		0.50	
Expected returns on assets			1.00		0.50	
Future pay rise assumption			2.10		2.10	
Inflation			2.00		1.10	
			2021		2020	
Sensitivity of the projected benefit obligations to changes in the principal assumptions						
			Effect on defined benefit obligation		Effect on defined benefit obligation	
	Change in assumption		Increase	Decrease	Increase	Decrease
Discount rate	0,50%		-5,54%	6,10%	-5,61%	6,19%
Rate of wage increases	0,50%		0,15%	-0,15%	0,18%	-0,18%
Rate of pension increases	0,50%		5,83%	-5,51%	5,90%	-5,57%
Life expectancy at birth	1 year		4,78%	-4,56%	4,56%	-4,37%

# FINANCIAL STATEMENTS 2021

## NOTES CONCERNING GROUP'S COLLATERAL AND CONTINGENT LIABILITIES

### 42. COLLATERAL PLEDGED AND RECEIVED

	2021	2020
	Other collaterals	Other collaterals
<b>Collateral pledged for own liabilities</b>		
Liabilities to the central bank	210,859.7	158,903.0
Debt securities issued to the public	1,626,553.6	1,678,271.8
Derivative contracts	21,193.6	12,214.0
Encumbered assets total	1,858,606.9	1,849,388.7
<b>Collateral received</b>		
Derivative contracts	13,630.0	29,090.0
Collateral received total	13,630.0	29,090.0

### 43. IFRS 16 LEASES

	2021	2020
<b>Hypo Group as lessee</b>		
<b>Right-of-use assets</b>		
Depreciation - IT		35.9
Depreciation - Apartments	225.8	217.2
Carrying amount - IT		35.9
Carrying amount - Apartments	82.0	223.6
<b>Lease liabilities</b>		
Interest expense	5.1	11.3
Carrying amounts sorted by remaining maturity		
Non-fixed-term leases	83.0	265.0
<b>Relief options</b>		
Expenses from leases of low-value assets	8.8	7.6

Hypo Group leases office premises in Helsinki as well as IT products and services. The lease terms of these contracts are non-fixed.

	2021	2020
<b>Hypo Group as a lessor</b>		
<b>Operative leases</b>		
Lease income	2,271.6	2,417.3
Undiscounted lease payments to be received		
1 year	751.5	857.0
2 year	302.5	500.3
3 year	204.7	304.7
4 year	190.8	207.0
5 year	178.8	193.1
>5 years	5,292.3	5,580.5

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

### 44. OFF-BALANCE SHEET COMMITMENTS

	2021	2020
Commitments given on behalf of a customer for the benefit of a third party		
Guarantees and other liabilities		2,181.9
Irrevocable commitments given on behalf of a customer		
Granted but unclaimed loans	215,837.3	161,636.9
Total	215,837.3	163,818.8

# FINANCIAL STATEMENTS 2021

## NOTES CONCERNING THE AUDIT SERVICE FEES

45. AUDIT SERVICE FEES	2021	2020
Fees paid to the auditor for the audit	113.3	105.4
Fees paid to the auditor for other services, parent company	23.0	6.8
Fees paid to the auditor for other services, Group	26.5	9.8

Amounts (VAT 0%) are presented by assignment for year 2021 and 2020 accordingly.

## NOTES CONCERNING GROUP'S PERSONNEL, MANAGEMENT AND RELATED PARTIES

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

46. NUMBER OF PERSONNEL	2021	2020
	Average number	Average number
Permanent full-time personnel	56	58
CEO and the vice CEO	2	2
Temporary personnel	4	2
Total	62	62

47. SALARIES AND REMUNERATION PAID TO MANAGEMENT	2021	2020
CEO and vice CEO total salaries	524.1	512.6

In case of a notice, the CEO and the vice CEO are paid a payment corresponding to 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 and the vice CEO are covered by Hypo's performance-related pay and incentive scheme of which they have an opportunity to obtain at most a payment corresponding to 20 weeks' salary. The total salaries do not include compensations based on performance-related pay and incentive scheme, as they were paid as an insurance payment corresponding to five (5) weeks salary to the M-department of the Pension Fund of the Mortgage Society of Finland. The insurance payment was 24,000 euros for the CEO and 15,221 euros for the vice CEO. The insurance payment for the CEO and the vice CEO may be canceled or retained during three (3) years after the earnings year.

	2021	2020
Board of Directors		
Total remuneration, chair	58.3	55.9
Total remuneration, vice chair	40.4	38.2
Total remunerations, members	146.7	150.6
Total	245.4	244.6
Supervisory Board		
Total remuneration, chair	16.5	12.8
Total remuneration, vice chair	9.7	7.5
Total remunerations, members	69.3	65.3
Total	95.5	85.6
Members of the Management Group (exc. CEO and vice CEO)		
Total remunerations	666.7	617.8

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 Remuneration Report of the Governing Bodies and in Other Remuneration Information, which are published on Hypo's website at [www.hypo.fi/en/investor-relations/](http://www.hypo.fi/en/investor-relations/)

48. LOANS GRANTED TO THE RELATED PARTIES	2021	2020	Change
CEO and vice CEO	148.6	172.4	-23.8
Management Group	172.3	65.8	106.5
Board of Directors	45.4	194.4	-149.0
Supervisory Board	337.1	404.0	-66.9
Joint operations	620.5	687.4	-66.9
Other related parties	1,206.2	520.5	685.7
Total	2,530.1	2,044.5	485.6

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.

# FINANCIAL STATEMENTS 2021

## NOTES CONCERNING GROUP'S PERSONNEL, MANAGEMENT AND RELATED PARTIES

### 49. DEPOSITS BY THE RELATED PARTIES

	2021	2020	Change
CEO, vice CEO, Board of Directors and Supervisory Board	701.5	835.1	-133.6
Hypo hallintoneuvosto	492.4	240.5	251.9
Management Group	26.1	144.1	-118.0
The Mortgage Society of Finland's pension foundation	980.2	979.7	0.5
Other insiders	1,298.2	266.0	1,032.3
Total	3,498.4	2,465.3	1,033.1

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	2021	2020	Change
Sales of investment properties		826.2	-826.2
Sales of services	13.7	20.1	-6.4
Return of surplus assets	1,000.0		1,000.0
Receivables	1,000.0		1,000.0

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

## NOTES CONCERNING GROUP'S SHAREHOLDINGS

### 51. INFORMATION ABOUT SUBSIDIARIES AND JOINT OPERATIONS

2021	Domicile	Holding, %	Equity	Result for the period	Assets	Liabilities	Income
<b>Subsidiaries</b>							
Suomen AsuntoHypoPankki Oy	Helsinki	100.0	56,530.5	218.8	1,720,256.9	1,663,726.4	2,955.1
<b>Joint operations</b>							
Bostadsaktiebolaget Taos	Helsinki	54.6	6,760.4	45.1	8,149.7	1,389.3	705.5

Amounts presented as result for the period and as equity for Bostadsaktiebolaget Taos is based on unaudited financial statements from financial year 2021. The Articles of Association of Bostadsaktiebolaget Taos include a provision that a shareholder may have 20 per cent of the votes at a maximum.

2020	Domicile	Holding, %	Equity	Result for the period	Assets	Liabilities	Income
<b>Subsidiaries</b>							
Suomen AsuntoHypoPankki Oy	Helsinki	100.0	26,311.7	1,017.6	1,591,859.0	1,565,547.3	3,714.6
<b>Joint operations</b>							
Bostadsaktiebolaget Taos	Helsinki	54.6	6,715.6	297.4	8,244.4	1,528.7	782.1

Amounts presented as result for the period and as equity for Bostadsaktiebolaget Taos is based on unaudited financial statements from financial year 2020. The Articles of Association of Bostadsaktiebolaget 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. NOTES CONCERNING CONTROLLED ENTITIES OF THE GROUP

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

# FINANCIAL STATEMENTS 2021

## NOTES CONCERNING THE RISK MANAGEMENT OF THE GROUP

### 53. MAXIMUM AMOUNT OF CREDIT AND COUNTERPARTY RISK

2021	Book values, gross	Book value	Average book value during the period	Interest receivables	Expected credit loss allowance
<b>Lending</b>					
Not fallen due	2,341,490.5	2,340,605.7	2,287,354.5	809.0	75.8
Past due by 1-2 days*	273,192.7	272,573.8	267,573.7	617.5	1.5
Past due by 3 days-1 month	18,099.1	18,077.0	14,056.6	22.1	0.0
Past due by 1-3 months	2,086.6	2,079.7	2,755.3	2.3	4.5
Non-performing, past due by less than 3 months**	2,102.8	2,101.9	1,183.7	0.9	
Non-performing, past due by more than 3 months	1,700.3	1,547.9	1,895.5	23.3	129.2
<b>Total lending</b>	<b>2,638,672.0</b>	<b>2,636,986.1</b>	<b>2,574,819.3</b>	<b>1,475.1</b>	<b>210.9</b>
<b>Other</b>					
Receivables from credit institutions					
Not fallen due	6,611.5	6,611.5	8,784.9		
Debt securities					
Not fallen due	191,988.7	191,526.2	205,198.6	462.5	
Shares and holdings	23.9	23.9	78.1		
Derivative contracts					
Not fallen due	14,250.5	10,997.3	18,864.6	3,253.2	
<b>Total other</b>	<b>212,874.5</b>	<b>209,158.9</b>	<b>232,926.3</b>	<b>3,715.7</b>	<b>0.0</b>
Non-performing loans/total lending, %	0.14%	0.14%			

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

2020	Book values, gross	Book value	Average book value during the period	Interest receivables	Expected credit loss allowance
<b>Lending</b>					
Not fallen due	2,235,120.6	2,234,103.3	2,229,937.1	908.7	108.6
Past due by 1-2 days*	263,250.6	262,573.6	300,447.6	675.1	1.9
Past due by 3 days-1 month	10,049.1	10,036.2	14,073.0	12.7	0.3
Past due by 1-3 months	3,493.8	3,430.9	2,446.9	3.2	59.7
Non-performing, past due by less than 3 months**	265.6	265.5	169.5	0.1	
Non-performing, past due by more than 3 months	2,431.0	2,243.0	2,325.8	29.5	158.4
<b>Total lending</b>	<b>2,514,610.7</b>	<b>2,512,652.6</b>	<b>2,549,399.8</b>	<b>1,629.3</b>	<b>328.9</b>
<b>Other</b>					
Receivables from credit institutions					
Not fallen due	10,958.4	10,958.4	10,404.6		
Debt securities					
Not fallen due	219,333.5	218,871.0	250,769.5	462.5	
Shares and holdings	132.4	132.4	132.4		
Derivative contracts					
Not fallen due	30,419.4	26,731.9	23,041.9	3,687.5	
<b>Total other</b>	<b>260,843.6</b>	<b>256,693.7</b>	<b>284,348.4</b>	<b>4,149.9</b>	<b>0.0</b>
Non-performing loan/total lending, %	0.11%	0.10%			

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

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

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



# FINANCIAL STATEMENTS 2021

## NOTES CONCERNING THE RISK MANAGEMENT OF THE GROUP

### 54. FORBEARANCES

	Performing and past due receivables			Non-performing loans		
	Receivables with modified terms	Refinancing	Total	Receivables with amended terms	Refinancing	Total
<b>2021</b>						
Forbearances 1 Jan 2021	7,876.7	1,919.5	9,796.2			0.0
Changes during the financial period	-7,214.3	6,242.7	-971.6	175.4	78.4	253.7
Book value of forbearances 31 Dec 2021	662.4	8,162.2	8,824.6	175.4	78.4	253.7
Interest income recognised from receivables during the financial period						
Expected credit losses recognized on receivables during the financial period			15.5			0.00

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

	Performing and past due receivables			Non-performing loans		
	Receivables with modified terms	Refinancing	Total	Receivables with amended terms	Refinancing	Total
<b>2020</b>						
Forbearances 1 Jan 2020	5,873.3	2,381.1	8,254.4		54.4	54.4
Changes during the financial period	2,003.4	-461.6	1,541.8		-54.4	-54.4
Book value of forbearances 31 Dec 2020	7,876.7	1,919.5	9,796.2			0.0
Interest income recognised from receivables during the financial period						
Expected credit losses recognized on receivables during the financial period			17.8			0.0

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

### 55. CONCENTRATION OF LENDING

	2021				2020			
	Expected credit loss allowance	Book value	%		Expected credit loss allowance	Book value	%	
Lending by category								
Households	869,224.2	210.8	869,013.4	33.0%	819,935.6	328.8	819,606.8	32.6%
Housing companies	1,736,626.3	0.1	1,736,626.1	65.9%	1,632,472.8	0.0	1,632,472.8	65.0%
Private companies (housing investors)	25,902.6	0.0	25,902.6	1.0%	51,545.8	0.1	51,545.7	2.1%
Other	5,443.9		5,443.9	0.2%	7,284.6		7,284.6	0.3%
Total	2,637,197.0	210.9	2,636,986.1	100.0%	2,511,238.7	328.9	2,510,909.8	100.0%
Lending by purpose of use								
Permanent dwelling	2,576,586.9	145.8	2,576,441.1	97.7%	2,449,154.8	147.0	2,449,007.8	97.5%
Consumer loan	30,125.2	65.1	30,060.1	1.1%	30,081.8	66.5	30,015.3	1.2%
Holiday home	8,509.7	0.0	8,509.7	0.3%	8,621.1	115.4	8,505.7	0.3%
Other	21,975.2	0.0	21,975.2	0.8%	23,381.1	0.0	23,381.1	0.9%
Total	2,637,197.0	210.9	2,636,986.1	100.0%	2,511,238.7	328.9	2,510,909.8	100.0%
Lending by province								
Uusimaa	2,062,348.2	83.5	2,062,264.7	78.2%	1,942,513.8	82.2	1,942,431.6	77.4%
Rest of Finland	574,848.8	127.4	574,721.4	21.8%	568,724.9	246.7	568,478.2	22.6%
Total	2,637,197.0	210.9	2,636,986.1	100.0%	2,511,238.7	328.9	2,510,909.8	100.0%

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

# FINANCIAL STATEMENTS 2021

## NOTES CONCERNING THE RISK MANAGEMENT OF THE GROUP

### 56. LOAN TO VALUE BY CATEGORY

	2021	%	2020	%
Loan to value in percent by households:				
<10	7,536.6	0.9%	7,564.6	0.3%
10-20	24,272.0	2.8%	24,810.7	1.0%
20-30	48,868.9	5.6%	48,826.0	1.9%
30-40	78,469.6	9.0%	71,309.4	2.8%
40-50	111,660.1	12.8%	115,834.6	4.6%
50-60	141,296.1	16.3%	133,916.1	5.3%
60-70	186,614.7	21.5%	161,844.2	6.4%
70-80	162,448.1	18.7%	147,526.4	5.9%
80-90	65,744.1	7.6%	69,256.2	2.8%
90-100	40,403.0	4.6%	36,850.3	1.5%
>100	1,472.9	0.2%	790.1	0.0%
Loans that are not included in LTV calculation	431.3	0.0%	1,411.4	0.1%
	869,217.4	100.0%	819,940.1	32.7%
	2021	%	2020	%
Loan to value in percent by housing companies, private companies and other:				
<10	535,219.2	30.3%	467,685.6	18.6%
10-20	466,407.0	26.4%	442,894.9	17.6%
20-30	372,104.6	21.0%	328,444.7	13.1%
30-40	227,454.3	12.9%	247,439.2	9.9%
40-50	78,341.8	4.4%	104,203.1	4.2%
50-60	29,456.2	1.7%	41,857.8	1.7%
60-70	26,871.6	1.5%	11,015.3	0.4%
70-80	3,005.3	0.2%	17,355.4	0.7%
80-90	0.0	0.0%	187.5	0.0%
90-100	21,688.5	1.2%	21,256.6	0.8%
>100	0.0	0.0%	649.8	0.0%
Loans that are not included in LTV calculation	7,220.0	0.4%	7,980.0	0.3%
	1,767,768.6	100.0%	1,690,969.7	67.3%

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.

# FINANCIAL STATEMENTS 2021

## NOTES CONCERNING THE RISK MANAGEMENT OF THE GROUP

### 57. IFRS 9 BY RISK CATEGORY

				2021
Debt securities by risk category	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit- impaired (stage 3)	Total
Debt securities, Fair value through other comprehensive income				0.0
Risk class 1-5				0.0
Risk class 6-10				0.0
Risk class 11-15				0.0
Rating not classified	77,814.7			77,814.7
Loss allowance				0.0
Write-offs				0.0

				2020
Debt securities by risk category	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit- impaired (stage 3)	Total
Debt securities, Fair value through other comprehensive income				0.0
Risk class 1-5				0.0
Risk class 6-10				0.0
Risk class 11-15				0.0
Rating not classified	118,713.9			118,713.9
Loss allowance				0.0
Write-offs				0.0

				2021
Receivables from the public and public sector entities by risk category	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit- impaired (stage 3)	Total
Receivables from the public and public sector entities, amortised cost				0.0
Risk class 1-5				0.0
Risk class 6-10				0.0
Risk class 11-15				0.0
Rating not classified	2,617,809.1	15,373.9	3,803.1	2,636,986.1
Loss allowance	9.6	72.1	129.2	210.9
Write-offs				0.0
Total	2,617,799.5	15,301.7	3,674.0	2,636,775.2

				2020
Receivables from the public and public sector entities by risk category	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit- impaired (stage 3)	Total
Receivables from the public and public sector entities, amortised cost				0.0
Risk class 1-5				0.0
Risk class 6-10				0.0
Risk class 11-15				0.0
Rating not classified	2,495,304.6	12,938.2	2,667.0	2,510,909.8
Loss allowance	12.2	72.4	244.3	328.9
Write-offs				0.0
Total	2,495,292.4	12,865.8	2,422.7	2,510,581.0

				2021
Off balance sheet, granted but undrawn loans by risk category	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit- impaired (stage 3)	Total
Off balance sheet, granted but undrawn loans, amortised cost				0.0
Risk class 1-5				0.0
Risk class 6-10				0.0
Risk class 11-15				0.0
Rating not classified	215,764.5	72.9		215,837.3
Loss allowance	0.1			0.1
Write-offs				0.0
Total	215,764.3	72.9	0.0	215,837.2

# FINANCIAL STATEMENTS 2021

## NOTES CONCERNING THE RISK MANAGEMENT OF THE GROUP

### 57. IFRS 9 BY RISK CATEGORY

2020

Off balance sheet, granted but undrawn loans by risk category	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit- impaired (stage 3)	Total
Off balance sheet, granted but undrawn loans, amortised cost				0.0
Risk class 1-5				0.0
Risk class 6-10				0.0
Risk class 11-15				0.0
Rating not classified	161,621.4	15.5		161,636.9
Loss allowance	0.0			0.0
Write-offs				0.0
Total	161,621.3	15.5	0.0	161,636.9

### 58. IFRS 9 LOSS ALLOWANCE CHANGES AND TRANSITIONS

2021

Debt securities, Fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2021				0.0
New financial assets				0.0
Maturities and repayments				0.0
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 2021	0.0	0.0	0.0	0.0

2020

Debt securities, Fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2020				0.0
New financial assets	-0.8			-0.8
Maturities and repayments	0.8			0.8
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 2020	0.0	0.0	0.0	0.0

# FINANCIAL STATEMENTS 2021

## NOTES CONCERNING THE RISK MANAGEMENT OF THE GROUP

### 58. IFRS 9 LOSS ALLOWANCE CHANGES AND TRANSITIONS

2021

Receivables from the public and public sector entities, amortised cost	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2021	12.2	72.4	244.3	328.9
New financial assets (new loans)	4.4			4.4
Maturities and repayments	-1.2	-5.7	-9.0	-15.8
Write-offs			-115.3	-115.3
Write-offs recoveries				0.0
Normal changes, e.g. change without stage change	-5.5	2.7	9.2	6.3
Transfer to 12-month stage 1	0.0		0.0	0.0
Transfer to lifetime stage 2 not credit-impaired	-0.2			-0.2
Transfer to lifetime stage 3 credit-impaired	0.0	-0.2		-0.2
Changes to model assumptions and methodologies				0.0
Manual correction by loan		2.9		2.9
Loss allowance as at 31 December 2021	9.6	72.1	129.2	210.9

2020

Receivables from the public and public sector entities, amortised cost	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2020	20.4	44.9	196.1	261.4
New financial assets (new loans)	6.0	7.1		13.1
Maturities and repayments	-2.4	-4.0	-10.2	-16.6
Write-offs				0.0
Write-offs recoveries				0.0
Normal changes, e.g. change without stage change	-11.6	-7.7	6.0	-13.2
Transfer to 12-month stage 1				0.0
Transfer to lifetime stage 2 not credit-impaired	-0.2			-0.2
Transfer to lifetime stage 3 credit-impaired	0.0		0.0	0.0
Changes to model assumptions and methodologies				0.0
Manual correction by loan		32.0	52.4	84.4
Loss allowance as at 31 December 2020	12.2	72.4	244.3	328.9

2021

Off balance sheet, granted but undrawn loans by risk category	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2021	0.0			0.0
New financial assets	0.1			0.1
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
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 2021	0.1	0.0	0.0	0.1



# FINANCIAL STATEMENTS 2021

## NOTES CONCERNING THE RISK MANAGEMENT OF THE GROUP

### 58. IFRS 9 LOSS ALLOWANCE CHANGES AND TRANSITIONS

2020

Off balance sheet, granted but undrawn loans by risk category	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2020	0.4			0.4
New financial assets	0.0			0.0
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			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 2020	0.0	0.0	0.0	0.0

### 59. IFRS 9 CHANGES IN THE CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

2021

Debt securities, Fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Carrying amount as at 1 January 2021	118,713.9			118,713.9
Transfers				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				0.0
Transfer from Stage 3 to Stage 1				0.0
New financial assets	37,000.0			37,000.0
Maturities and repayments	-77,899.2			-77,899.2
Write-offs				0.0
Write-offs recoveries				0.0
Carrying amount as at 31 December 2021	77,814.7	0.0	0.0	77,814.7

2020

Debt securities, Fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Carrying amount as at 1 January 2020	123,722.0			123,722.0
Transfers				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				0.0
Transfer from Stage 3 to Stage 1				0.0
New financial assets	20,500.0			20,500.0
Maturities and repayments	-25,508.0			-25,508.0
Write-offs				0.0
Write-offs recoveries				0.0
Carrying amount as at 31 December 2020	118,713.9	0.0	0.0	118,713.9

# FINANCIAL STATEMENTS 2021

## NOTES CONCERNING THE RISK MANAGEMENT OF THE GROUP

### 59. IFRS 9 CHANGES IN THE CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

2021

Receivables from the public and public sector entities, amortised cost	Stage 1	Stage 2	Stage 3	Total
Carrying amount as at 1 January 2021	2,495,304.6	12,938.2	2,667.0	2,510,909.8
Transfers	-6,537.2	4,598.2	1,939.0	0.0
Transfer from Stage 1 to Stage 2	-9,599.6	9,599.6		0.0
Transfer from Stage 1 to Stage 3	-1,136.2		1,136.2	0.0
Transfer from Stage 2 to Stage 3		-926.6	926.6	0.0
Transfer from Stage 3 to Stage 2				0.0
Transfer from Stage 2 to Stage 1	4,074.8	-4,074.8		0.0
Transfer from Stage 3 to Stage 1	123.8		-123.8	0.0
New financial assets	550,596.1			550,596.1
Maturities and repayments	-421,554.5	-2,162.6	-687.5	-424,404.6
Write-offs			-115.3	-115.3
Write-offs recoveries				0.0
Carrying amount as at 31 December 2021	2,617,809.1	15,373.9	3,803.1	2,636,986.1

2020

Receivables from the public and public sector entities, amortised cost	Stage 1	Stage 2	Stage 3	Total
Carrying amount as at 1 January 2020	2,573,585.2	9,916.9	2,644.9	2,586,147.0
Transfers	-5,726.4	4,483.5	1,242.8	0.0
Transfer from Stage 1 to Stage 2	-5,107.8	5,107.8		0.0
Transfer from Stage 1 to Stage 3	-1,272.3		1,272.3	0.0
Transfer from Stage 2 to Stage 3		-149.4	149.4	0.0
Transfer from Stage 3 to Stage 2				0.0
Transfer from Stage 2 to Stage 1	474.9	-474.9		0.0
Transfer from Stage 3 to Stage 1	178.8		-178.8	0.0
New financial assets	393,153.5	13.0		393,166.6
Maturities and repayments	-465,707.8	-1,475.2	-1,220.7	-468,403.7
Write-offs				0.0
Write-offs recoveries				0.0
Carrying amount as at 31 December 2020	2,495,304.6	12,938.2	2,667.0	2,510,909.8

2021

Off balance sheet, granted but undrawn loans by risk category	Stage 1	Stage 2	Stage 3	Total
Off balance sheet as at 1 January 2021	161,621.4	15.5		161,636.9
Transfers	36.5	-57.4	20.8	0.0
Transfer from Stage 1 to Stage 2				0.0
Transfer from Stage 1 to Stage 3	-20.8		20.8	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	57.4	-57.4		0.0
Transfer from Stage 3 to Stage 1				0.0
Net change, lapsed and granted	54,106.6	114.7	-20.8	54,200.4
Off balance sheet as at 31 December 2021	215,764.5	72.9	0.0	215,837.3

2020

Off balance sheet, granted but undrawn loans by risk category	Stage 1	Stage 2	Stage 3	Total
Off balance sheet as at 1 January 2020	110,268.7	3.2	12.2	110,284.1
Transfers	-15.5	15.5		0.0
Transfer from Stage 1 to Stage 2	-15.5	15.5		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				0.0
Transfer from Stage 3 to Stage 1				0.0
Net change, lapsed and granted	51,368.2	-3.2	-12.2	51,352.8
Off balance sheet as at 31 December 2020	161,621.4	15.5	0.0	161,636.9

# FINANCIAL STATEMENTS 2021

## NOTES CONCERNING THE RISK MANAGEMENT OF THE GROUP

### 60. LIQUIDITY RISK

2021

Cash flows from financial liabilities and derivatives	<3 months	3–12 months	1–5 years	5–10 years	Total
Liabilities to credit institutions		1,113.4	147,715.3		148,828.7
Liabilities to the public and public sector entities	1,349,732.0	311,442.8	9,195.6		1,670,370.3
Debt securities issued to the public	22,532.0	92,400.0	909,495.0	300,150.0	1,324,577.0
Derivative contracts	-2,149.0	-4,159.3	9,505.8	8,781.1	11,978.7
Guarantees, granted but undrawn loans, rental liabilities and potential redemptions of partially owned housing units	215,837.3				215,837.3
Total liabilities	1,585,952.3	400,796.9	1,075,911.7	308,931.1	3,371,592.0

2020

Cash flows from financial liabilities and derivatives	<3 months	3–12 months	1–5 years	5–10 years	Total
Liabilities to credit institutions		2,227.9	99,584.1		101,812.0
Liabilities to the public and public sector entities	1,322,198.6	235,473.0	16,953.5		1,574,625.1
Debt securities issued to the public	29,500.0	326,150.0	671,775.0	301,500.0	1,328,925.0
Derivative contracts	-1,562.1	-5,332.7	-14,250.7	-405.2	-21,550.8
Guarantees, granted but undrawn loans, rental liabilities and potential redemptions of partially owned housing units	163,818.8				163,818.8
Total liabilities	1,513,955.3	558,518.1	774,061.8	301,094.8	3,147,630.0

### 61. INFORMATION CONCERNING INTEREST RATE RISK

EUR million

Repricing time in 2021	<3 months	3–12 months	1–5 years	5–10 years	Total
<b>Floating-rate items</b>					
Receivables	694.2	1,999.3			2,693.5
Liabilities	895.9	782.2	124.9		1,803.0
Net	-201.7	1,217.1	-124.9	0.0	890.5
<b>Fixed-rate items</b>					
Receivables	467.4	101.5	902.8	309.8	1,781.5
Liabilities	668.3	593.6	833.5	347.8	2,443.2
Net	-200.9	-492.1	69.3	-38.0	-661.7

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 2021

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 7.8 million (increase by EUR 0.6 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 0.7 million. The economic value of Hypo would increase by EUR 1.5 million due to a rise of 2 per cent in interest rates.

EUR million

Repricing time in 2020	<3 months	3–12 months	1–5 years	5–10 years	Total
<b>Floating-rate items</b>					
Receivables	730.0	2,004.3			2,734.4
Liabilities	814.4	874.9	124.2		1,813.5
Net	-84.4	1,129.5	-124.2	0.0	920.8
<b>Fixed-rate items</b>					
Receivables	360.6	266.6	745.2	404.9	1,777.2
Liabilities	647.2	735.7	861.4	374.5	2,618.9
Net	-286.7	-469.2	-116.2	30.4	-841.7

#### Sensitivity analysis 2020

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 7.4 million (increase by EUR 0.6 million) over a period of 12 months. The change in net interest income would mainly be caused by the repricing of floating-rate receivables and liabilities at higher (lower) interest rates than on the balance sheet date. An increase of two percentage points in market interest rates on the balance sheet date would decrease the value of items measured at fair value by EUR 0.6 million. The financial value of Hypo would decrease by EUR 6.4 million due to a rise of 2 per cent in interest rates.

# FINANCIAL STATEMENTS 2021

## PARENT COMPANY INCOME STATEMENT

€1,000	Notes	1.1.-31.12.2021	1.1.-31.12.2020
Interest income	1	27,995.8	26,119.4
Interest expenses	1	-11,467.2	-12,884.0
<b>NET INTEREST INCOME</b>		<b>16,528.6</b>	<b>13,235.4</b>
Fee income	2	1,213.7	1,210.9
Fee expenses	2	-69.3	-427.1
Net income from currency operations and securities trading			
Net income from securities trading	3	1,671.7	754.4
Net income from financial assets at fair value through other comprehensive income	4	53.1	207.6
Net income from hedge accounting	5	31.8	-47.7
Net income from investment properties	6	2,900.9	2,992.6
Other operating income	7	1,875.0	1,841.7
Administrative expenses			
Personnel expenses			
Wages and salaries		-7,130.5	-6,006.9
Other personnel related costs			
Pension expenses		-145.1	-983.6
Other indirect personnel expenses		-322.7	-178.6
Other administrative expenses		-4,921.8	-3,380.6
		-12,520.2	-10,549.6
Depreciation and impairment losses on tangible and intangible assets	9	-563.2	-631.9
Other operating expenses	8	-3,072.5	-2,452.7
Net gains/losses on derecognition of financial assets measured at amortised cost	10	53.5	-67.0
<b>OPERATING PROFIT</b>		<b>8,103.2</b>	<b>6,066.6</b>
Appropriations			
Income taxes		-1,662.4	-1,218.9
<b>PROFIT FROM OPERATIONS AFTER TAXES</b>		<b>6,440.8</b>	<b>4,847.7</b>
<b>PROFIT FOR THE PERIOD</b>		<b>6,440.8</b>	<b>4,847.7</b>

# FINANCIAL STATEMENTS 2021

## PARENT COMPANY BALANCE SHEET

€1,000	Notes	31.12.2021	31.12.2020
<b>ASSETS</b>			
Cash	12, 34	388,200.0	359,150.0
Debt securities eligible for refinancing with central banks			
Treasury bills			
Other		191,526.2	219,333.5
	15, 32, 34, 49, 50, 51	191,526.2	219,333.5
Receivables from credit institutions			
Payable on demand		6,564.1	6,681.5
Other		47.3	1,775.9
	13, 32, 34	6,611.5	8,457.4
Receivables from the public and public sector entities			
Other than those payable on demand	14, 32, 34, 49, 50, 51	2,637,731.5	2,511,735.7
Debt securities	16, 34	23.9	23.9
From public sector entities	15, 32, 34	0.0	15,006.4
		0.0	15,006.4
Shares and holdings	16, 34	23.9	23.9
Shares and holdings in the same group of companies	16, 34	36,687.7	6,687.7
Derivative contracts	17–21, 34	14,250.5	26,731.9
Intangible assets			
Other long-term expenditure	22, 24	9,173.9	6,804.3
Tangible assets			
Investment properties and shares and holdings in investment properties	23, 24	51,060.7	53,016.6
Other properties and shares and holdings in housing property corporations	23, 24	2,104.3	2,104.3
Other tangible assets	24	515.5	463.1
		53,680.5	55,584.0
Other assets	25	13,066.0	9,024.1
Deferred income and advances paid	26	2,495.9	6,583.6
Deferred tax receivables	27	6.3	0.0
<b>TOTAL ASSETS</b>		<b>3,353,453.7</b>	<b>3,210,115.9</b>



# FINANCIAL STATEMENTS 2021

## PARENT COMPANY BALANCE SHEET

€1,000	Notes	31.12.2021	31.12.2020
<b>LIABILITIES</b>			
LIABILITIES			
Liabilities to credit institutions			
To central banks	32, 34	150,000.0	100,000.0
To credit institutions			
Other than those payable on demand	32, 34	1,717,250.9	1,590,571.8
Liabilities to the public and public sector entities			
Other liabilities			
Other than those payable on demand	32, 34	9,447.1	11,970.6
Debt securities issued to the public			
Bonds		1,260,394.3	1,283,448.5
Other		50,994.8	50,987.8
	28, 32, 34	1,311,389.0	1,334,436.2
Derivative instruments and other liabilities held for trading	17-21, 34	10,680.7	7,944.3
Other liabilities			
Other liabilities	29	20,805.6	36,807.4
Deferred expenses and advances received	30	5,209.5	6,387.3
Deferred tax liabilities	27	9,007.8	9,113.1
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		2,234.6	2,234.6
Other restricted reserves			
Reserve fund		40,839.9	37,632.4
Fair value reserve			
From valuation at fair value		424.7	871.1
Unrestricted reserves			
Other reserves		22,923.5	22,923.5
Retained earnings		8,453.0	6,029.2
PROFIT FOR THE PERIOD		6,440.8	4,847.7
	35	86,316.5	79,538.4
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3,353,453.7</b>	<b>3,210,115.9</b>

## OFF-BALANCE SHEET COMMITMENTS

€1,000	Notes	31.12.2021	31.12.2020
Commitments given on behalf of a customer for the benefit of a third party			
Guarantees and other liabilities		0.0	2,181.9
Irrevocable commitments given on behalf of a customer			
Granted but unclaimed loans		215,837.3	161,636.9
Owned housing company loan		920.0	920.0
		216,757.4	162,556.9
<b>OFF-BALANCE SHEET COMMITMENTS TOTAL</b>	40	<b>216,757.4</b>	<b>164,738.8</b>

# FINANCIAL STATEMENTS 2021

## CASH FLOW STATEMENT

€1,000	1.1.–31.12.2021	1.1.–31.12.2020
<b>Cash flow from operating activities</b>		
Interest received	32,101.4	27,274.9
Interest paid	-13,798.5	-12,935.0
Fee income	1,961.8	1,943.5
Fee expenses	-69.3	-427.1
Net income from securities and foreign currency transactions	1,671.7	754.4
Net income from financial assets at fair value through other comprehensive income	53.1	207.6
Net income from hedge accounting	31.8	-47.7
Net income from investment properties	2,844.4	2,965.4
Other operating income	1,409.3	1,354.1
Administrative expenses	-12,388.7	-8,271.5
Other operating expenses	-3,171.6	-2,523.1
Credit and guarantee losses	53.6	-67.3
Income taxes	-1,599.2	-1,799.8
<b>Total net cash flow from operating activities</b>	<b>9,099.8</b>	<b>8,428.3</b>
<b>Operating assets increase (-) / decrease (+)</b>		
Receivables from customers (lending)	-126,437.0	74,649.4
Cash collaterals, derivatives	-18,004.8	5,844.1
Investment properties	1,397.9	2,617.2
<b>Operating assets increase (-) / decrease (+) total</b>	<b>-143,043.9</b>	<b>83,110.7</b>
<b>NET CASH FLOWS ACCRUED FROM OPERATING ACTIVITIES</b>	<b>-133,944.1</b>	<b>91,539.0</b>
Change in fixed assets	-2,985.2	-4,057.6
Equity investments increase (-) / decrease (+)	-30,000.0	0.0
<b>NET CASH FLOWS ACCRUED FROM INVESTMENTS</b>	<b>-32,985.2</b>	<b>-4,057.6</b>
Bank loans, new withdrawals	2,054,055.7	1,983,274.1
Bank loans, repayments	-1,877,376.5	-2,031,771.6
Bonds, new issues	19,176.2	8,576.4
Bonds, repayments	-27,012.7	-7,380.0
Certificates of deposit, new issues	103,071.0	179,664.8
Certificates of deposit, repayments	-103,064.0	-165,160.2
Other liabilities, repayments	-2,523.5	-2,323.5
<b>NET CASH FLOWS ACCRUED FROM FINANCING</b>	<b>166,326.1</b>	<b>-35,120.0</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>-603.2</b>	<b>52,361.5</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>586,337.7</b>	<b>586,940.9</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>-603.2</b>	<b>52,361.5</b>

## ACCOUNTING POLICIES OF PARENT COMPANY

The Mortgage Society of Finland (hereinafter also "Hypoteekkiyhdistys", "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 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 and for the counterparty credit risk is calculated using the standard method and the capital requirement for operational risk is calculated using the basic method. Disclosures required under the EU Capital Requirements Regulation Part Eight are published at Group level in a separate document at the same time with the annual 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 presented in thousands of euros, unless otherwise stated. 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.

# FINANCIAL STATEMENTS 2021

## NOTES TO THE INCOME STATEMENT OF PARENT COMPANY

€ 1,000, unless otherwise indicated.

1. BREAKDOWN OF INTEREST INCOME AND EXPENSES BY BALANCE SHEET ITEM		2021	2020	
	to / from subsidiaries	Total	to / from subsidiaries	Total
Debt securities		16,983.0		17,858.8
Derivative contracts		281.1		525.7
Negative interest expenses		9,551.5		7,201.7
Other interest income		1,158.2		508.3
Total interest income		22.0		25.0
Total interest income	0.0	27,995.8	0.0	26,119.4
Liabilities to credit institutions	-2,436.3	-2,457.6	-3,814.9	-3,851.4
Liabilities to the public and public sector entities		-18.2		-22.9
Debt securities issued to the public		-5,546.5		-5,980.7
Derivative contracts		-1,901.7		-1,919.7
Negative interest income		-1,528.0		-1,109.2
Other interest expenses		-15.1		-0.1
Total interest expenses	-2,436.3	-11,467.2	-3,814.9	-12,884.0
2. FEE INCOME AND EXPENSE		2021	2020	
From lending		999.1		1,014.8
From legal assignments		201.4		164.8
From other operations		13.2		31.2
Total fee income		1,213.7		1,210.9
Other fee expenses		-69.3		-427.1
3. NET INCOME FROM CURRENCY OPETARIONS AND SECURITIES TRADING		2021	2020	
Gains and losses from disposals of financial instruments (net)				
Net income arising from items recognised based on the fair value option		777.9		2,232.6
Derivative contracts not in hedge accounting relationships		-820.64		-1,607.60
Gains and losses arising from measurement at fair value (net)				
Net income arising from items recognised based on the fair value option		-2,401.2		273.7
Derivative contracts not in hedge accounting relationships		4,115.7		-144.3
Net income from securities trading		1,671.7		754.4
Total		1,671.7		754.4
4. NET INCOME FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		2021	2020	
Net income from financial assets at fair value through other comprehensive income				
Capital gains from debt securities		53.1		207.6
Total		53.1		207.6
5. NET INCOME FROM HEDGE ACCOUNTING		2021	2020	
Change in fair value, hedging items		20,710.8		-7,116.2
Change in fair value, hedging instruments		-20,679.0		7,068.5
Total		31.8		-47.7

# FINANCIAL STATEMENTS 2021

## NOTES TO THE INCOME STATEMENT OF PARENT COMPANY

6. NET INCOME FROM INVESTMENT PROPERTIES	2021	2020
Rental income	1,796.8	1,892.5
Capital gains (losses)	487.9	230.8
Other income	1,334.1	1,259.7
Maintenance charges and other maintenance costs paid	-319.3	-343.0
Impairments	-346.7	
Other expenses	-51.8	-47.3
Total	2,900.9	2,992.6

7. OTHER OPERATING INCOME	2021	2020
Rental income, property assets in own use	15.4	15.0
Other income	1,859.7	1,826.7
Total	1,875.0	1,841.7

8. OTHER OPERATING EXPENSES	2021	2020
Rental expenses	-19.4	-45.0
Expenses from properties in own use	-245.8	-237.0
Other expenses	-2,807.3	-2,170.7
Total	-3,072.5	-2,452.7

9. DEPRECIATION AND IMPAIRMENT LOSSES ON TANGIBLE AND INTANGIBLE ASSETS	2021	2020
Depreciation according to plan	-563.2	-631.9

10. EXPECTED CREDIT LOSSES ON LOANS AND OTHER COMMITMENTS AND OTHER FINANCIAL ASSETS	2021	2020
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	118.0	-67.5
	-115.5	
	51.1	0.2
Off-balance sheet commitments, granted but unclaimed loans		
Expected credit losses, net change	-0.1	0.4
Total	53.5	-67.0

## 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.

2021	Combined amount of income	Operating profit	Total assets	Total liabilities	Personnel
Lending and deposits and other housing products and services	22,399.9	6,244.1	3,353,453.7	3,233,790.5	63
Other operations	1,875.0	1,859.1	0.0		
2020	Combined amount of income	Operating profit	Total assets	Total liabilities	Personnel
Lending and deposits and other housing products and services	18,353.2	4,238.6	3,210,115.9	3,097,230.8	60
Other operations	1,841.7	1,828.0	0.0		

# FINANCIAL STATEMENTS 2021

## NOTES TO THE PARENT COMPANY'S BALANCE SHEET

12. LIQUID ASSETS	2021	2020
O/N-deposits, central bank	387,700.0	358,650.0
	500.0	500.0
Total	388,200.0	359,150.0

13. RECEIVABLES FROM CREDIT INSTITUTIONS			2021
	Payable on demand	Other than those payable on demand	Total
From the central bank		47.3	47.3
From domestic credit institutions	4,984.3		4,984.3
From foreign credit institutions	1,579.8		1,579.8
	6,564.1	47.3	6,611.5
			2020
	Payable on demand	Other than those payable on demand	Total
From the central bank		33,2	33,2
From domestic credit institutions	5,263.7	1,742.7	7,006.4
From foreign credit institutions	1,417.7		1,417.7
	6,681.5	1,775.9	8,457.4

		2021	2020
14. RECEIVABLES FROM THE PUBLIC AND PUBLIC SECTOR ENTITIES		Expected credit loss allowance	Expected credit loss allowance
Companies and housing corporations	1,768,296.0	0.1	1,691,696.2
Households	857,111.2	210.8	810,551.3
Non-profit organisations serving households	422.2		447.4
Foreign countries	12,113.0		9,369.7
Total	2,637,942.4	210.9	2,512,064.6
Non performing loans	3,803.1		2,667.0
Impairment losses on receivables recognised during the period			
Impairment losses at the beginning of the year	328.9		261.4
Net impairment losses	-118.0		67.5
Impairment losses at the end of the year	210.9		328.9
Final credit losses on receivables recognised during the period	115.5		

15. DEBT SECURITIES				2021
	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	20,731.0		20,731.0	
	57,083.7		57,083.7	
Option to designate a financial asset at fair value				
Government bonds	94,813.5		94,813.5	
Those issued by other than public sector entities				
Option to designate a financial asset at fair value				
Bonds issued by banks	18,897.9		18,897.9	
Total debt securities	191,526.2		191,526.2	
Receivables eligible for refinancing with central banks			191,526.2	



# FINANCIAL STATEMENTS 2021

## NOTES TO THE PARENT COMPANY'S BALANCE SHEET

### 15. DEBT SECURITIES

2020

	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	118,713.9		118,713.9	
Option to designate a financial asset at fair value				
Government bonds	85,845.0		85,845.0	
Those issued by other than public sector entities				
Option to designate a financial asset at fair value				
Bonds issued by banks	14,774.6		14,774.6	
Total debt securities	219,333.5		219,333.5	
Receivables eligible for refinancing with central banks			219,333.5	

### 16. SHARES AND HOLDINGS

2021

	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		36,687.7	36,687.7	6,687.7
Shares and holdings, total	0.0	36,687.7	36,687.7	6,687.7
Of which at acquisition cost		36,711.5	36,711.5	

2020

	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	6,687.7	6,687.7	6,687.7
Of which at acquisition cost		6,711.5	6,711.5	

### 17. DERIVATIVE CONTRACTS

2021

	Book value			
	Assets		Liabilities	
Derivative contracts in hedge accounting relationships				
OTC Interest rate swaps, fair value hedge accounting model, fair value		14,016.6		7,004.7
Derivative contracts not in hedge accounting relationships				
OTC Interest rate swaps, fair value		233.9		3,676.0
Total		14,250.5		10,680.7
Remaining maturity	less than one year	1–5 years	5–10 years	Total
Nominal values of the underlying instruments	136,000.0	974,417.7	295,000.0	1,405,417.7
Fair value, assets	584.7	13,665.7		14,250.5
Fair value, liabilities	187.7	2,907.8	7,585.2	10,680.7

The accounting policy for derivative contracts was changed in 2021. The fair value of the contracts in 2021 contains the accrued interest (dirty value). In 2020, the fair value is presented without the accrued interest (clean value) and the accrued interest is presented separately.

# FINANCIAL STATEMENTS 2021

## NOTES TO THE PARENT COMPANY'S BALANCE SHEET

### 17. DERIVATIVE CONTRACTS

2020

			Book value	
			Assets	Liabilities
Derivative contracts in hedge accounting relationships				
OTC Interest rate swaps, fair value hedge accounting model, fair value				
Koronvaihtosopimukset, käyvän arvon suojaus, käypä arvo			26,261.1	542.3
Ei-suojaavat johdannaiset				
Koronvaihtosopimukset, käypä arvo			470.8	7,402.0
			26,731.9	7,944.3
OTC Interest rate and currency swaps, accrued interest			3,687.5	3,759.5
Total			30,419.4	11,703.9
Remaining maturity	less than one year	1–5 years	5–10 years	Total
Nominal values of the underlying instruments	275,000.0	781,000.0	364,465.9	1,420,465.9
Fair value, assets	451.4	15,520.2	10,760.3	26,731.9
Fair value, liabilities	63.4	3,208.3	4,672.6	7,944.3

### 18. HEDGE ACCOUNTING, MATURITY

2021

	<3 months	3-12 months	1-5 years	5-10 years
Fair value Hedges				
Notional		60 000,0	909 417,7	250 000,0
Average fixed interest rate			0,17%	0,01%

2020

	<3 months	3-12 months	1-5 years	5-10 years
Fair value Hedges				
Notional		250 000,0	660 000,0	309 465,9
Average fixed interest rate			0,41%	0,50%

### 19. INSTRUMENTS USED FOR HEDGE ACCOUNTING

2021

	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	1 219 417,7	14 016,6	7 004,7	Derivative contracts	-20 408,4

2020

	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	1 219 465,9	26 261,1	542,3	Derivative contracts	6 929,4

The accounting policy for derivative contracts was changed in 2021. The fair value of the contracts in 2021 contains the accrued interest (dirty value). In 2020, the fair value is presented without the accrued interest (clean value).

### 20. HEDGED EXPOSURES

2021

	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		1 005 172,4		-6 229,6	Debt securities issued to the public	20 710,8
Receivables from the public and public sector entities	18 845,1		273,1		Receivables from the public and public sector entities	-270,6

# FINANCIAL STATEMENTS 2021

## NOTES TO THE PARENT COMPANY'S BALANCE SHEET

### 20. HEDGED EXPOSURES

2020

	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		1,206,493.6		-26,940.5	Debt securities issued to the public	-7,116.2
Receivables from the public and public sector entities	18,929.9		543.7		Receivables from the public and public sector entities	139.1

### 21. HEDGE EFFECTIVENESS

2021

	Gains/(loss) recognised in OCI	Hedge Ineffectiveness recognised in P&L	P&L line item that includes hedge ineffectiveness
Fair value Hedges			
Interest rate swaps		31.8	Net income from hedge accounting

2020

	Gains/(loss) recognised in OCI	Hedge Ineffectiveness recognised in P&L	P&L line item that includes hedge ineffectiveness
Fair value Hedges			
Interest rate swaps		-47.7	Net income from hedge accounting

### 22. INTANGIBLE ASSETS

2021

2020

IT programs and projects	8,589.0	6,095.1
Other intangible assets	584.9	709.2
	9,173.9	6,804.3

### 23. TANGIBLE ASSETS

2021

2020

Investment properties and investment property shares, balance sheet value		
Land and water areas	2,489.3	2,579.7
Shares and holdings in housing property corporations	48,571.4	50,436.9
Total balance sheet value	51,060.7	53,016.6
Total fair value of investment properties	53,441.8	55,973.5
Other properties and shares in housing property corporations, balance sheet value		
In own use		
Land and water areas	2,104.3	2,104.3
Total balance sheet value	2,104.3	2,104.3
Total fair value of other properties	4,400.0	4,050.8

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.

# FINANCIAL STATEMENTS 2021

## NOTES TO THE PARENT COMPANY'S BALANCE SHEET

### 24. CHANGES IN INTANGIBLE AND TANGIBLE ASSETS DURING THE FINANCIAL PERIOD

2021

	Intangible assets	Investment properties and investment property shares	Other properties and housing property shares	Other tangible assets	Total tangibles
Acquisition cost 1 January 2021	9,706.8	52,786.4	1.0	2,647.5	55,434.8
Increases	4,333.3	1,963.6		260.6	2,224.2
Deductions	-1,531.5	-3,572.8		-76.8	-3,649.6
<b>Acquisition cost 31 December 2021</b>	<b>12,508.6</b>	<b>51,177.2</b>	<b>1.0</b>	<b>2,831.3</b>	<b>54,009.4</b>
Accumulated depreciation and impairment losses 1 Jan 2020	2,902.5	798.6		2,184.4	2,983.0
Depreciation for the period	432.2			131.3	131.3
Impairment losses for the period		346.7			346.7
<b>Accumulated depreciation and impairment losses 31 December 2021</b>	<b>3,334.7</b>	<b>1,145.3</b>	<b>0.0</b>	<b>2,315.7</b>	<b>3,461.0</b>
Revaluations 1 January 2021		1,028.8	2,103.4		3,132.2
<b>Book value 31 December 2021</b>	<b>9,173.9</b>	<b>51,060.7</b>	<b>2,104.3</b>	<b>515.5</b>	<b>53,680.5</b>

2020

	Intangible assets	Investment properties and investment property shares	Other properties and housing property shares	Other tangible assets	Total tangibles
Acquisition cost 1 January 2020	5,943.4	55,269.4	1.0	2,353.2	57,623.6
Increases	3,763.3	829.6		294.2	1,123.8
Deductions		-3,312.6			-3,312.6
<b>Acquisition cost 31 December 2020</b>	<b>9,706.8</b>	<b>52,786.4</b>	<b>1.0</b>	<b>2,647.5</b>	<b>55,434.8</b>
Accumulated depreciation and impairment losses 1 Jan 2020	2,344.0	798.6		2,111.0	2,909.6
Depreciation for the period	558.5			73.4	73.4
<b>Accumulated depreciation and impairment losses 31 December 2020</b>	<b>2,902.5</b>	<b>798.6</b>	<b>0.0</b>	<b>2,184.4</b>	<b>2,983.0</b>
Revaluations 1 January 2020		1,028.8	2,103.4		3,132.2
<b>Book value 31 December 2020</b>	<b>6,804.3</b>	<b>53,016.6</b>	<b>2,104.3</b>	<b>463.1</b>	<b>55,584.0</b>

### 25. OTHER ASSETS

2021

2020

Other receivables	13,066.0	9,024.1
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### 26. DEFERRED INCOME AND ADVANCES PAID

2021

2020

Interest receivables	1,937.6	6,043.1
Other deferred income	558.3	540.5
Total	2,495.9	6,583.6

### 27. DEFERRED TAX RECEIVABLES AND LIABILITIES

2021

2020

	Tax receivables	Tax liabilities	Tax receivables	Tax liabilities
Deferred tax of revaluation reserve of real estate investments		558.7		558.7
Deferred tax of fair value reserves	6.3	112.4		217.8
Deferred tax of loan loss provision		8,336.7		8,336.7
Total	6.3	9,007.8	0.0	9,113.1

### 28. DEBT SECURITIES ISSUED TO THE PUBLIC

2021

2020

	Book value	Nominal value	Book value	Nominal value
Other than those payable on demand				
Bonds	1,260,394.3	1,260,000.0	1,283,448.5	1,260,000.0
Certificates of deposit and commercial papers	50,994.8	51,000.0	50,987.8	51,000.0
Total	1,311,389.0	1,311,000.0	1,334,436.2	1,311,000.0

# FINANCIAL STATEMENTS 2021

## NOTES TO THE PARENT COMPANY'S BALANCE SHEET

29. OTHER LIABILITIES	2021	2020
Other liabilities	20,805.6	36,807.4

30. DEFERRED EXPENSES AND ADVANCES RECEIVED	2021	2020
Interest liabilities	1,789.1	4,120.4
Advance payments received	31.8	37.9
Other deferred expenses	3,388.6	2,229.0
Total	5,209.5	6,387.3

31. LIABILITIES ACCORDING TO THE ACT ON RESOLUTION OF CREDIT INSTITUTIONS AND INVESTMENT FIRMS	2021	2020
Senior unsecured liabilities		66,290.1
of which the remaining maturity is less than one year		15,302.3
Common Equity Tier 1 (CET1) capital	112,064.2	107,182.8
Liabilities according to the Act on Resolution of Credit Institutions and Investment Firms total	112,064.2	122,485.1

32. MATURITY DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES	2021					
	<3 months	3-12 months	1-5 years	5-10 years	>10 years	Total
Receivables from credit institutions	6,611.5					6,611.5
Receivables from the public and public sector entities	26,407.0	122,573.0	643,480.0	689,016.0	1,156,255.5	2,637,731.5
Debt securities		77,814.7	41,511.5	72,200.0		191,526.2
Total	33,018.5	200,387.7	684,991.5	761,216.0	1,156,255.5	2,835,869.2
Liabilities to credit institutions	1,348,826.7	312,434.9	150,137.2		55,852.1	1,867,250.9
Liabilities to the public and public sector entities	0.0	9,200.0	247.1			9,447.1
Debt securities issued to the public	28,999.3	82,327.4	908,493.0	291,569.3		1,311,389.0
Total	1,377,826.0	403,962.3	1,058,877.3	291,569.3	55,852.1	3,188,087.0

	2020					
	<3 months	3-12 months	1-5 years	5-10 years	>10 years	Total
Receivables from credit institutions	8,457.4					8,457.4
Receivables from the public and public sector entities	26,486.0	133,105.0	591,644.0	653,983.0	1,106,517.7	2,511,735.7
Debt securities		61,301.6	99,801.3	58,230.6		219,333.5
Total	34,943.4	194,406.6	691,445.3	712,213.6	1,106,517.7	2,739,526.5
Liabilities to credit institutions	1,321,701.3	238,627.0	105,237.9		25,005.7	1,690,571.8
Liabilities to the public and public sector entities		11,600.0	370.6			11,970.6
Debt securities issued to the public	27,993.5	324,207.9	672,211.8	310,023.0		1,334,436.2
Total	1,349,694.8	574,434.9	777,820.3	310,023.0	25,005.7	3,036,978.6

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

Balance sheet items do not include foreign currency items.

# FINANCIAL STATEMENTS 2021

## NOTES TO THE PARENT COMPANY'S BALANCE SHEET

### 34. FAIR VALUES AND BOOK VALUES OF FINANCIAL ASSETS AND LIABILITIES

2021

	Classification	Fair value determination principle	Book value	Fair value	Book value in the same group
Liquid assets	Amortised cost		388,200.0	388,200.0	
Receivables from credit institutions	Amortised cost		6,611.5	6,611.5	
Receivables from the public and public sector entities	Amortised cost		2,637,731.5	2,637,731.5	1,365.9
Debt securities	Fair value through other comprehensive income	1	77,814.7	77,814.7	
Debt securities	Option to designate a financial asset at fair value	1	113,711.5	113,711.5	
Derivative contracts*	Fair value through profit or loss	2	14,250.5	14,250.5	
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	36,687.7	36,687.7	36,687.7
Total			3,275,031.2	3,275,031.2	38,053.6
Liabilities to credit institutions	Amortised cost		1,867,250.9	1,867,250.9	1,716,140.1
Liabilities to the public and public sector entities	Amortised cost		9,447.1	9,447.1	
Debt securities issued to the public	Amortised cost		1,311,389.0	1,311,389.0	
Derivative contracts*	Fair value through profit or loss	2	10,680.7	10,680.7	
Total			3,198,767.7	3,198,767.7	1,716,140.1

Fair value determination principles:

1: Quoted prices in active markets. 2: Verifiable price, other than quoted. 3: Unverifiable market price

\*The accounting policy for derivative contracts was changed in 2021. The fair value of the contracts in 2021 contains the accrued interest (dirty value). In 2020, the fair value is presented without the accrued interest (clean value).

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 including accrued interest.

2020

	Classification	Fair value determination principle	Book value	Fair value	Book value in the same group
Liquid assets	Amortised cost		359,150.0	359,150.0	
Receivables from credit institutions	Amortised cost		8,457.4	8,457.4	
Receivables from the public and public sector entities	Amortised cost		2,511,735.7	2,511,735.7	1,513.2
Debt securities	Fair value through other comprehensive income	1	118,713.9	118,713.9	
Debt securities	Option to designate a financial asset at fair value	1	100,619.6	100,619.6	
Derivative contracts	Fair value through profit or loss	2	26,731.9	26,731.9	
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			3,132,119.9	3,132,119.9	8,200.9
Liabilities to credit institutions	Amortised cost		1,690,571.8	1,690,571.8	1,587,240.1
Liabilities to the public and public sector entities	Amortised cost		11,970.6	11,970.6	
Debt securities issued to the public	Amortised cost		1,334,436.2	1,334,436.2	
Derivative contracts	Fair value through profit or loss	2	7,944.3	7,944.3	
Total			3,044,923.0	3,044,923.0	1,587,240.1

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.



# FINANCIAL STATEMENTS 2021

## NOTES TO THE PARENT COMPANY'S BALANCE SHEET

### 35. EQUITY

	2020							
	Basic capital	Revaluation reserve	Reserve fund	Fair value reserve	Other reserves	Untaxed reserves	Retained earnings	Total
<b>Equity 1 Jan 2020</b>	<b>5,000.0</b>	<b>2,243.4</b>	<b>33,553.4</b>	<b>755.0</b>	<b>22,923.5</b>	<b>33,346.7</b>	<b>9,431.7</b>	<b>107,253.7</b>
Financial assets available for sale								
Change in fair value				352.8				352.8
Amount transferred to the income statement				-207.6				-207.6
Cancellation of properties' revaluations		-10.9						-10.9
The decision of the Annual General Meeting for the disposal of profits			3,402.5				-3,402.5	0.0
Entry fees			676.4					676.4
Profit for the period							4,847.7	4,847.7
Change in deferred taxes		2.2		-29.0				-26.8
<b>Equity 31 Dec 2020</b>	<b>5,000.0</b>	<b>2,234.6</b>	<b>37,632.4</b>	<b>871.1</b>	<b>22,923.5</b>	<b>33,346.7</b>	<b>10,876.8</b>	<b>112,885.1</b>

  

	2021							
	Basic capital	Revaluation reserve	Reserve fund	Fair value reserve	Other reserves	Untaxed reserves	Retained earnings	Total
<b>Equity 1 Jan 2021</b>	<b>5,000.0</b>	<b>2,234.6</b>	<b>37,632.4</b>	<b>871.1</b>	<b>22,923.5</b>	<b>33,346.7</b>	<b>10,876.8</b>	<b>112,885.1</b>
Financial assets available for sale								
Change in fair value				-504.9				-504.9
Amount transferred to the income statement				-53.1				-53.1
The decision of the Annual General Meeting for the disposal of profits			2,423.8				-2,423.8	0.0
Entry fees			783.7					783.7
Profit for the period							6,440.8	6,440.8
Change in deferred taxes				111.6				111.6
<b>Equity 31 Dec 2021</b>	<b>5,000.0</b>	<b>2,234.6</b>	<b>40,839.9</b>	<b>424.7</b>	<b>22,923.5</b>	<b>33,346.7</b>	<b>14,893.8</b>	<b>119,663.2</b>

### 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

### 37. COLLATERAL PLEDGED AND RECEIVED

	2021	2020
Collateral pledged for own liabilities	Other, collaterals	Other, collaterals
Liabilities to the central bank	210,859.7	158,903.0
Debt securities issued to the public	1,625,968.6	1,678,271.8
Derivative contracts	21,193.6	12,214.0
Encumbered assets total	1,858,021.9	1,849,388.7

  

	2021	2020
Collateral received	Other, collaterals	Other, collaterals
Liabilities to the central bank		
Debt securities issued to the public		
Derivative contracts	13,630.0	29,500.0
Collateral received total	13,630.0	29,500.0

### 38. PENSION OBLIGATIONS

	2021	2020
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.		

# FINANCIAL STATEMENTS 2021

## NOTES CONCERNING PARENT COMPANY'S COLLATERAL AND CONTINGENT LIABILITIES

<b>39. LEASING AND OTHER LIABILITIES</b>	<b>2021</b>	<b>2020</b>
Minimum rents paid on the basis of leasing and other rental agreements		
Within one year	27.2	149.4
Within more than a year and at most within five years	5.2	10.7
Total	32.5	160.1
<b>40. OFF-BALANCE SHEET COMMITMENTS</b>	<b>2021</b>	<b>2020</b>
Commitments given on behalf of a customer for the benefit of a third party		
Guarantees and other liabilities		2,181.9
Irrevocable commitments given on behalf of a customer		
Granted but unclaimed loans	215,837.3	161,636.9
Housing company loan allocated to owned housing units	920.0	920.0
Total	216,757.4	164,738.8

## NOTES CONCERNING THE AUDITOR'S FEE

<b>41. AUDITOR'S FEES</b>	<b>2021</b>	<b>2020</b>
Fees paid to the auditor for the audit	92.8	88.7
Fees paid to the auditor for other services, parent company	23.0	6.8
Total	115.7	95.5

Amounts (VAT 0%) are presented by assignment for year 2021 and 2020 accordingly.

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

<b>42. NUMBER OF PERSONNEL</b>	<b>2021</b>		<b>2020</b>	
	Average number	At the end of the period	Average number	At the end of the period
Permanent full-time personnel	56	55	58	57
CEO and the vice CEO	2	2	2	2
Temporary personnel	4	8	2	3
Total	62	65	62	62

<b>43. SALARIES AND REMUNERATION PAID TO MANAGEMENT</b>	<b>2021</b>	<b>2020</b>
CEO and vice CEO total salaries	524.1	512.6

In case of a notice, the CEO and the vice CEO are paid a payment corresponding to the CEO's four (4) months' salary in addition to the salary payable 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 and the vice CEO are covered by Hypo's performance-related pay and incentive scheme of which they have an opportunity to obtain at most a payment corresponding to 20 weeks' salary. The total salaries do not include compensations based on performance-related pay and incentive scheme, as they were paid as an insurance payment corresponding to five (5) weeks salary to the M-department of the Pension Fund of the Mortgage Society of Finland. The insurance payment was 24,000 euros for the CEO and 15,221 euros for the vice CEO. The insurance payment for the CEO and the vice CEO may be cancelled or retained during three (3) years after the earnings year.

	<b>2021</b>	<b>2020</b>
<b>Board of Directors</b>		
Total remuneration, chair	58.3	55.9
Total remuneration, vice chair	40.4	38.2
Total remunerations, members	146.7	150.6
Total	245.4	244.6
<b>Supervisory Board</b>		
Total remuneration, chair	16.5	12.8
Total remuneration, vice chair	9.7	7.5
Total remunerations, members	69.3	65.3
Total	95.5	85.6
<b>Members of the Management Group (exc. vice CEO)</b>		
Total remunerations	652.2	617.8

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 Remuneration Policy for Governing Bodies 2021 and Other Remuneration information 2021 of The Mortgage Society of Finland Group, which is published on Hypo's website at [www.hypo.fi/en/investor-relations/](http://www.hypo.fi/en/investor-relations/)

# FINANCIAL STATEMENTS 2021

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

44. LOANS GRANTED TO THE RELATED PARTIES	2021	2020
CEO and vice CEO	148.6	172.4
Management Group	172.3	65.8
Board of Directors	45.4	194.4
Supervisory Board	337.1	404.0
Joint operations	1,365.9	1,513.2
Other related parties	1,206.2	520.5
Total	3,275.5	2,870.3

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

45. INFORMATION ABOUT OWNERSHIPS	2021			
	Domicile	Holding, %	Equity	Result for the period
<b>Subsidiaries combined in the consolidated financial statements</b>				
Suomen Asuntopopankki Oy	Helsinki	100.0	56,530.5	218.8
<b>Other</b>				
Bostadsaktiebolaget Taos	Helsinki	54.6	6,760.4	45.1
As Oy Vanhaväylä 17	Helsinki	80.4	2,115.2	5.6
As Oy Helsingin Eiran Helmi	Helsinki	28.3	2,363.7	0.0

Amounts presented as result for the period and as equity for Bostadsaktiebolaget Taos is based on unaudited financial statements from financial year 2021. Profit for the period and shareholders' equity of other ownerships are indicated in accordance with the year's 2020 adopted financial statements of the company.

	2020			
	Domicile	Holding, %	Equity	Result for the period
<b>Subsidiaries combined in the consolidated financial statements</b>				
Suomen Asuntopopankki Oy	Helsinki	100.0	26,311.7	1,017.6
<b>Muut</b>				
Bostadsaktiebolaget Taos	Helsinki	54.6	6,715.6	297.4
As Oy Vanhaväylä 17	Helsinki	80.4	2,109.6	7.9
As Oy Helsingin Eiran Helmi	Helsinki	30.1	2,363.7	-1.8
As Oy Helsingin Lauttasaarenranta	Helsinki	20.1	18,838.8	0.0

Amounts presented as result for the period and as equity for Bostadsaktiebolaget Taos is based on unaudited financial statements from financial year 2020. Profit for the period and shareholders' equity of other ownerships are indicated in accordance with the year's 2019 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.

# FINANCIAL STATEMENTS 2021

## NOTES CONCERNING THE RISK MANAGEMENT OF THE PARENT COMPANY

### 47. MAXIMUM AMOUNT OF CREDIT AND COUNTERPARTY RISK

	2021			2020		
	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
<b>Lending</b>						
Not fallen due	2,342,235.9	75.8	2,289,091.2	2,235,946.4	108.6	2,231,429.6
Past due by 1–2 days*	273,192.7	1.5	268,221.6	263,250.6	1.9	301,703.0
Past due by 3 days–1 month	18,099.1	0.0	14,074.1	10,049.1	0.3	14,093.0
Past due by 1–3 months	2,086.6	4.5	2,790.2	3,493.8	59.7	2,479.7
Non-performing, past due by less than 3 months**	2,102.8		1,184.2	265.6		169.6
Non-performing, past due by more than 3 months	1,700.3	129.2	2,065.6	2,431.0	158.4	2,519.6
<b>Total lending</b>	<b>2,639,417.5</b>	<b>210.9</b>	<b>2,577,427.0</b>	<b>2,515,436.5</b>	<b>328.9</b>	<b>2,552,394.4</b>
<b>Other</b>						
Receivables from credit institutions						
Not fallen due	6,611.5		7,534.4	8,457.4		8,411.7
Debt securities						
Not fallen due	191,526.2		205,429.9	219,333.5		251,010.5
Shares and holdings	36,711.5		21,711.5	6,711.5		6,711.5
Derivative contracts						
Not fallen due	14,250.5		22,334.9	30,419.4		26,654.5
<b>Total other</b>	<b>249,099.7</b>	<b>0.0</b>	<b>257,010.7</b>	<b>264,921.8</b>	<b>0.0</b>	<b>292,788.3</b>
Non-performing loans/total lending, %	0.14%			0.11%		

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

	2021			
Lending by category	Book value	Expected credit loss allowance	Total book value	%
Households	869,224.2	210.8	869,013.4	33%
Housing companies	1,737,371.7	0.1	1,737,371.6	66%
Private companies (housing investors)	25,902.6	0.0	25,902.6	1%
Other	5,443.9		5,443.9	0%
<b>Total</b>	<b>2,637,942.4</b>	<b>210.9</b>	<b>2,637,731.5</b>	<b>100%</b>
Lending by purpose of use				
Permanent dwelling	2,577,332.3	145.8	2,577,186.5	98%
Consumer loan	30,125.2	65.1	30,060.1	1%
Holiday home	8,509.7	0.0	8,509.7	0%
Other	21,975.2	0.0	21,975.2	1%
<b>Total</b>	<b>2,637,942.4</b>	<b>210.9</b>	<b>2,637,731.5</b>	<b>100%</b>
Lending by province				
Uusimaa	2,063,093.6	83.5	2,063,010.1	78%
Rest of Finland	574,848.8	127.4	574,721.4	22%
<b>Total</b>	<b>2,637,942.4</b>	<b>210.9</b>	<b>2,637,731.5</b>	<b>100%</b>

# FINANCIAL STATEMENTS 2021

## NOTES CONCERNING THE RISK MANAGEMENT OF THE PARENT COMPANY

### 48. CONCENTRATION OF LENDING

2020

Lending by category	Book value	Expected credit loss allowance	Total book value	%
Households	819,935,6	328,8	819,606,8	33%
Housing companies	1,633,298,6	0,0	1,633,298,6	65%
Private companies (housing investors)	51,545,8	0,1	51,545,7	2%
Other	7,284,6		7,284,6	0%
Total	2,512,064,6	328,9	2,511,735,7	100%
Lending by purpose of use				
Permanent dwelling	2,449,980,6	147,0	2,449,833,6	98%
Consumer loan	30,081,8	66,5	30,015,3	1%
Holiday home	8,621,1	115,4	8,505,7	0%
Other	23,381,1	0,0	23,381,1	1%
Total	2,512,064,6	328,9	2,511,735,7	100%
Lending by province				
Uusimaa	1,943,339,6	82,2	1,943,257,4	77%
Rest of Finland	568,724,9	246,7	568,478,2	23%
Total	2,512,064,6	328,9	2,511,735,7	100%

### 49. IFRS 9 BY RISK CATEGORY

2021

Debt securities by risk category	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit-impaired (stage 3)	Total
Debt securities, Fair value through other comprehensive income				
Risk class 1-5				0.0
Risk class 6-10				0.0
Risk class 11-15				0.0
Rating not classified	77,814.7			77,814.7
Loss allowance				0.0
Write-offs				0.0

2020

Debt securities by risk category	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit-impaired (stage 3)	Total
Debt securities, Fair value through other comprehensive income				
Risk class 1-5				0.0
Risk class 6-10				0.0
Risk class 11-15				0.0
Rating not classified	118,713.9			118,731.9
Loss allowance				0.0
Write-offs				0.0

2021

Receivables from the public and public sector entities by risk category	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit-impaired (stage 3)	Total
Off balance sheet, granted but undrawn loans, amortised cost				
Risk class 1-5				0.0
Risk class 6-10				0.0
Risk class 11-15				0.0
Rating not classified	2,618,554.5	15,373.9	3,803.1	2,637,731.5
Loss allowance	9.6	72.1	129.2	210.9
Write-offs				0.0
Total	2,618,544.9	15,301.7	3,674.0	2,637,520.6

# FINANCIAL STATEMENTS 2021

## NOTES CONCERNING THE RISK MANAGEMENT OF THE PARENT COMPANY

### 49. IFRS 9 BY RISK CATEGORY

2020

Receivables from the public and public sector entities by risk category	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit-impaired (stage 3)	Total
Off balance sheet, granted but undrawn loans, amortised cost				
Risk class 1-5				0.0
Risk class 6-10				0.0
Risk class 11-15				0.0
Rating not classified	2,496,130.4	12,938.2	2,667.0	2,511,735.7
Loss allowance	12.2	72.4	244.3	328.9
Write-offs				0.0
Total	2,496,118.3	12,865.8	2,422.7	2,511,406.8

2021

Off balance sheet, granted but undrawn loans by risk category	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit-impaired (stage 3)	Total
Off balance sheet, granted but undrawn loans, amortised cost				
Risk class 1-5				0.0
Risk class 6-10				0.0
Risk class 11-15				0.0
Rating not classified	215,764.5	72.9	0.0	215,837.3
Loss allowance	0.1			0.1
Write-offs				0.0
Total	215,764.3	72.9	0.0	215,837.2

2020

Off balance sheet, granted but undrawn loans by risk category	12-month ECL (stage 1)	Lifetime ECL (stage 2)	Lifetime ECL, credit-impaired (stage 3)	Total
Off balance sheet, granted but undrawn loans, amortised cost				
Risk class 1-5				0.0
Risk class 6-10				0.0
Risk class 11-15				0.0
Rating not classified	161,621.4	15.5		161,636.9
Loss allowance	0.0			0.0
Write-offs				0.0
Total	161,621.3	15.5	0.0	161,636.9

### 50. IFRS 9 LOSS ALLOWANCE CHANGES AND TRANSITIONS

2021

Debt securities, Fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2021				0.0
New financial assets				0.0
Maturities and repayments				0.0
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 2021	0.0	0.0	0.0	0.0



# FINANCIAL STATEMENTS 2021

## NOTES CONCERNING THE RISK MANAGEMENT OF THE PARENT COMPANY

### 50. IFRS 9 LOSS ALLOWANCE CHANGES AND TRANSITIONS

2020

Debt securities, Fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2020				0.0
New financial assets	-0.8			-0.8
Maturities and repayments	0.8			0.8
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 2020	0.0	0.0	0.0	0.0

2021

Receivables from the public and public sector entities, amortised cost	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2021	12.2	72.4	244.3	328.9
New financial assets (new loans)	4.4			4.4
Maturities and repayments	-1.2	-5.7	-9.0	-15.8
Write-offs			-115.3	-115.3
Write-offs recoveries				0.0
Normal changes, e.g change without stage change	-5.5	2.7	9.2	6.3
Transfer to 12-month stage 1			0.0	0.0
Transfer to lifetime stage 2 not credit-impaired	-0.2			-0.2
Transfer to lifetime stage 3 credit-impaired	0.0	-0.2		-0.2
Changes to model assumptions and methodologies				0.0
Manual correction by loan		2.9	0.0	2.9
Loss allowance as at 31 December 2021	9.6	72.1	129.2	210.9

2020

Receivables from the public and public sector entities, amortised cost	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2020	20.4	44.9	196.1	261.4
New financial assets (new loans)	6.0	7.1		13.1
Maturities and repayments	-2.4	-4.0	-10.2	-16.6
Write-offs				0.0
Write-offs recoveries				0.0
Normal changes, e.g change without stage change	-11.6	-7.7	6.0	-13.2
Transfer to 12-month stage 1				0.0
Transfer to lifetime stage 2 not credit-impaired	-0.2			-0.2
Transfer to lifetime stage 3 credit-impaired			0.0	0.0
Changes to model assumptions and methodologies				0.0
Manual correction by loan		32.0	52.4	84.4
Loss allowance as at 31 December 2020	12.2	72.4	244.3	328.9

# FINANCIAL STATEMENTS 2021

## NOTES CONCERNING THE RISK MANAGEMENT OF THE PARENT COMPANY

### 50. IFRS 9 LOSS ALLOWANCE CHANGES AND TRANSITIONS

2021

Off balance sheet, granted but undrawn loans by risk category	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2021	0.0			0.0
New financial assets	0.1			0.1
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
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 2021	0.1	0.0	0.0	0.1

2020

Off balance sheet, granted but undrawn loans by risk category	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2020	0.4			0.4
New financial assets	0.0			0.0
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			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 2020	0.0	0.0	0.0	0.0

### 51. IFRS 9 CHANGES IN THE CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

2021

Debt securities, Fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Carrying amount as at 1 January 2021	118,713.9	0.0	0.0	118,713.9
Transfers				
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				0.0
Transfer from Stage 3 to Stage 1				0.0
New financial assets	37,000.0			37,000.0
Maturities and repayments	-77,899.2			-77,899.2
Write-offs				0.0
Write-offs recoveries				0.0
Carrying amount as at 31 December 2021	77,814.7	0.0	0.0	77,814.7

# FINANCIAL STATEMENTS 2021

## NOTES CONCERNING THE RISK MANAGEMENT OF THE PARENT COMPANY

### 51. IFRS 9 LOSS ALLOWANCE CHANGES AND TRANSITIONS

2020

Debt securities, Fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Carrying amount as at 1 January 2020	123,722.0			123,722.0
Transfers				
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				0.0
Transfer from Stage 3 to Stage 1				0.0
New financial assets	20,500.0			20,500.0
Maturities and repayments	-25,508.0			-25,508.0
Write-offs				0.0
Write-offs recoveries				0.0
Carrying amount as at 31 December 2020	118,713.9	0.0	0.0	118,713.9

2021

Receivables from the public and public sector entities, amortised cost	Stage 1	Stage 2	Stage 3	Total
Carrying amount as at 1 January 2021	2,496,130.4	12,938.2	2,667.0	2,511,735.7
Transfers	-6,537.2	4,598.2	1,939.0	0.0
Transfer from Stage 1 to Stage 2	-9,599.6	9,599.6		0.0
Transfer from Stage 1 to Stage 3	-1,136.2		1,136.2	0.0
Transfer from Stage 2 to Stage 3		-926.6	926.6	0.0
Transfer from Stage 3 to Stage 2				0.0
Transfer from Stage 2 to Stage 1	4,074.8	-4,074.8		0.0
Transfer from Stage 3 to Stage 1	123.8		-123.8	0.0
New financial assets	550,596.1			550,596.1
Maturities and repayments	-421,634.9	-2,162.6	-687.5	-424,485.0
Write-offs			-115.3	-115.3
Write-offs recoveries				0.0
Carrying amount as at 31 December 2021	2,618,554.5	15,373.9	3,803.1	2,637,731.5

2020

Receivables from the public and public sector entities, amortised cost	Stage 1	Stage 2	Stage 3	Total
Carrying amount as at 1 January 2020	2,574,491.4	9,916.9	2,644.9	2,587,053.2
Transfers	-5,726.4	4,483.5	1,242.8	0.0
Transfer from Stage 1 to Stage 2	-5,107.8	5,107.8		0.0
Transfer from Stage 1 to Stage 3	-1,272.3		1,272.3	0.0
Transfer from Stage 2 to Stage 3		-149.4	149.4	0.0
Transfer from Stage 3 to Stage 2				0.0
Transfer from Stage 2 to Stage 1	474.9	-474.9		0.0
Transfer from Stage 3 to Stage 1	178.8		-178.8	0.0
New financial assets	393,153.5	13.0		393,166.6
Maturities and repayments	-465,788.2	-1,475.2	-1,220.7	-468,484.1
Write-offs				0.0
Write-offs recoveries				0.0
Carrying amount as at 31 December 2020	2,496,130.3	12,938.2	2,667.0	2,511,735.7

# FINANCIAL STATEMENTS 2021

## NOTES CONCERNING THE RISK MANAGEMENT OF THE PARENT COMPANY

### 51. IFRS 9 LOSS ALLOWANCE CHANGES AND TRANSITIONS

2021

Off balance sheet, granted but undrawn loans by risk category	Stage 1	Stage 2	Stage 3	Total
Off balance sheet as at 1 January 2021	161,621.4	15.5		161,636.9
Transfers	36.5	-57.4	20.8	0.0
Transfer from Stage 1 to Stage 2				0.0
Transfer from Stage 1 to Stage 3	-20.8		20.8	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	57.4	-57.4		0.0
Transfer from Stage 3 to Stage 1				0.0
Net change, lapsed and granted	54,106.6	114.7	-20.8	54,200.4
Off balance sheet as at 31 December 2021	215,764.5	72.9	0.0	215,837.3

2020

Off balance sheet, granted but undrawn loans by risk category	Stage 1	Stage 2	Stage 3	Total
Off balance sheet as at 1 January 2020	110,268.7	3.2	12.2	110,284.1
Transfers	-15.5	15.5		0.0
Transfer from Stage 1 to Stage 2	-15.5	15.5		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				0.0
Transfer from Stage 3 to Stage 1				0.0
Net change, lapsed and granted	51,368.2	-3.2	-12.2	51,352.8
Off balance sheet as at 31 December 2020	161,605.8	31.1	0.0	161,636.9

### 52. LIQUIDITY RISK

2021

Cash flows from financial liabilities and derivatives 2021	<3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Liabilities to credit institutions	1,394,661.4	322,967.1	147,857.3			1,865,485.7
Liabilities to the public and public sector entities	513.0	76.1	9,058.2			9,647.3
Debt securities issued to the public	22,532.0	92,400.0	909,495.0	300,150.0		1,324,577.0
Derivative contracts	-2,149.0	-4,159.3	9,505.8	8,781.1		11,978.7
Off-balance sheet commitments (inc. granted but unclaimed loans)	216,757.4					216,757.4
Total liabilities	1,632,314.8	411,283.9	1,075,916.3	308,931.1	0.0	3,428,446.1

2020

Cash flows from financial liabilities and derivatives	<3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Liabilities to credit institutions	1,343,076.0	241,348.4	104,913.9			1,689,338.4
Liabilities to the public and public sector entities	63.6	80.7	11,706.8			11,851.1
Debt securities issued to the public	29,500.0	326,150.0	671,775.0	301,500.0		1,328,925.0
Derivative contracts	-1,562.1	-5,332.7	-14,250.7	-405.2		-21,550.8
Off-balance sheet commitments (inc. granted but unclaimed loans)	164,738.8					164,738.8
Total liabilities	1,535,816.4	562,246.4	774,144.9	301,094.8	0.0	3,173,302.5

# FINANCIAL STATEMENTS 2021

## NOTES CONCERNING THE RISK MANAGEMENT OF THE PARENT COMPANY

### 53. INFORMATION CONCERNING INTEREST RATE RISK

EUR million

Repricing time in 2021	<3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
<b>Floating-rate items</b>						
Receivables	694.2	2,000.1				2,694.3
Liabilities	716.6	2,259.9				2,976.5
Net	-22.4	-259.8	0.0	0.0	0.0	-282.2
<b>Fixed-rate items</b>						
Receivables	467.4	101.5	902.8	309.8		1,781.5
Liabilities	65.0	82.3	830.3	347.8		1,325.4
Net	402.4	19.2	72.5	-38.0	0.0	456.1

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 8.4 million (increase by EUR 0.6 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.

EUR million

Repricing time in 2020	<3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
<b>Floating-rate items</b>						
Receivables	730.1	2,005.1				2,735.2
Liabilities	633.3	2,218.9				2,852.2
Net	96.8	-213.7	0.0	0.0	0.0	-117.0
<b>Fixed-rate items</b>						
Receivables	360.6	266.6	745.2	404.9		1,777.2
Liabilities	38.0	339.2	853.6	374.5		1,605.3
Net	322.6	-72.6	-108.4	30.4	0.0	172.0

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 7.5 million (increase by EUR 0.6 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.

# FINANCIAL STATEMENTS 2021

## OTHER INFORMATION DESCRIBING CAPITAL ADEQUACY AND RISK POSITION

Risk type	Indicator	2021	2020
Credit risk	LTV-ratio (Loan to Value, average), %	33.1	33.8
Credit risk	Non-performing loans, % of loan portfolio	0.14	0.11
Credit risk	Net impairment losses, EUR million	-0.04	-0.07
Liquidity risk	Long-term funding out of total funding, %	98.4	98.3
Liquidity risk	Average maturity of liabilities, in years	3.8	2.7
Liquidity risk	Short-term liquidity, EUR million	589.3	588.2
Liquidity risk	Short-term liquidity, months	29.4	26.4
Liquidity risk	Share of short -term liquidity of the balance sheet total, %	17.6	18.3
Interest rate risk	Interest rate risk in the banking book, EUR million	-5.8	-5.2
Interest rate risk	Net Present Value risk, EUR million	0.3	-3.8
Risk related to ownership of housing units and residential land	Total amount of housing property holdings of the balance sheet total, %	1.6	1.7
Risk related to ownership of housing units and residential land	Book values of investment properties, % out of estimated fair values	92.0	92.0
Risk related to ownership of housing units and residential land	Occupancy rate, %	95.1	96.0
Risk related to ownership of housing units and residential land	Net profit of investment properties calculates by book value	5.1	5.0

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 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, and subordinated liabilities. 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 (divided 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 parallelly 1% on the reporting date
Present value risk, EUR million	Change in present value of banking book if interest rates increase parallelly 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



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

Helsinki, 25 February 2022

### BOARD OF DIRECTORS

**Sari Lounasmeri**  
*chair*

**Harri Hiltunen**  
*vice chair*

**Kai Heinonen**

**Pasi Holm**

**Mikko Huopio**  
*vice CEO*

**Hannu Kuusela**

**Teemu Lehtinen**

**Ari Pauna**  
*Chief Executive Officer*

**Tuija Virtanen**

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## THE AUDITOR'S NOTE

Our Auditor's Report has been issued today.

Helsinki, 1 March 2022

PricewaterhouseCoopers Oy,  
Authorised Public Accountant Firm

Jukka Paunonen,  
Authorised Public Accountant

## STATEMENT OF THE SUPERVISORY BOARD

After confirming the Mortgage Society of Finland's accounting principles, we have certified the financial statements for 2021 to be presented to the auditors and the Annual General Meeting. We hereby accept the Board of Directors' proposal for the distribution of profits.

The following members of the Supervisory Board have reached the end of their term in office: Mikael Englund, Timo Kaisanlahti, Juha Metsälä, Liisa Suvikumpu, Riitta Vahela-Kohonen and Ira van der Pals.

**Helsinki 28 February 2022**

<b>Hannu Hokka</b>	<b>Timo Kaisanlahti</b>
<b>Elina Bergroth</b>	<b>Julianna Borsos</b>
<b>Mikael Englund</b>	<b>Markus Heino</b>
<b>Timo Hietanen</b>	<b>Hanna Kaleva</b>
<b>Seppo Laakso</b>	<b>Juha Metsälä</b>
<b>Elias Oikarinen</b>	<b>Kallepekka Osara</b>
<b>Liisa Suvikumpu</b>	<b>Mari Vaattovaara</b>
<b>Riitta Vahela-Kohonen</b>	<b>Ira van der Pals</b>



## 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

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#### 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 2021. 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.

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#### 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.

<b>Overall group materiality</b>	4 million euros (previous year 4 million euros)
<b>How we determined it</b>	0.12% of the balance sheet total
<b>Rationale for the materiality benchmark applied</b>	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.

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## 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
<b>Impairment of loans and other receivables</b> <i>Refer to note 17 in the consolidated financial statements for the related disclosure</i> 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 31.12.2021 the receivables from the public and public sector entities are 2 637.0 million euros, comprising 79% of the group balance sheet total (3 324.8 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 had also a special focus on the management and the impacts of the continuing COVID-19 global pandemic. 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 31.12.2021 investment properties totalled 55.4 million euros, which is 1.6% of the group balance sheet (3 324.8 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.

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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.

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### 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.



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## 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

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### 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 26 years.

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### 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.

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 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, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 1 March 2022

**PricewaterhouseCoopers Oy**  
Authorised Public Accountants

Jukka Paunonen  
Authorised Public Accountant (KHT)



# HYPO

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