



# THE MORTGAGE SOCIETY OF FINLAND GROUP

## **PILLAR 3 REPORT 2021**

DISCLOSURES REQUIRED IN PART EIGHT OF THE CAPITAL  
REQUIREMENTS REGULATION (EU 575/2013)

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## Introduction

This report presents the disclosures required in Part Eight of the Capital Requirements Regulation (EU) 575/2013 (the so-called Pillar 3 information) of the Mortgage Society of Finland Group (Hypo Group or the Group). The Group consists of the parent company the Mortgage Society of Finland, the subsidiary Suomen AsuntoHypoPankki Oy and the housing company Bostadsaktiebolaget Taos, of which the group companies own 54.6 percent. In addition to this report, parts of the required Pillar 3 disclosures are presented in the Hypo Group's Board of Directors' report, Notes in the Financial Statements<sup>1</sup>, Corporate Governance Statement and remuneration reports of the Group<sup>2</sup>. The report is unaudited.

Hypo Group calculates its capital requirement by using the standard method for credit and counterparty risk and the basic method for operational risk. The Group does not apply the transitional arrangements of the EU Capital Requirements Regulation (EU 575/2013) Article 473a concerning the IFRS 9 Financial Instruments - standard implemented in 1.1.2018.

In addition to Part Eight of the Capital Requirements Regulation (EU) 575/2013 (the so-called CRR), the Group complies with Regulations and guidelines 5/2019 of the Finnish Financial Supervisory Authority (FSA) and applicable parts of the guidelines of the European Banking Authority EBA mentioned in the Regulations and guidelines 5/2019. In spring 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 (the so-called CRR II) which entered into force on 28 June 2021. The classification enables the Hypo Group to benefit from the simplification of disclosure requirements of CRR II according to the principle of proportionality. Pillar 3 information for 2021 is disclosed according to CRR II and applying Commission Implementing Regulation (EU) 2021/637.

The minimum disclosure requirement for the Hypo Group is set in CRR article 433b(2), which concerns small and non-complex institutions., but the Group applies the the disclosure requirement for listed companies set in article 433b(1) by applicable parts, as the Group issues publicly traded bonds.

The Board of Directors of the Mortgage Society of Finland approves yearly the disclosure principles of capital adequacy information. The principles are applied on group level. Pillar 3 information is published yearly at the same time with the financial statements as a single, separate document. The document contains all disclosures on group level and information required from a significant subsidiary. The preparation of the principles and the Pillar 3 report is part of the financial departments' financial statements process. The numbers are produced by using the accounting and regulatory reporting systems and the data warehouse. Risk management acts as a control point and makes sure that the minimum requirements set by the regulation are met.

The evaluation of the information follows the principles of materiality, propriety and confidentiality according to Article 432 in Part Eight of the Capital Requirements Regulation (EU) 575/2013 and the EBA Guidelines 2014/14.

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<sup>1</sup> Annual Report containing Financial Statements and Board of Directors' Report can be found from Hypo's webpages <https://www.hypo.fi/en/financial-information/>

<sup>2</sup> Corporate Governance Statement and remuneration reports can be found from Hypo's webpages <https://www.hypo.fi/en/investor-relations/>

## Disclosure Index

CRR 575/2013 article	Disclosure requirement	Reference to publication
447 (a)-(g)	Key metrics (EU KM1)	The table is disclosed yearly in Pillar 3 -report (the minimum disclosure requirement) and semi-annually in interim report. The obligatory minimum requirements are published quarterly in interim report.
438 (d)	Overview of total risk exposure amount (EU OV1)	Pillar 3 report yearly
435 (1) (a), (e), (f)	Institution risk management approach (EU OVA)	Pillar 3 report yearly
435 (1) (a), (e), (f)	Liquidity risk management (EU LIQA)	Pillar 3 report yearly
435 (1) (a), (f)	General qualitative information about credit risk (EU CRA)	Pillar 3 report yearly
435 (1) (a)	Qualitative disclosure requirements related to market risk (EU MRA)	Pillar 3 report yearly
435 (1) (a), (e), (f)	Qualitative information on operational risk (EU ORA)	Pillar 3 report yearly
450 (1) (a)-(d), (j)	Remuneration policy (EU REMA)	Disclosed yearly by applicable parts in remuneration reports
450 (1) (h)	Remuneration awarded for the financial year (EU REM1)	Disclosed yearly by applicable parts in notes of the financial statements and in remuneration reports
450 (1) (h)	Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff) (EU REM2)	Disclosed yearly by applicable parts in remuneration reports
450 (1) (h)	Deferred remuneration (EU REM3)	Disclosed yearly by applicable parts in notes of the financial statements
450 (1) (i)	Remuneration of 1 million EUR or more per year (EU REM4)	Does not apply, not disclosed

# The Mortgage Society of Finland Group: Information required in Part Eight of the Capital Requirements Regulation (EU 575/2013)

## Key metrics template (EU KM1)

		31.12.2021	30.6.2021
		a	c
(1 000 €)		T	T-2
	<b>Available own funds (amounts)</b>		
1	Common Equity Tier 1 (CET1) capital	128 253	125 378
2	Tier 1 capital	128 253	125 378
3	Total capital	128 253	125 378
	<b>Risk-weighted exposure amounts</b>		
4	Total risk exposure amount	944 446	939 825
	<b>Capital ratios (as a percentage of risk-weighted exposure amount)</b>		
5	Common Equity Tier 1 ratio (%)	13,5797	13,3406
6	Tier 1 ratio (%)	13,5797	13,3406
7	Total capital ratio (%)	13,5797	13,3406
	<b>Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)</b>		
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	1,2500	1,2500
EU 7b	of which: to be made up of CET1 capital (percentage points)	0,7031	0,7031
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	0,9375	0,9375
EU 7d	Total SREP own funds requirements (%)	9,2500	9,2500
	<b>Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)</b>		
8	Capital conservation buffer (%)	2,5000	2,5000
9	Institution specific countercyclical capital buffer (%)	0,0005	0,0005
11	Combined buffer requirement (%)	2,5005	2,5005
EU 11a	Overall capital requirements (%)	11,7505	11,7505
12	CET1 available after meeting the total SREP own funds requirements (%)	40 892	38 445
	<b>Leverage ratio</b>		
13	Total exposure measure	3 399 997	3 384 043
14	Leverage ratio (%)	3,7722	3,7050
	<b>Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)</b>		
EU 14c	Total SREP leverage ratio requirements (%)	3,0000	3,0000
	<b>Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)</b>		
EU 14e	Overall leverage ratio requirement (%)	3,0000	3,0000
	<b>Liquidity Coverage Ratio</b>		
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	568 759	541 322
EU 16a	Cash outflows - Total weighted value	326 069	321 826
EU 16b	Cash inflows - Total weighted value	9 994	4 994
16	Total net cash outflows (adjusted value)	316 075	316 832
17	Liquidity coverage ratio (%)	179,9443	170,8549
	<b>Net Stable Funding Ratio</b>		
18	Total available stable funding	2 435 797	2 425 372
19	Total required stable funding	2 134 013	2 116 367
20	NSFR ratio (%)	114,1416	114,6007

Rows EU 8a, EU 9a, 10, EU 10a, EU 14a ja EU 14d are not presented, as they have no information to be reported. Information from all previous periods (columns b, d, e) is not presented, as the template was disclosed for the first time in 30.6.2021.

## Overview of total risk exposure amounts (EU OV1)

		31.12.2021	
		Total risk exposure amounts (TREA)	Total own funds requirements
		a	c
		T	T
1	Credit risk (excluding CCR)	870 412,1	69 633,0
2	Of which the standardised approach	870 412,1	69 633,0
6	Counterparty credit risk - CCR	30 650,3	2 452,0
7	Of which the standardised approach	11 257,3	900,6
EU 8b	Of which credit valuation adjustment - CVA	19 393,0	1 551,4
23	Operational risk	43 383,2	3 470,7
EU 23a	Of which basic indicator approach	43 383,2	3 470,7
<b>29</b>	<b>Total</b>	<b>944 445,6</b>	<b>75 555,6</b>

Rows 3, 4, EU 4a, 5, 8, EU 8a, 9-19, EU 19a, 20-22, EU 22a, EU 23b, EU 23c and 24-28 are not presented, as they have no information to be reported or are not applied. Information from the previous period (column b) is not presented, as the information is published for the first time.

## Institution risk management approach (EU OVA)

### Disclosure of concise risk statement approved by the management body

In a materiality evaluation assessment performed under Capital Adequacy Regulation (EU) 575/2013, Part Eight, Article 432(1), taking into account the scope and nature of the Groups' operations, the information disclosed in this Pillar 3 report and in the Financial Statements and the Board of Directors' Report conveys comprehensively the risk profile of the Group.

### Declaration approved by the management body on the adequacy of the risk management arrangements.

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.

In the light of the figures concerning the Group's risk position presented in this Pillar 3 report and in the Board of Directors' report as well as other risk reports, the Group's overall risk profile is regarded as moderate. Risk-taking in the Group is cautious. The management of various risk areas is based on separately confirmed risk management principles in each risk area. Lending is the Group's most important business area, and it 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 based on stress testing. Compliance with the limits set for risk-taking is actively monitored. The limited scope of the services offered by the 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.

### Strategies and processes to manage risks for each separate category of risk.

Information on the most relevant risks affecting the Groups' business and ways to manage them are presented in the Board of Directors' Report of the Group.

Information on the strategies and processes to manage, hedge and mitigate risks, as well as on the monitoring of the effectiveness of hedges and mitigants.

Information on the most relevant risks affecting the Groups' business and ways to manage them are presented in the Board of Directors' Report of the Group.

## Liquidity risk management (EU LIQA)

### Strategies and processes in the management of liquidity risk

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

### Management declaration concerning liquidity risk management

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

### Management statement on liquidity risk

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

## General qualitative information about credit risk (EU CRA)

### Business model and credit risk profile

The risk-taking of the Group on the main business area, lending, is cautious. The credit risk management is based on general terms in lending, principles of credit risk management and supplemental operational instructions. Lending is conservative by nature; it focuses on low-risk financing of house owning and is entirely collateralized by residential property. Lending is carried out only against individually valued collateral, and other credit and counterparty risk counterparties are selected carefully within confirmed limits.

### The strategies and processes to manage credit risk and the policies for hedging and mitigating that risk, the criteria and approach used for defining the credit risk management policy and for setting credit risk limits

Lending focuses on loans granted to household (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 to housing collaterals, guarantees given by the state of Finland or by an insurance company with adequate credit rating and deposit collaterals are the most commonly used credit risk mitigation techniques. The monitoring of credit risk is based on the quality and distribution of the loan portfolio.

## Qualitative disclosure requirements related to market risk (EU MRA)

### A description of the institution's strategies and processes to manage market risk

The Group does not have a trading book, foreign exchange risk or commodity risk. The interest rate risk of the Group consists solely of interest rate risk of the banking book, which consists of the effect which changing interest rates have on the net interest income (net interest income risk) and on the present value of balance sheet items (present value risk). Net interest income risk and present value risk are monitored regularly in alternative future interest rate scenarios, and they are limited to keep risks on a moderate level. Derivatives are used in the Group to hedge assets and liabilities in the balance sheet and their cash flows from interest rate risks. Only simple and general derivatives are allowed. Derivatives are only used in hedging purposes and to adjust the total risk position. The effectiveness of limits and hedges are continuously monitored as a part of business and risk management processes.

## Qualitative information on operational risk (EU ORA)

### Disclosure of the risk management objectives and policies

Operational risk management and reporting in the Group are based on separate operational risk management principles confirmed on group level. Operational risks related to Group's business operations are identified, measured, and assessed by means of continuous monitoring and event reports. Continuity planning and preparedness for exceptional circumstances are part of operational risk management. The capital adequacy requirement for operational risk is calculated with the basic method. The goal of operational risk management is to reserve enough capital for operative risks and that the potential losses caused by them do not jeopardize the profitability of the Group.

## Information on remuneration

Information on remuneration policy according to the applicable parts of Article 450 of EU's Capital Requirements Regulation (575/2013) is published separately in the Group's reports "Remuneration Policy for Governing Bodies", "Other Remuneration Information" and "Remuneration statement of the Governing Bodies" found from <https://www.hypo.fi/en/investor-relations/> .



# Information required from a significant subsidiary (Suomen Asuntohypopankki Oy) in Part Eight of the Capital Requirement Regulation (EU 575/2013)

## Own funds and capital ratios of Suomen Asuntohypopankki Oy

(€1,000)	2021	2020
<b>Common Equity Tier 1 (CET1) capital: Instruments and reserves</b>		
Capital instruments and the related share premium accounts	6 500,0	6 500,0
of which: Basic capital	6 500,0	6 500,0
Retained earnings	19 643,6	18 625,9
Accumulated other comprehensive income and other reserves	30 168,2	168,2
Independently reviewed interim profits net of any foreseeable charge or dividend	2018,8	1 017,6
Common Equity Tier 1 (CET1) capital before regulatory adjustments	56 530,5	26 311,7
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>		
Intangible assets	0,0	0,0
Total regulatory adjustments to Common Equity Tier 1 (CET1)	0,0	0,0
Common Equity Tier 1 (CET1) capital	56 530,5	26 311,7
Additional Tier 1 (AT1) capital	0,0	0,0
Tier 2 (T2) capital	0,0	0,0
Total capital (TC = T1 + T2)	56 530,5	26 311,7
Total risk weighted assets	8 403,3	7 678,5
<b>Capital ratios and buffers</b>		
Common Equity Tier 1 (CET1) as a percentage of total risk exposure amount	672,7	342,7
Tier 1 (T1) as a percentage of total risk exposure amount	672,7	342,7
Total capital as a percentage of total risk exposure amount	672,7	342,7
Institution specific buffer requirement, %	7,0	7,0
of which: capital conservation buffer requirement, %	2,5	2,5
of which: countercyclical buffer requirement, %	0,0	0,0
of which: systemic risk buffer requirement, %	0,0	0,0
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer, %	0,0	0,0
Common Equity Tier 1 available to meet buffers, %	669,2	339,2

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

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

	<b>2021</b>			
(€1,000)	Original exposure pre conversion factors	Exposure value	Risk weighted exposure amount after SME-supporting factor	Own funds requirement
Exposures to governments and central banks	110,0	110,0	0,0	0,0
Exposures to credit institutions	1 718 027,4	1 718 027,4	274,1	21,9
Other items	2 119,5	2 119,5	2 119,5	169,6
<b>Total</b>	<b>1 720 256,9</b>	<b>1 720 256,9</b>	<b>2 393,6</b>	<b>191,5</b>
Operational risk			6 009,7	480,8
<b>All items in total</b>	<b>1 720 256,9</b>	<b>1 720 256,9</b>	<b>8 403,3</b>	<b>672,3</b>
	<b>2020</b>			
(€1,000)	Original exposure pre conversion factors	Exposure value	Risk weighted exposure amount after SME-supporting factor	Own funds requirement
Exposures to credit institutions	1 589 767,0	1 589 767,0	2,9	0,2
Other items	2 092,0	2 092,0	2 092,0	167,4
<b>Total</b>	<b>1 591 859,0</b>	<b>1 591 859,0</b>	<b>2 095,0</b>	<b>167,6</b>
Operational risk			5 583,5	446,7
<b>All items in total</b>	<b>1 591 859,0</b>	<b>1 591 859,0</b>	<b>7 678,5</b>	<b>614,3</b>

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

Own funds requirement for credit and counterparty risks have been calculated using eight percent requirement of risk-weighted exposures in accordance with the EU's Capital Requirements Regulation (575/2013).

There are no items concerning articles 442 and 453 of the EU Capital Requirement Regulation (EU 575/2013) article 438.

## Information on remuneration of Suomen Asuntohypopankki Oy

Information on remuneration policy according to the Article 450 of EU's Capital Requirements Regulation (575/2013) is published separately in the remuneration reports of the Hypo Group found from <https://www.hypo.fi/en/investor-relations/>. The Bank does not have own personnel.

## Leverage ratio of Suomen Asuntohypopankki Oy

	<b>2021</b>	<b>2020</b>
Leverage ratio, %	3,29	1,65